ABC INSURANCE CO. LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

ILLUSTRATIVE FINANCIAL STATEMENTS

ABC INSURANCE CO. LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Note 1: **This document provides an illustrative set of financial statements for a non-listed insurance company providing both general and life business prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting requirements of the Kenyan Companies Act, 2015 (see Note 6 below) for accounting periods beginning 1 January 2019.**

The presentation format is not the only acceptable form of presentation and other forms of presentation may be acceptable provided that they comply with the disclosure requirements of IFRS.

Note 2: **The specimen does not cover the following aspects contained in some standards:**

- **IAS 2 Inventories**
- **IAS 20 Accounting for Government Grants and Disclosure of Government Assistance**
- **IAS 26 Accounting and Reporting by Retirement Benefit Plans**
- **IAS 27 Separate Financial Statements**
- **IAS 28 Investments in Associates and Joint Ventures**
- **IAS 29 Financial Reporting in Hyperinflationary Economies**
- **IAS 32/ IFRS 7 – Financial Instruments – Hybrid and Complex Financial Instruments**
- **IAS 33 Earnings per share**
- **IAS 34 Interim Financial Reporting**
- **IAS 41 Agriculture**
- **IFRS 1 First-time Adoption of International Financial Reporting Standards**
- **IFRS 2 Share-based Payment**
- **IFRS 3 Business Combinations**
- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
- **IFRS 6 Exploration for and Evaluation of Mineral Resources**
- **IFRS 8 Operating segments**
- **IFRS 9 Financial instruments – hedge accounting**
- **IFRS 10 Consolidated financial statements**
- **IFRS 11 Joint Arrangements**
- **IFRS 12 Disclosure of Interests in Other Entities**
- **IFRS 14 Regulatory Deferral Accounts**

- IFRS 16 Leases – sale and leaseback transactions
- IFRS 17 Insurance Contracts (not yet effective)

Note 3: **Each item in the illustrative financial statements is referenced (on the right) to the applicable disclosure and reporting requirements of the IFRS and the Kenyan Companies Act, 2015 respectively. The following reference format has been used in this specimen:**

IAS 1p120(a): refers to International Accounting Standard 1, paragraph 120(a)
IFRS 7p21: refers to International Financial Reporting Standard 7, paragraph 21
CAs563: refers to the reporting requirements in section 653 of the Kenyan Companies Act,2015
BP: refers to best reporting practice adopted in Kenya
DV: Disclosure is voluntary

Note 4: **Text within square brackets ([….]) represents guidance that does not form part of the Specimen Financial Statements**

Note 5: **The specimen does not cover instances of prior year restatements**

Note 6: **Included as Appendix I to the specimen financial statements, but not part of them, is a summary of new and revised Standards and Interpretations for 2019.**

Note 7: **Assumes the Company has adopted IFRS 9 (i.e. has not taken the option to defer as provided under IFRS 4 'Insurance Contracts'**

CONTENTS

*** not illustrated- would need to be tailored to describe individual circumstances of the concerned company. Should be prepared in accordance with IRA Corporate Governance Guidelines**

Company information

Board of directors	……………………………….. ……………………………….. ……………………………….. ……………………………….. ………………………………..	CAs654(1)
Company secretary	………………………………. Certified Public Secretaries of Kenya	BP
Registered office	L.R. No. …………………….. …th Floor, …………. Building …………………. Street/Road P.O. Box ………… Code Nairobi, Kenya. website & email address	IAS 1-138(a)
Independent auditor	………………………………. Certified Public Accountants of Kenya ……………………………….. ………………………………..	BP
Actuaries	………………………………. ……………………………….. ………………………………..	
Principal bankers	……………………………….. ………………………………..	BP
Legal advisers	……………………………….. ………………………………..	BP

Report of the directors

CAs653

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

Incorporation

1p138(a)

The Company is domiciled in Kenya where it is incorporated under the Kenyan Companies Act, 2015 as a private company limited by shares, and is domiciled in Kenya. The address of its registered office is set out on page 1.

Directors

CAs654(1)

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

Principal activities

1p138(b)
CA

The principal activity of the Company is the underwriting of all classes of life and non-life insurance risks as defined by the Insurance Act. The Company also provides its customers with investment products designed to provide them with savings and retirement solutions.

Dividends

CA654(3)

During the year, an interim dividend of KSh ………… (2018: KSh …………) was paid. The directors recommend the approval of a final dividend of KSh .... (2018: KSh ....).

[Or]

The directors do not recommend the declaration of a dividend for the year.

Business review

CA655(3)

[This section shall include: (a) a fair review of the Company's business; and (b) a description of the principal risks and uncertainties facing the company. It should be a balanced and comprehensive analysis of the development and performance of the business of the company during the company's financial year and the financial position of the company at the end of the year, consistent with the size and complexity of the business.]

[The review should include (to the extent necessary for an understanding of the development, performance or position of the Company's business): (a) an analysis using financial key performance indicators; (b) if appropriate, an analysis using other key performance indicators (including information relating to environmental matters and employee matters); and (c) references to, and additional explanations of, amounts included in the Company's annual financial statements.] CA655(6)

Statement as to disclosure to the Company's auditor

CA657(2)

With respect to each director at the time this report was approved:

a) there is, so far as the person is aware, no relevant audit information of which the Company's auditor is unaware; and

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

Terms of appointment of the auditor CA725

[Name of the audit firm] continues in office in accordance with the Company's Articles of Association and Section 719 of the Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. 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. The agreed auditor's remuneration of KSh XX has been charged to profit or loss in the year. ***[Regulations in respect of this disclosure are yet to be issued by the Cabinet Secretary.]***

By order of the board

…………………………………..

Company Secretary

Nairobi

…………..………………….... 2019

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Company keeps proper accounting records that: (a) show and explain the transactions of the Company; (b) disclose, with reasonable accuracy, the financial position of the Company; (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015. CAs635 CAs628

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

i) Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
ii) Selecting suitable accounting policies and applying them consistently; and
iii) Making accounting estimates and judgements that are reasonable in the circumstances.

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

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

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

……………………………	…………………………
Director	Director

Long-term business

I have conducted a statutory actuarial valuation of long-term business of ABC Insurance Co. Limited as at 31 December 2019.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. These principles require that prudent provision for future outgo under contracts to be made, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies. In completing the actuarial valuation, I have relied upon the financial statements of the Company.

In my opinion, the long term business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance [pension fund business] did not exceed the Statutory Insurance Funds held by the Company as at 31 December 2019.

Name of the actuary

Qualifications

Signature

………………………..201X

Short term business

I have conducted an actuarial valuation of ABC Insurance Co. Limited as at 31 December 2019.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. These principles require that prudent provision for future outgo under contracts to be made, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the financial statements of the Company.

In my opinion, the non-life insurance business of the Company was financially sound and insurance liabilities reserves of the Company were adequate as at 31 December 2019.

Name of the actuary

Qualifications

Signature

………………………..201X

Report of the Independent Auditor to the Members of ABC Insurance Co. Limited

Report on the financial statements

Opinion

We have audited the accompanying financial statements of ABC Insurance Co. Limited (the "Company"), set out on pages _ to _, which comprise the statement of financial position at 31 December 2019 and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended and notes, which include a summary of significant accounting policies.

In our opinion the accompanying financial statements of ABC Insurance Co. Limited give a true and fair view of the financial position of ABC Insurance Co. Limited as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards 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.

Key audit matter	*How our audit addressed the key audit matter*
[Title of KAM 1] *[Description]*	*[Description]*
[Title of KAM 2] *[Description]*	*[Description]*

Other information

Scenario 1 – Where ALL information was received prior to the date of the audit report

The other information comprises [describe the other information received*, *e.g. the Directors Report, Corporate Governance Report, Statement of Directors' Responsibilities, Report of the Audit Committee etc ..*] which we obtained prior to the date of the date of this auditor's report 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 express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we 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.

Scenario 2 – Where other information was not (or only partially) received prior to the date of the audit report

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

*(*The description of the other information should be the same as shown in the financial statements. e.g. Directors report or Report of Directors, Annual Report or Integrated report etc.)*

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with 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 director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the 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.

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

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

Report of the Directors

In our opinion the information given in the report of the directors on pages 2 and 3 is consistent with the financial statements.

[Where the information in the directors' report is not consistent with the financial statements, the auditor should provide the details of the inconsistencies]

[If, in reporting on the financial statements, the auditor forms an opinion that:

- ***The company has not kept adequate accounting records or returns adequate for the audit have not been received from the branches not visited; or***
- ***The financial statements are not in agreement with the company's accounting records;***

The auditor shall state that in their report.]

[Signature of the firm]

Certified Public Accountants

Nairobi ………………………………. 2019

CPA [Partner Name], Practising certificate No. XXX
Signing partner responsible for the independent audit

[Note 1: This illustration is of an 'unmodified' opinion given in accordance with ISA 700].

[Note 2: The auditor's report should be signed in the name of the audit firm. The personal signature of the partner responsible for the report is not required.]

STATEMENT OF PROFIT OR LOSS

	Note	Short term business 2019 KSh '000	Long term business 2019 KSh '000	Total business 2019 KSh '000	Short term business 2018 KSh '000	Long term business 2018 KSh '000	Total business 2018 KSh '000	
Gross premium revenue	25(a)							IFRS 4IG24
Premium ceded to reinsurers	25(b)							IFRS 4IG24
Net premium revenue								
Fee income	26							
Investment income	27							
Net fair value gains on financial assets at fair value through profit or loss	28							
Reclassification from other comprehensive income: gain on disposal of debt instruments measured at fair value through other comprehensive income								IFRS9p5.7.10, IFRS 7p20 (a)(viii)
Gains or losses arising from derecognition of financial assets measured at amortised cost								IAS 1p82(a)
Commissions income								
Other income								
Net income								
Gross benefits and claims paid	29							IFRS 4IG24
Investment contracts benefits paid	19							
Gross change in insurance contract liabilities	29							IFRS 4IG24
Gross change in investment contract	29							
Change in contract liabilities ceded to reinsurers	29							
Less: Claims ceded to reinsurers	29							IFRS 4IG24
Net benefits and claims	29							

STATEMENT OF PROFIT OR LOSS (CONTINUED)

		Short term business 2019 KSh '000	Long term business 2019 KSh '000	Total busines s 2019 KSh '000	Short term business 2018 KSh '000	Long term business 2018 KSh '000	Total business 2018 KSh '000	
Commissions expense	30							
Other operating expenses								
Net impairment losses on financial assets								1p82(a)
Total expenses								
								1p85
Finance income or costs	34							1p82(b)
Profit before tax								1p85
Income tax expense	35							1p82(d), 12p77
Profit/(loss) for the year attributable to the owners of the company								1p81B

The notes on pages _ to _ are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Short term business 2019 KSh '000	Long term business 2019 KSh '000	Total business 2019 KSh '000	Short term business 2018 KSh '000	Long term business 2018 KSh '000	Total business 2018 KSh '000	
Profit/(loss) for the year								1p10A
Other comprehensive income, net of tax:								
Items that will not be reclassified subsequently to profit or loss								IAS 1p82A(a)
Gain on revaluation of property and equipment	5							IAS1p82 (g)
Changes in the fair value of equity securities designated at fair value through other comprehensive income	11							IFRS 9pB5.7.1
Remeasurement of net defined benefit asset/liability								IAS19p120(c)
Items that may be reclassified subsequently to profit or loss								
Changes in the fair value of government securities measured at fair value through other comprehensive income	12							IFRS 9 B 5.7.1A
Reclassification to profit or loss: gain in disposal of government securities measured at fair value through other comprehensive income	12							IFRS 9 B 5.7.1A, IAS1p92
Other comprehensive income for the year, net of tax								1p81A(b)
Total comprehensive income for the year attributable to the owners of the company								1p81A(c) 1p81B(b)

Items disclosed in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 35.

The notes on pages _ to _ are an integral part of these financial statements

Guidance notes

IAS 1 requires an entity to disclose income tax relating to each component of other comprehensive income either in this statement or in the notes.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Note	Short term business 2019 KSh '000	Long term business 2019 KSh '000	Total business 2019 KSh '000	
ASSETS					
Property and equipment	5				1p54(a)
Investment properties	7				1p54(b)
Right-of-use assets	6				
Intangible assets – software	4(ii)				
Deferred income tax	23				1p54(n)
Financial assets					
Equity securities:					
- At fair value through other comprehensive income	10,11				1p54(d)
- At fair value through profit or loss	10,11				1p54(d)
Government securities:					
- At amortised cost	10,12				1p54(d)
- At fair value through other comprehensive income	10,12				1p54(d)
- At fair value through profit or loss	10,12				1p54(d)
Corporate bonds	10,13				
Policy loans	10,14				
Mortgage loans	10,14				1p54(h)
Receivables arising out of direct insurance contracts	9				
Receivables arising out of reinsurance arrangements	9				
Reinsurers' share of insurance contract liabilities	8,18				IFRS4p36
Contract assets					IFRS15 p116(a)
Deferred acquisition costs	4(i)				IFRS4p36
Other receivables					
Current income tax					
Deposits with financial institutions					
Cash and cash equivalents	15				1p54(i)
Total assets					
EQUITY AND LIABILITIES					
Ordinary shares	16				1p55
Share premium	16				1p55
Other reserves	17				1p55
Retained earnings					1p55
Total equity					1p54(r)
LIABILITIES					
Insurance contract liabilities	18				IFRS4p36
Investment contract liabilities	19				1p54(m),
Payables under deposit administration contracts	24				IFRS4p35
Deferred income tax	23				1p54(o)
Borrowings	22				1p54(m)
Lease liabilities	38				
Other payables	21				1p54(k)
Contract liabilities					IFRS15 116(a)
Creditors arising out of direct insurance contracts					
Creditors arising out of reinsurance arrangements					
Total liabilities					
Total equity and liabilities					

The notes on pages _to_ are an integral part of these financial statements.

The financial statements on pages _ to _ were approved for issue by the board of directors on ….….....……. 2019 and were signed on its behalf by:

………………………………	………………………………	………………………………
Director	**Director**	**Principal Officer**

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Notes	Short term business 2018 KSh '000	Long term business 2018 KSh '000	Total business 2018 KSh '000	
ASSETS					
Property and equipment	5				1p54(a)
Investment properties	7				1p54(b)
Intangible assets – software	4(ii)				
Deferred income tax	23				1p54(n)
<u>Financial assets</u>					
Equity securities:					
- At fair value through other comprehensive income	10,11				1p54(d)
- At fair value through profit or loss	10,11				1p54(d)
Government securities:					
- At amortised cost	10,12				1p54(d)
- At fair value through other comprehensive income	10,12				1p54(d)
- At fair value through profit or loss	10,12				1p54(d)
Corporate bonds	10,13				
Policy loans	10,14				
Mortgage loans	10,14				1p54(h)
Receivables arising out of direct insurance contracts	9				
Receivables arising out of reinsurance arrangements	9				
Reinsurers' share of insurance contract liabilities	8,18				IFRS4p36
Contract assets					IFRS 15
Deferred acquisition costs	4(i)				IFRS4p36
Other receivables					
Current income tax					
Deposits with financial institutions					
Cash and cash equivalents	15				1p54(i)
Total assets					
EQUITY AND LIABILITIES					
Ordinary shares	16				1p55
Share premium	16				1p55
Other reserves	17				1p55
Retained earnings					1p55
Total equity					1p54(r)
LIABILITIES					
Insurance contract liabilities	18				IFRS4p36
Investment contract liabilities	19				1p54(m),
Payables under deposit administration contracts	24				IFRS4p35
Deferred income tax	23				1p54(o)
Borrowings	22				1p54(m)
Other payables	21				1p54(k)
Contract liabilities					IFRS 15
Creditors arising out of direct insurance contracts					
Creditors arising out of reinsurance arrangements					
Total liabilities					
Total equity and liabilities					

The notes on pages _to_ are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY - TOTAL BUSINESS

	Notes	Share capital KSh '000	Share premium KSh '000	Revaluation surplus KSh '000	Other reserves** KSh '000	Retained earnings KSh '000	Statutory reserve KSh '000	Total KSh '000	
Year ended 31 December 2019									
At 1 January 2019									IAS 1-106(b)
Changes on initial application of IFRS 16									IAS 1-106(b)
Profit/(loss) for the year									
Other comprehensive income for the year									IAS 1-106(d)(i)
Total comprehensive income for the year									IAS 1-106(a)
Transactions with owners:									IAS 1-106(d)(iii)
Proceeds from shares issued	16								
Transfer of excess depreciation, net of tax									IAS 16p41
Transfer on disposal of equity investments at FVOCI									IFRS 9 pB5.7.1
Dividends:									IAS 1-107
- Final for 2018	36								
- Interim for 2019	36								
At 31 December 2019									IAS 1-106(d)
Year ended 31 December 2018									IAS 1-106(b)
At 1 January 2018									
Profit/(loss) for the year									
Other comprehensive income for the year									
Total comprehensive income for the year									IAS 1-106(a)
Transactions with owners:									IAS 1-106(d)(iii)
Proceeds from shares issued	16								
Transfer of excess depreciation, net of tax									
Dividends:									IAS 1-107
- Final for 2017	36								
- Interim for 2018	36								
At 31 December 2018									IAS 1-106(d)

The notes on pages _to_ are an integral part of these financial statements.

** Prior period adjustments are required where there are material errors as per IAS 8-42 and for effects of a retrospective application of a change in accounting policy (IAS 8-22). IAS 8-49(a) requires that a note disclosing the nature of the prior period adjustment is presented in the financial statements. This has not been illustrated in this template. IAS 1.10 (f) requires that a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This is not illustrated in this template.*

*** Other reserves are analysed in their separate components in Note 17.*

STATEMENT OF CHANGES IN EQUITY – SHORT TERM BUSINESS

	Notes	Share capital KSh '000	Share premium KSh '000	Revaluation surplus KSh '000	Other reserves** KSh '000	Retained earnings KSh '000	Total KSh '000	
Year ended 31 December 2019								
At 1 January 2019								IAS 1-106(b)
Changes on initial application of IFRS 16								IAS 1-106(b)
Profit/(loss) for the year								
Other comprehensive income for the year								IAS 1-106(d)(i)
Total comprehensive income for the year								IAS 1-106(a)
Transactions with owners:								IAS 1-106(d)(iii)
Proceeds from shares issued	16							
Transfer of excess depreciation, net of tax								IAS 16p41
Transfer on disposal of equity investments at FVOCI								IFRS 9 pB5.7.1
Dividends:								IAS 1-107
- Final for 2018	36							
- Interim for 2019	36							
At 31 December 2019								IAS 1-106(d)
Year ended 31 December 2018								IAS 1-106(b)
At 1 January 2018								
Profit/(loss) for the year								
Other comprehensive income for the year								
Total comprehensive income for the year								IAS 1-106(a)
Transactions with owners:								IAS 1-106(d)(iii)
Proceeds from shares issued	16							
Transfer of excess depreciation, net of tax								
Dividends:								IAS 1-107
- Final for 2017	36							
- Interim for 2018	36							
At 31 December 2018								IAS 1-106(d)

The notes on pages _to_ are an integral part of these financial statements.

** Prior period adjustments are required where there are material errors as per IAS 8-42 and for effects of a retrospective application of a change in accounting policy (IAS 8-22). IAS 8-49(a) requires that a note disclosing the nature of the prior period adjustment is presented in the financial statements. This has not been illustrated in this template. IAS 1.10 (f) requires that a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This is not illustrated in this template.*

*** Other reserves are analysed in their separate components in Note 17.*

STATEMENT OF CHANGES IN EQUITY – LONG TERM BUSINESS

	Notes	Share capital KSh '000	Share premium KSh '000	Revaluation surplus KSh '000	Other reserves** KSh '000	Retained earnings KSh '000	Statutory reserve KSh '000	Total KSh '000	
Year ended 31 December 2019									
At 1 January 2019									IAS 1-106(b)
Changes on initial application of IFRS 16									IAS 1-106(b)
Profit/(loss) for the year									
Other comprehensive income for the year									IAS 1-106(d)(i)
Total comprehensive income for the year									IAS 1-106(a)
Transactions with owners:									IAS 1-106(d)(iii)
Proceeds from shares issued	16								
Transfer of surplus to shareholders									
Transfer of excess depreciation, net of tax									IAS 16p41
Transfer on disposal of equity investments at FVOCI									IFRS 9 pB5.7.1
Dividends:									IAS 1-107
- Final for 2018	36								
- Interim for 2019	36								
At 31 December 2019									IAS 1-106(d)
Year ended 31 December 2018									IAS 1-106(b)
At 1 January 2018									
Profit/(loss) for the year									
Other comprehensive income for the year									
Total comprehensive income for the year									IAS 1-106(a)
Transactions with owners:									IAS 1-106(d)(iii)
Proceeds from shares issued	16								
Transfer of surplus to shareholders									
Transfer of excess depreciation, net of tax									
Dividends:									IAS 1-107
- Final for 2017	36								
- Interim for 2018	36								
At 31 December 2018									IAS 1-106(d)

The notes on pages _to_ are an integral part of these financial statements.

** Prior period adjustments are required where there are material errors as per IAS 8-42 and for effects of a retrospective application of a change in accounting policy (IAS 8-22). IAS 8-49(a) requires that a note disclosing the nature of the prior period adjustment is presented in the financial statements. This has not been illustrated in this template. IAS 1.10 (f) requires that a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This is not illustrated in this template.*

*** Other reserves are analysed in their separate components in Note 17.*

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Short term business 2019 KSh '000	Long term business 2019 KSh '000	Total business 2019 KSh '000	
Cash flows from operating activities					
Cash generated from operations	37				
Interest paid on borrowings					
Interest paid on lease liabilities	38				
Income tax paid					7p35
Net cash from operating activities					
Cash flows from investing activities					7p10,7p21
Purchase of financial assets					
Sale of financial assets					
Purchase of property and equipment	5				7p16(a)
Purchase of investment property	7				
Proceeds from disposal of property and equipment	37				7p16(b)
Payments for right-of-use assets	39				
Loans granted to related parties	40(e)				7p16(e)
Loan repayment received from related parties	40 (e)				7p16(f)
Net cash used in investing activities					
Cash flows from financing activities					7p10,7p21
Proceeds from issue of ordinary shares	16				7p17(a)
Proceeds from borrowings					7p17(c)
Repayment of borrowings					7p17(d)
Payment of principal portion of the lease liability	38				IFRS16-50(a)
Proceeds from issue of convertible bond					7p17(c)
Dividends paid to the Company's shareholders					7p31
Net cash used in financing activities					
Net (decrease)/increase in cash and cash equivalents					
Cash and cash equivalents at the beginning of year					
Exchange (losses)/gains on cash and cash equivalents					7p28
Cash and cash equivalents at end of year	**15**				

The notes on pages _to_ are an integral part of these financial statements.

Note: Reporting cash flows from operating activities

An entity should report cash flows from operating activities either by using the direct or indirect method. The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed could also be used for reporting cash flows from operating activities. Cash flows from investing and financing activities have to be reported by using the direct method. The indirect method is illustrated in the example above.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Short term business 2018 KSh '000	Long term business 2018 KSh '000	Total business 2018 KSh '000	
Cash flows from operating activities					
Cash generated from operations	37				
Interest paid					
Income tax paid					7p35
Net cash from operating activities					
Cash flows from investing activities					7p10,7p21
Purchase of financial assets					
Sale of financial assets					
Purchase of property and equipment	5				7p16(a)
Purchase of investment property	7				
Proceeds from disposal of property and equipment	37				7p16(b)
Loans granted to related parties	40(e)				7p16(e)
Loan repayment received from related parties	40(e)				7p16(f)
Net cash used in investing activities					
Cash flows from financing activities					7p10,7p21
Proceeds from issuance of ordinary shares	16				7p17(a)
Proceeds from borrowings					7p17(c)
Repayment of borrowings					7p17(d)
Proceeds from issuance of convertible bond					7p17(c)
Dividends paid to the Company's shareholders					7p31
Net cash used in financing activities					
Net (decrease)/increase in cash and cash equivalents					
Cash and cash equivalents at the beginning of year					
Exchange (losses)/gains on cash and cash equivalents					7p28
Cash and cash equivalents at end of year	**15**				

The notes on pages _to_ are an integral part of these financial statements.

Notes

1 General Information

ABC Insurance Co. Limited underwrites life and non-life insurance risks, such as those associated with death, disability, health, property and liability. The Company also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement needs. The Company does business in Kenya and employs over 2,000 employees. 1p49

The company is a limited company incorporated and domiciled in Kenya. The address of its registered office is P.O Box PPP, 00100. Nairobi, Kenya. 1p138(a)

For Kenyan Companies Act purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss.

2 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of preparation

The financial statements of ABC Insurance Co. Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRIC) Interpretations applicable to companies reporting under IFRS and the Kenya Companies Act, 2015. The financial statements have been prepared under the historical cost basis, except for the following items which are carried at fair value or valued using another measurement basis: 1p116,

Fair value
- Owner-occupied and investment properties
- Financial assets designated at fair value through profit or loss and at fair value through other comprehensive income,
- Investment contracts liabilities designated at fair value through income, financial liabilities designated at fair value through income.

Other measurement basis
- Employee benefit obligations measured using the projected unit credit method

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

- Level 1 fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Notes (continued)

2 Significant accounting policies (continued)

a) Basis of preparation (continued)

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. There are areas of complexity involving a higher degree of judgment and areas where assumptions and estimates are significant to the financial statements. These judgements, assumptions and estimates are disclosed in detail in the notes to the annual financial statements and in summary in the critical accounting estimates and judgements note (Note 3).

b) Changes in accounting standards and disclosures 8p28

(i) New standards and interpretations adopted by the Company IFRS 9.7.2.1

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:

IFRS 16 Leases

From 1 January 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the Company now recognises lease liabilities relating to leases under which the Company is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1 January 2019 and leases of low value items).Such liabilities have been measured at 1 January 2019 at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate as at 1 January 2019. Corresponding right-of-use assets have been recognised, measured as if the Company's new accounting policy (see Note 2 (s)) had been applied since the commencement of each lease but discounted using the Company's incremental borrowing rate as at 1 January 2019.

As permitted by the transition provisions in the new Standard, comparative amounts have not been restated.

The Company's accounting policy for leases under which the Company was lessee was, up to 31 December 2018, as follows:

Leases of property and equipment where the Company assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease. The finance cost is charged to the profit and loss account in the year in which it is incurred. Property and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

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

Notes (continued)

2 Significant accounting policies (continued)

b) Changes in accounting standards and disclosures (continued)

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

IFRS 16 Leases (continued)

The measurement of assets and liabilities that were recognized as finance leases under the previous accounting policy has continued unchanged, but the assets have been reclassified from property and equipment to Right-of-use assets (see Notes 5 and 6). Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 January 2019 have been recognized in accordance with the transition requirements of IFRS16.The resulting adjustment passed at 1 January 2019 as a result of applying IFRS 16, was as follows:

	KSh '000
Lease liabilities	X
Right-of-use assets	(x)
Deferred tax	(x)
Net adjustment to retained earnings at 1 January 2019	X

In addition, assets held under finance leases and previously included under property and equipment have been transferred from property and equipment to Right-of-use assets, and amounts previously recognised as Prepaid operating lease rentals have been transferred from Prepaid operating lease payments to right-of-use assets. IFRS16pc11, IFRS 16 pc8

The Company applied the following standards and interpretations for the first time for their annual reporting period commencing 1 January 2019 and they did not have a significant impact on the financial statements:

IFRIC 23 *Uncertainty over Income Tax Treatments*
The Interpretation, applicable to annual periods beginning on or after 1 January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

Amendments to IFRS 9 titled *Prepayment Features with Negative Compensation*
The amendments, applicable to annual periods beginning on or after 1January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Notes (continued)

2 Significant accounting policies (continued)

c) Changes in accounting standards and disclosures (continued)

(ii) New standards and interpretations not yet adopted by the Company

The following standards and interpretations have been issued but were not mandatory for annual reporting periods ending 31 December 2019:

Title	Key requirements	Effective date
IFRS 17 Insurance Contracts	IFRS 17 was issued in May 2018 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: (a) discounted probability-weighted cash flows; (b) an explicit risk adjustment; and (c) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. ***[As per IAS 8 requirements, please include entity specific information on the impact and the steps taken to implement]***	1 January 2022
Amendments to IAS 1 and IAS 8 on the definition of material	These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.	1 January 2020

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 are 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)

2 Significant accounting policies (continued)

(c) Foreign currency translation

(i) Functional and presentation currency 1p119

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

(ii) Transactions and balances 1p119 21p17,21p 9,18, 1p51(d)

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

1p119

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. 21p21,28, 21p32,39p 95(a),39p1 02(a)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income. IAS21(23)(C) IAS21(30)

(d) Property and equipment

Land and buildings comprise mainly outlets and offices occupied by the Company. 1p119,16p 73(a),16p1 5,

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers, less subsequent depreciation for buildings and leasehold land. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment. 16p17,16p 35(b),36p9 8(b)

Notes (continued)

2 Significant accounting policies (continued)

(d) Property and equipment (continued)

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. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. 16p12,16p13

Increases in the carrying amount arising on revaluation of land and buildings are recognized in other comprehensive income and credited to the revaluation surplus in shareholders' equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income; all other decreases are charged to the statement of profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of profit or loss and depreciation based on the asset's original cost, net of any related deferred income tax, is transferred from the revaluation surplus to retained earnings. 16p39,1p79(b),16p40,16p41

Depreciation is calculated using the straight-line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life.

Land	20 years
Buildings	20 years
Vehicles	3-5 years
Furniture, fittings and equipment	3-8 years

The assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate. 16p51

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount 36p59

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of profit or loss in other operating income. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings. 16p68, 16p71, 16p41

(e) Investment properties

Property held for long-term rental yields that is not occupied by the Company is classified as investment property. 1p54(b),1p119

Investment property comprises freehold land and buildings. It is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed annually by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. 40p75(a-b),40p75d

Changes in fair values are recorded in the statement of profit or loss. 40p70(f)

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the Company. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. The property is carried at fair value after initial recognition. 40p6,25,34

Notes (continued)

2 Significant accounting policies (continued)

(e) Investment properties (continued)

If an investment property becomes owner-occupied, it is reclassified as plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. 40p60

If an item of plant and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the statement of profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss. 40p61

(f) Computer software 1p119

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met: 38p57

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

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads. 38p66

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. 38p71

Computer software development costs recognised as assets are amortised over their useful lives, which does not exceed three years. 38p97,38p118(a),(b)

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets 1p119 IFRS7(21)

(i) Classification

The Company Classifies its financial assets in the following measurement categories: IFRS9.4.1.1

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). IFRS9.4.1.4 IFRS9.5.7.1

(ii) Recognition and derecognition

Financial assets are recognised when the entity becomes a party to the contractual provisions of the instrument. IFRS7(21), B5(c) IFRS9(3.1.1)(3.2.2)(B3.1.3)-B3.1.6)

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

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. IFRS9(5.1.1)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. IFRS9(4.3.2)(4.3.3)

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: IFRS9(5.1.1)

- 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. IFRS9(4.1.2)

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(iii) Measurement (continued)

Debt instruments (continued)

- 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. IFRS9(4.1.1),(4.1.2A), (5.7.10)

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/ (losses) in the period in which it arises. FRS9(4.1.1),(4.1.4)

Business model: the business model reflects 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 group 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 Group assesses whether the financial instruments' cash flows 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. IFRS9.4.4.1

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares. *IAS 32R-11*

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(iii) Measurement (continued)

Equity instruments (continued)

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. IFRS9(5.7.5),(5.7.6)

Changes in the fair value of financial assets at FVPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. IFRS9(5.7.1)

(iv) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchanges (NSE, USE). The quoted market price used for financial assets held by the Company is the current bid price. IFRS 13-9

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. For example, a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). IFRS 13-72 IFRS 13-76, 81, 86 IFRS 13-95

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

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(v) Impairment

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

The Company recognises a loss allowance for expected credit losses on debt instruments that are measured at amortised cost or at fair value through other comprehensive income. The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses. IFRS 9-5.5.1, 5.5.3, 5.5.5, and 5.5.8

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date. IFRS 9-AppA

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions IFRS 9-5.5.17 IFRS 7-35B(a) IFRS 7-35F(a)

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

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

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

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

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(v) Impairment (continued)

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

The entity measures expected credit losses of a financial instrument in a way that reflects:
a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b. the time value of money; and
c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

- The general approach
- The simplified approach

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

Financial Asset	Impairment approach
Loans receivable	General Approach
Receivables arising out of direct insurance arrangements	Simplified Approach
Lease and other receivables	Simplified Approach
Government securities at amortised cost	General Approach
Corporate bonds and commercial paper	General Approach
Deposits with financial institutions	Simplified Approach
Cash and bank balances	Simplified Approach

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(v) Impairment (continued)

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 always measures the loss allowance at an amount equal to lifetime expected credit losses.

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.

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(v) Impairment (continued)

Significant increase in credit risk (SIICR)

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

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:
• The remaining lifetime probability of default (PD) as at the reporting date; with
• The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

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

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

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 advice from the Company risk committee and economic experts and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

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.

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(v) Impairment (continued)

The Company has identified and documented key drivers of credit risk and ECL for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2019 included the following ranges of key indicators for Kenya for the years ending 31 December 2019 and 2020.

	2019	***2020***
Interest rates	Base XX%	Base XX%
	Range between XX% and XX%	Range between XX% and XX%
GDP growth	Base XX%	Base XX%
	Range between XX% and XX%	Range between XX% and XX%
Inflation rates	Base XX%	Base XX%
	Range between XX% and XX%	Range between XX% and XX%

The predicted relationships between the key indicators and the default and loss rates on various portfolios of financial assets have been developed by analysing historical data over the past 10 to 15 years.

<u>Measurement of ECL</u>

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

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

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

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

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(v) Impairment (continued)

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 grouped 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 groupings are subject to regular review to ensure that exposures within a particular group 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 in the [Rating Agency N] default study and the LGDs provided in the [Rating Agency ll] recovery studies.

Operating lease receivables

The ECL of operating lease receivables are determined at country level using a provision matrix. Loss rates are calculated with reference to days past due and actual credit loss experience over the past five years and are multiplied by scalar factors to incorporate forward-looking information.

(vi) 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: IFRS9(5.4.3)

- 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; and
- 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 recognised 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. IFRS9(B5.5.25), (B5.5.26)

Notes (continued)

2 Significant accounting policies (continued)

(g) Financial assets (continued)

(vi) Modification of contracts (continued)

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

IFRS9(5.4.3)

(vii) Write off policy

The Company writes off financial assets, in whole or in part when it has exhausted all practical recovery effort and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity; and (ii) the Company is foreclosing on collateral and the value of the collateral is such as there is no reasonable expectation of recovering in full. IFRS7 (35F(e)

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 KSh xx. 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 IFRS7 (35F(e) IFRS 7(35L)

(ix) Offsetting financial instruments 1p119

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group or the counterparty. 32p42, AG38B

(h) Cash and cash equivalents 1p119

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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities. 7p45

(i) Share capital 1p119

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

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

IFRS7p21

Shares are classified as equity when there is no obligation to transfer cash or other assets. 32p35,37

Notes (continued)

2 Significant accounting policies (continued)

(j) Insurance and investment contracts

(i) Classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. A number of insurance and investment contracts contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses: IFRS4p37 (a)

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the Company; and
- That are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the Company; or
  - the profit or loss of the Company, fund or other entity that issues the contract.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders); the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the relevant local appointed actuary.

(ii) Recognition and measurement

Insurance contracts and investment contracts are classified into four main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

Short-term insurance contracts

These contracts are casualty, property and other short duration insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage IFRS4p37 (a) (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Notes (continued)

2 Significant accounting policies (continued)

(j) Insurance and investment contracts

(ii) Recognition and measurement (continued)

Short-term insurance contracts (continued)

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Long-term insurance contracts with fixed and guaranteed terms

These contracts insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions. IFRS4p37 (a),17(a)

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at inception of the contracts.

Notes (continued)

2 Significant accounting policies (continued)

(j) Insurance and investment contracts (continued)

(ii) Recognition and measurement (continued)

Long-term insurance contracts without fixed terms – unit-linked

These contracts insure human life events (for example, death or survival) over a long duration. However, insurance premiums are recognised directly as liabilities. These liabilities are increased by credited interest (in the case of universal life contracts) or change in the unit prices (in the case of unit-linked contracts) and are decreased by policy administration fees, mortality and surrender charges and any withdrawals.

The liability for these contracts includes any amounts necessary to compensate the Company for services to be performed over future periods. This is the case for contracts where the policy administration charges are higher in the initial years than in subsequent years. The mortality charges deducted in each period from the contract holders as a group are considered adequate to cover the expected total death benefit claims in excess of the contract account balances in each period; no additional liability is therefore established for these claims.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the Company with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Revenue consists of fees deducted for mortality, policy administration and surrender charges. Interest or changes in the unit prices credited to the account balances and excess benefit claims incurred in the period are charged as expenses in profit or loss.

Investment contracts

The liability for these contracts is established in the same way as for the universal life insurance contracts (see above). Revenue is also recognised in the same way.

39p11

Where the resulting liability is lower than the sum of the amortised cost of the guaranteed element of the contract and the intrinsic value of the surrender option embedded in the contract, it is adjusted and any shortfall is recognised immediately in profit or loss.

Notes (continued)

2 Significant accounting policies (continued)

(j) Insurance and investment contracts (continued)

(iii) Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term insurance contracts without fixed terms and investment contracts, DAC is amortised over the expected total life of the contract group as a constant percentage of estimated gross profit margins (including investment income) arising from these contracts. The pattern of expected profit margins is based on historical and anticipated future experience and is updated at the end of each accounting period.

The resulting change to the carrying value of the DAC is charged to profit or loss. IFRS4p31-33

(iv) Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

As set out in (a) above, long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities. Any DAC written off as a result of this test cannot subsequently be reinstated. IFSR4p15

(v) Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. IFRS4p37 (a)

Notes (continued)

2 Significant accounting policies (continued)

(j) Insurance contracts and investment contracts (continued)

(v) Reinsurance contracts held (continued)

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. IFRS4p14

In certain cases, a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Company's property or casualty insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Company for the related claim, the difference is amortised over the estimated remaining settlement period. IFRS4p37 (b)

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. IFRS4p20

(vi) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. IFRS4p37 (a)

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets.

(vii) Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). IFRS4p37 (b)

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

Notes (continued)

2 Significant accounting policies (continued)

(k) Borrowings 1p119

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

IFRS7p21

Fees paid on the establishment of loan facilities are recognised as transaction cost of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. 39p43,39 p47

(l) Borrowing costs 1p119

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

23p8

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. 23p12

Other borrowing costs are expensed in the period in which they are incurred.

(o) Income taxes 1p119

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 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. 12p58

Current 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. 12p12,12 p46

Deferred income tax 1p119

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the reporting date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. 12p24,15, 47

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. 12p34

Notes (continued)

2 Significant accounting policies (continued)

(o) Income taxes (continued)

Deferred income tax (continued)

Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same entity. 12p74

(p) Retirement benefit obligations 1p119

Defined contribution IAS19p25,44,120A(b)

The Company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. A defined contribution plan is a plan under which the Company pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Company's contributions are charged to the statement of profit or loss in the year to which they relate.

The Company and the employees also contribute to various national Social Security funds. Contributions are determined by local statute and the Company's contributions are charged to the statement of profit or loss in the year to which they relate.

**** It is assumed that the Company does not have a defined benefit arrangement. However, if one were to be in existence, more extensive disclosures as per IAS 19 Revised would be applicable. We have not illustrated the disclosures that would arise from this in the specimen. Refer to the illustrative general purpose financial statements.***

(q) Provisions 1p119

(i) Restructuring costs and legal claims 37p14

Provisions for restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. 37p72,

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. 37p24

Notes (continued)

2 Significant accounting policies (continued)

(q) Provisions (continued)

(i) Restructuring costs and legal claims (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. 37p45

(ii) Levies

The Company is subject to various insurance-related assessments or guarantee-fund levies. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event.

(r) Revenue recognition 1p119

Revenue comprises the fair value of the consideration received or receivable for services, net of any applicable taxes. 18p35(a)

(i) Insurance premium

Insurance premiums for life and general insurance contracts are recognised as revenue as detailed in Note 2(j).

(ii) Rendering of services 18p20

Revenue arising from asset management and other related services offered by the Company is recognised in the accounting period in which the services are rendered.

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets and derivatives in order to reproduce the contractual returns that the Company's customers expect to receive from their investments. Such activities generate revenue that is recognised by reference to the stage of completion of the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Company recognises these fees on a straight-line basis over the estimated life of the contract.

Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid.

Notes (continued)

2 Significant accounting policies (continued)

(r) Revenue recognition (continued)

(iii) Interest income and expenses 18p29-30(a)

Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within 'investment income' (Note 27) and 'finance costs' (Note 34) in the statement of profit or loss using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(iv) Dividend income 18p29-30(a)

Dividend income for available-for-sale equities is recognised when the dividend is publicly declared.

(s) Leases

Leases under which the Company is the lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Company recognises a right-of-use asset and a lease liability. IFRS 16 p22

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used. IFRS 16 p26-27

For leases that contain non-lease components, the Company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components. IFRS 16 p12

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease. IFRS 16 p24

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments. IFRS 16 p36

Leasehold land and buildings are subsequently carried at revalued amounts, based on annual/triennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life .If ownership of the underlying asset is not expected to pass to the Company at the end of the lease term, the estimated useful life would not exceed the lease term. IFRS 16 p35

Notes (continued)

2 Significant accounting policies (continued)

(s) Leases (continued)

Increases in the carrying amount arising on revaluation are recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognized in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings. 16p 39-41

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognized in profit or loss on a straight-line basis over the lease period. IFRS 16 p6,60

The above accounting policy has been applied from 1 January 2019. Note 2 sets out the equivalent policy applied in the previous year and the impact of the change in accounting policy.

<u>Leases under which the Company is the lessor</u>

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases .Payments received under operating leases are recognized as income in the profit and loss account on a straight-line basis over the lease term. The Company has not entered into any finance leases. IFRS 16 p62,81

(t) Dividend distribution 1p119

Dividend distribution to the Company’s shareholders is recognised as a liability in the Company’s financial statements in the period in which the dividends are approved by the Company’s shareholders. Interim dividends paid in the year are recognised when paid. 10p12

(u) Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost. IFRS9 (3.3.1)

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires) IFR9 (3.3.2)

Notes (continued)

3 Critical accounting estimates and judgments

IFRS4p38 ,1p125,1p 122

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the assets and liabilities of the Company. Management applies judgement in determining the best estimated of future experience. Judgements are based on historical experience and management's best estimate expectations of future events, taking into account changes experienced historically. Estimates and assumptions are regularly updated to reflect actual experience. Actual experience in future financial years can be materially difference from the current assumptions and judgements and could require adjustments to the carrying values of the affected assets and liabilities.

(a) Accounting estimates

The critical estimates and judgements made in applying the Company's accounting policies are listed below:

(a) Insurance contract liabilities

IFRS4p38

(i) Short term business

IFRS4p38

Management applies judgment in the estimation of short-term insurance contract liabilities. The Company uses historical experience to estimate the ultimate cost of claims and the provision for incurred but not reported (IBNR) claims. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year. The nature of claims is generally high frequency with short reporting periods. The Company estimates claims using projected ultimate loss ratios based on notified claims.

(ii) Long term business

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Assumptions used to compute the liabilities include mortality, persistency and investment returns. The assumptions used also include margin for adverse deviation, for key variables, when considered appropriate. The Company uses standard mortality tables that reflect historical mortality experience.

The main source of uncertainty is that future mortality may end up being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk. For contracts without fixed terms, it is assumed that the Company will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Notes (continued)

3 Critical accounting estimates and judgments (continued)

(a) Accounting estimates (continued)

(b) Measurement of expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of models (some complex) and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk; and
- Determining the appropriate business models and assessing the “solely payments of principal and interest (SPPI)” requirements for financial assets.

(c) Income tax

The Company is subject to income taxes in Kenya. Judgement is required in determining the Company’s provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Fair value of financial instruments

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

(e) Valuation of investment property

Estimates are made in determining valuations of investment properties. Fair value is based on valuation performed by an independent valuation expert. In performing the valuation, the valuer uses discounted cash flow projections which incorporate assumptions around the continued demand for rental space, sustainability of growth in rent rates as well as makes reference to recent sales. The independent valuers also use the highest and best use principle in determining the value of Investment property. The change in these assumptions could result in a significant change in the carrying value of investment property.

Management monitors the investment property market and economic conditions that may lead to significant change in fair value, and conducts a formal and independent property valuation at least once every three years and adjusts the recorded fair values accordingly for any significant change.

Notes (continued)

3 Critical accounting estimates and judgments (continued)

(a) Accounting estimates (continued)

(f) Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment. The rates used are set out in accounting policy under Note 2 (d).

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Company's accounting policies, management has made judgement in determining:

- The classification of financial assets and liabilities;
- Whether credit risk on financial assets has increased significantly since initial recognition;
- Whether it is probable that future taxable profits will be available against which temporary differences can be utilized; and
- how to determine the incremental borrowing rate used in the discounting of lease liabilities.

4 Intangible assets

	2019 KSh '000	2018 KSh '000
Deferred acquisition costs		
Computer software		

4 (i) Deferred acquisition costs

	2019 KSh '000	2018 KSh '000
At the beginning of the year		
Additions		

Amortisation charges	
Impairment charges	
At the end of the year	

4 (ii) Computer software

	2019 KSh '000	2018 KSh '000
Cost		
Accumulated amortisation		
Accumulated impairment		
Net book amount		
Opening net book amount		
Additions		
Amortisation charges		
Impairment charges		
Closing net book amount		

Notes (continued)

5 Property and equipment

	Land and buildings KSh '000	Motor vehicles KSh '000	Furniture, fittings and equipment KSh '000	Total KSh '000	
At 1 January 2019					16p73(d)
Cost or fair value					
Accumulated depreciation					
Net book amount					
Year ended 31 December 2019					16p73(d)
Opening net book amount					
Exchange differences					16p73(e)(viii)
Revaluation surplus					16p73(e)(iv)
Additions					16p73(e)(i)
Disposals					16p73(e)(ix)
Depreciation charge					16p73(e)(vii)
Closing net book amount					
At 31 December 2019					16p73(d)
Cost or fair value					
Accumulated depreciation					
Net book amount					
Year ended 31 December 2019					
Opening net book amount					16p73(e)
Transferred to right-of-use asset at 1 January 2019 (Note 6)*					
Exchange differences					16p73(e)(viii)
Additions					16p73(e)(i)
Disposals					16p73(e)(ix)

Depreciation charge 16p73(e)(vii)
Closing net book amount

At 31 December 2019 16p73(d)
Cost or valuation
Accumulated depreciation
Net book amount

****[Leasehold land and buildings and any other assets recognised under finance leases at 31 December 2018 should be reclassified as right-of-use assets at 1January 2019]***
[Other layouts for presenting the movements in property, plant and equipment (with comparatives) are acceptable provided they comply with IAS 16-73(d) and (e).]

The Company's land and buildings were last revalued at 31 December 2019 by independent valuers. Valuations were made on the basis of open market value. The arising fair value is included in level 2 of the fair value hierarchy. The revaluation surplus net of applicable deferred income taxes was credited to revaluation surplus in shareholders' equity (Note 17). 16p77(a-d), 1p79(b) IFRS13p93 (a)&(b)

During the year, the Company has capitalised borrowing costs amounting to KSh xx (2018: nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of x%. 23p26

Notes (continued)

5 Property and equipment (continued)

If land and buildings were stated on a historical cost basis, the amounts would be as follows: 16p77(e)

	2019 KSh '000	2018 KSh '000
At 31 December		
Cost		
Depreciation		
Net book amount		

Bank borrowings are secured on land and buildings to a value of xx (2018: yy) (Note 22). 16p74(a)

All property and equipment are non-current.

Property and equipment with a carrying amount of KSh xxx,000 at 31 December 2018 were subject to finance leases and have been reclassified to right-of-use assets at1 January 2019 (see Note 6).

In the statement of cashflows, the comparative amount for purchases of property and equipment

	2018 KSh '000
Additions, as above	
Less: amounts financed through finance leases	
Net book amount	

Fully depreciated plant still in use had a cost of KSh xxx,000 (2018: KSh xxx,000). 16p79(b)

6 Right-of-use assets

	Land and buildings KSh '000	Motor vehicles KSh '000	Total KSh '000	
At 1 January 2019				
Transferred from property and equipment (Note 5)				
Transferred from prepaid lease rentals				
Effect of change in accounting policy (Note 2)				
Additions				IFRS16p53(h)
Depreciation charge				IFRS16p53(a)
At 31 December 2019				IFRS16p53(j)

Under the previous accounting policy prepaid operating lease rentals were recognized at historical cost and subsequently amortised over the lease period. The carrying amount of prepaid operating lease rentals of KSh xxx,000 at 1 January 2019 has been reclassified as right-of-use assets.

Notes (continued)

6 Right-of-use assets (continued)

The Company leases various offices, warehouses, motor vehicles and office equipment. The leases of offices and warehouses are typically for periods of between 7 and 99 years, with no options to renew. Lease of motor vehicles are typically for periods of between 2 and 5 years, while leases of office equipment are for periods of not more than 12 months. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

IFRS16p59

Leasehold land and buildings were valued (Level2) on [date] by……………………………,independent valuers, on the basis of open market value. The carrying amount of the asset was restated to the revalued amount of the asset, and the resulting surplus arising on revaluation net of deferred income tax was recognised in other comprehensive income and credited to the revaluation surplus in equity.

IFRS16p57, 16p77

If the leasehold land and buildings were stated on the historical cost basis, the carrying values would be KSh xxx,000.

16p77(e)

In the statement of cash flows, the amount for payments for right-of-use assets represents:

	2019
Additions, as above	
Less: Amounts financed through leases	
Cash flow	

For information on the related lease liabilities, see Note 38.

7 Investment properties

	2019 KSh '000	2018 KSh '000
Year ended 31 December		
Opening balance at 1 January		
Additions and capital improvements		
Fair value gains (Note 28)		
Foreign currency translation effects		
Closing net book amount		

Bank borrowings are secured on investment property to the value of KSh xx (2018: KSh yy) (Note 22).

The properties are independently valued by a member of the Institute Surveyors at 31 December 2019 and 2018 on the basis of determining the open market value of the investment property. The open market value of all properties was determined using recent market prices. The arising fair value is included in level 2 of the fair value hierarchy. The majority of the property is located in Nairobi. 40p75(d)

The land is held for long-term capital appreciation rather than short-term sale. There is minimal rental income arising from the land owned by the Company, which amounted to KSh xx (2018: KSh yy). It is included in other operating income. In the statement of profit or loss, other operating expenses include KSh xx (2018: KSh yy) relating to investment property. 40p75(f)(iii)

Notes (continued)

7 Investment properties (continued)

All investment properties are non-current.

<u>Sensitivity analysis:</u>

The gross annual rent and yield are the significant unobservable inputs used in the valuation of investment properties. The effect of changes in gross annual rental and yield will have the following effect on the fair value of investment property;

	% change	2019 KSh '000	2018 KSh '000
Gross annual rent	+10		
Gross annual rent	-10		
Yield	+0.5		
Yield	-0.5		

8 Reinsurer's share of insurance contract liabilities

	2019 KSh '000	2018 KSh '000	
Reinsurers' share of:			IFRS4p37 (b)
- Unearned premium (Note 18(b)(ii))			
- Notified claims outstanding and IBNR			IFRS4p20
- Actuarial value of long-term liabilities			
Total			
Current			
Non-current			

Amounts due from reinsurers in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position.

9 Receivables arising out of direct insurance contracts and reinsurance arrangements

	2019 KSh '000	2018 KSh '000
Gross amount due from policyholders, agents, brokers and other intermediaries		
Provision for impairment		
Net receivables arising out of direct insurance contracts		
Gross amounts due from reinsurers		
Provision for impairment		
Net receivables arising out of reinsurance arrangements		
Total		

Notes (continued)

10 Financial assets

IFRS7p7, 1p78

The Company classifies its financial assets into the following categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

The Company's financial assets are summarised below:

	2019 KSh '000	2018 KSh '000
Financial assets at fair value through profit or loss		
Financial assets at fair value through other comprehensive income		
Amortised cost financial assets		
Total financial assets		

The current portion of financial assets is KSh xx (2018: KSh xx) the remaining being non-current. The assets comprised in each of the categories above are detailed in the tables below.

	2019 KSh '000	2018 KSh '000

Financial assets at fair value through profit or loss IFRS7p38 (a)

Equity securities:
Quoted
Unquoted

Government securities

Total financial assets at fair value through profit or loss

Financial assets at fair value through other comprehensive income

	2019 KSh '000	2018 KSh '000
Equity securities:		
Unquoted		
Government securities:		
Total financial assets at fair value other comprehensive income		

Notes (continued)

10 Financial assets (continued)

Financial assets at fair value through other comprehensive income (continued)

The equity instruments designated as at 1 January 2019, the date of transition to IFRS 9, to be measured at fair value through other comprehensive income are: IFRS7p11A IFRS9p7.2.8(b)

	2019 KSh '000	2018 KSh '000	
120,000 ordinary shares of ABC Limited			IFRS7p11A
56,500 ordinary shares of DEF Limited			

These are unquoted investments held for long term strategic purposes and the directors are of the opinion that recognising short term fluctuations in the fair value of these investments in profit or loss would be inappropriate. IFRS7p11A

Financial assets at amortised cost IFRS7p36,1p74

	2019	2018

	KSh '000	KSh '000	
Government securities			
Corporate bonds			
Deposits with financial institutions			
Insurance receivables:			
Receivables arising out of direct insurance contracts			IFRS4p37(b)
Receivables arising out of reinsurance arrangements			
Other financial assets at amortised cost:			
– Mortgage loans and policy loans			
– Rent receivable			1p75(b)
– Receivables from related parties			1p75(b),24p18(b)
– Loans to related parties			1p75(b),24p18(b)
Total financial assets at amortised cost including insurance receivables			
Current portion			1p60
Non-current portion			

Notes (continued)

10 Financial assets (continued)

Financial assets at amortised cost (continued)

The fair values of government securities are based on prices published by brokers (Level 2). Fair value of corporate bonds, deposits with financial institutions and other financial assets at amortised costs are based on the discounted cash flows using a discount rate based on the current market rates offered for deposits with similar credit risk and maturity dates (Level 2). IFRS7p25

The fair values of loans to related parties are based on cash flows discounted using a rate based on the borrowings rate of XX% (2018: XX%) (Level 3).

The categorisation of assets carried at fair value by the levels is as follows: IFRS13 p93(b)

	Level 1 KSh	Level 2 KSh '000	Level 3 KSh
At 31 December 2019			
<u>Financial assets at fair value through profit or loss</u>			
Equity securities			
Government securities			

Financial assets at fair value through other comprehensive			
Equity securities			
Government securities			
Total			

	Level 1 KSh	Level 2 KSh '000	Level 3 KSh
At 31 December 2018			
Financial assets at fair value through profit or loss			
Equity securities			
Government securities			
Financial assets at fair value through other comprehensive income			
Equity securities			
Government securities			
Total			

Notes (continued)

11. Equity securities

	FV through OCI 2019 KSh '000	FV through profit or loss 2019 KSh '000	Total 2019 KSh '000	FV through OCI 2018 KSh '000	FV through profit or loss 2018 KSh '000	Total 2018 KSh '000
At start of year						
Additions						
Disposals						
Fair value gain/(loss) through other comprehensive income						
Fair value gain/(loss) through profit or loss						
At end of year						

12. Government securities

	FV through OCI 2019 KSh '000	FV through profit or loss 2019 KSh '000	Amortised cost 2019 KSh '000	Total 2019 KSh '000	FV through OCI 2018 KSh '000	FV through profit or loss 2018 KSh '000	Amortised cost 2018 KSh '000	Total 2018 KSh '000
At start of year								
Additions								
Disposals/ maturities								
Fair value gain/(loss) through other comprehensive income								
Fair value gain/(loss) through profit or loss								
Provision for expected credit losses								
At end of year								

Notes (continued)

12. Government securities (continued)

Maturity profile:
The ageing profile of government securities is as per below:

	2019 KSh '000	2018 KSh '000
Maturing with 91 days		
Maturing within 1 year		
Maturing between 1 - 5 years		
Maturing after 5 years		
Total		

Treasury bonds of KSh XX billion (2018: KSh XX billion) are held under lien with the Central Bank of Kenya as security deposit in favor of the Insurance Regulatory Authority as required under the provisions of Section 32 of Kenya Insurance Act.

13. Corporate bonds at amortised cost

	2019	2018

	KSh '000	KSh '000
At start of year		
Additions		
Provision for expected credit losses		
Disposals/maturities		
At end of year		

Maturity profile:
The ageing profile of corporate bonds is as per below:

Maturing within 1 year		
Maturing between 1 - 5 years		
Maturing after 5 years		

14. Loans receivable

a) Mortgage loans	**2019 KSh '000**	**2018 KSh '000**
At start of year		
Loans advanced		
Accrued interest		
Provision for expected credit losses		
Loan repayments		
At end of year		

Notes (continued)

14. Loans receivable (continued)

a) Mortgage loans (continued)

Maturity profile:
The ageing profile of mortgage loans is as per below:

	2019 KSh '000	**2018 KSh '000**
Maturing within 1 year		
Maturing between 1 - 5 years		
Maturing after 5 years		

b) Policy loans

	2019 KSh '000	**2018 KSh '000**

At start of year	
Loans advanced	
Accrued interest	
Provision for expected credit losses	
Loan repayments	
At end of year	

The ageing profile of mortgage loans is as per below:

Maturing within 1 year	
Maturing between 1 - 5 years	
Maturing after 5 years	

Notes (continued)

15. Cash and cash equivalents

	2019 KSh '000	2018 KSh '000
Cash at bank and in hand		
Short-term bank deposits with financial institutions		
Treasury bills maturing within 90 days of the date of acquisition		
Total		

The effective interest rate on short-term bank deposits was x.y% (2018: x.y %) and they have an average maturity of xx days.

Cash and bank overdrafts include the following for the purposes of the cash flow statement: IFRS7p45

	2019 KSh '000	2018 KSh '000
Cash and cash equivalents		
Bank overdrafts (Note 22)		

Total 7p8

16 Share capital

	Number of shares outstanding (thousands)	Ordinary shares	Share premium	Total
At 1 January 2018				
– Proceeds from shares issued				
At 31 December 2018				
– Proceeds from shares issued				
At 31 December 2019				

Ordinary shares

The total authorised number of ordinary shares is xxx (2018: xxx), with a par value of KSh x per share (2018: KSh x per share). All issued shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights.

Share premium

Share premium comprises additional paid-in capital in excess of the par value. This reserve is not ordinarily available for distribution.

Notes (continued)

17 Other reserves

	2019 KSh ‘000	2018 KSh ‘000
Land and buildings revaluation reserve		
Statutory reserve		
Total other reserves at 31 December		

(i) Land and buildings revaluation reserve

Movements in the revaluation reserve for land and buildings were as follows:

	2019 KSh ‘000	2018 KSh ‘000
At the beginning of the year		
Revaluation – gross (Note 6)		
Revaluation – tax (Note 23)		
Depreciation transfer – gross		

Depreciation transfer – tax		
At end of the year		

(ii) Statutory reserve

The statutory reserve represents profits for the long term business whose distribution is subject to restrictions imposed by the Insurance Act. The Act restricts the amount of surpluses of the long term business available for distribution to shareholders to 30% of the accumulated surplus of the life business. Section 46(5)

Movements in the statutory reserves were as follows:

	2019 KSh '000	2018 KSh '000
At the beginning of the year		
Surplus for the year		
Transferred during the year		
At end of the year		

Notes (continued)

18 Insurance liabilities and reinsurance assets IFRS 4p36 IFRS 4p37(b)

a) Insurance liabilities	**2019 KSh '000**	**2018 KSh '000**
Gross (IFRS 4p36, IFRS 4p37(b))		
Short-term insurance contracts:		
– Claims reported and loss adjustment expenses		
– Claims incurred but not reported		
– Unearned premiums		
– Unexpired risk provision		
Long-term insurance contracts		
– Claims reported and claims handling expenses		

– Actuarial value of long term liabilities

Total insurance liabilities, gross

Reinsurers' share of insurance liabilities IFRS7p25

Short-term insurance contracts:

– Claims reported and loss adjustment expenses

– Claims incurred but not reported

– Unearned premiums

– Unexpired risk provision

Long-term insurance contracts:

– Claims reported and claims handling expenses

– Actuarial value of long term liabilities

Total reinsurers' share of insurance liabilities

Net

Short-term insurance contracts:

– Claims reported and loss adjustment expenses

– Claims incurred but not reported

– Unearned premiums

– Unexpired risk provision

Long-term insurance contracts:

– Claims reported and claims handling expenses

– Actuarial value of long term liabilities

Total insurance liabilities, net

Current 1p61

Non-current

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

Notes (continued)

18 Insurance liabilities and reinsurance assets (continued) IFRS 4p36 IFRS 4p37(b)

Short term insurance liabilities

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

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.

Year ended 31 December 2019	2015 KSh '000	2016 KSh '000	2017 KSh '000	2018 KSh '000	2019 KSh '000	Total KSh '000
Accident year						
Estimate of ultimate claims costs						
At end of accident year						
One year later						
Two years later						
Three years later						
Four years later						
Current estimate of cumulative claims						
Less: Cumulative payments to date						
Liability in the statement of financial position						
Liability in respect of prior years						
Incurred but not reported						
Total gross claims liability included in the statement of financial position						

Notes (continued)

18 Insurance liabilities and reinsurance assets (continued)

b) Movements in insurance liabilities and reinsurance assets IFRS4p 37(e)

(i) Short-term insurance contracts IFRS7 p25

	2019			2018		
Year ended 31 December	Gross KSh '000'	Reinsurance KSh '000'	Net KSh '000'	Gross KSh '000'	Reinsurance KSh '000'	Net KSh '000'
Notified claims						
Incurred but not reported						
Total at beginning of year						
Cash paid for claims settled in year						
Increase in liabilities						

- Arising from current year claims	
- Arising from prior year claims	
Total at end of year	
Notified claims	
Incurred but not reported	
Total at end of year	

(ii) Provisions for unearned premiums and unexpired short term insurance risks

The movements for the year are summarised below.

IFRS4p 37(e)

	2019			**2018**		
Year ended 31 December	**Gross KSh '000'**	**Reinsurance KSh '000'**	**Net KSh '000'**	**Gross KSh '000'**	**Reinsurance KSh '000'**	**Net KSh '000'**
Unearned premium provision						
At the beginning of year						
Increase in the period						
Release in the period						
At end of year						
Unexpired risk provision						
At the beginning of year						
Increase in the period						
Release in the period						
At end of year						

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end. The unexpired risk provision relates to the (xx class) insurance contracts for which the Company expects to pay claims in excess of the related unearned premium provision.

Notes (continued)

18 Insurance liabilities and reinsurance assets (continued)

b) Movements in insurance liabilities and reinsurance assets (continued)

iii) Long-term insurance contracts

IFRS7 p25

	2019			**2018**		
Year ended 31 December	**Gross KSh '000'**	**Reinsurance KSh '000'**	**Net KSh '000'**	**Gross KSh '000'**	**Reinsurance KSh '000'**	**Net KSh '000'**
Notified claims						
Actuarial value of policyholders' benefits						

Total at beginning of year	
Cash paid for claims settled in year	
Increase in liabilities	
- Arising from current year claims	
- Arising from prior year claims	
Total at end of year	
Notified claims	
Actuarial value of policyholders' benefits	
Total at end of year	

Refer to Note 20 for assumptions and estimates used.

19 Investment contract benefits

Benefits from unit-linked investment contracts for KSh xxx (2018: KSh xxx) are accrued to the account of the contract holder at the fair value of the net gains arising from the underlying linked assets. All these contracts are designated as at fair value through income and were designated in this category upon initial recognition. IFRS7 p20(a)(i)

On guaranteed investment bonds, benefits of KSh xxx (2018: KSh xxx) have been accrued based on the associated effective interest rate. These contracts are measured at amortised cost. IFRS7 p20(b)
The movement in the year for investment contract liabilities was as follows:

	2019 KSh '000	**2018 KSh '000**
At beginning of year		
Deposits received in the year		
Surrenders and other payments in the year		
Accretion of interest		
At end of year		

Current
Non-current

Refer to Note 20 for assumptions and estimates used.

Notes (continued)

20 Contract holder liabilities – assumptions and estimates

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the Gross Premium Valuation (GPV) method as described in the Insurance (Amendment) Bill, 2016 effective 13 January 2017. The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies under Note 2 (j).

The assumptions are set as follows:

- The best estimate for a particular assumption is determined.
- Prescribed margins are then applied, as required by Insurance Act.

The liabilities at 31 December 2019 would have been KSh [xx] million (2018: KSh [xx] million) lower for the Company without the discretionary margins. This impact is shown gross of transfer tax.

The process used to decide on best-estimate assumptions is described below:

Mortality [detail entity specifics]

Morbidity [detail entity specifics]

Persistency [detail entity specifics]

Expenses [detail entity specifics]

Investment returns [detail entity specifics]

Sensitivity analysis

The sensitivity of the value of contract holder liabilities to movement in the assumptions is shown in the table below. In each instance, the specified assumption changes while all the other assumptions remain constant.

The numbers in the table demonstrate the impact on liabilities if experience deviates from best-estimate assumptions by the specified amount in all future years.

	Liability	Renewal expenses decrease by X%	Expense inflation decreases by X%	Discontinuance rates decrease by X%	Mortality and morbidity decrease by X%	Investment returns reduce by X%
2019	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**
Long term business (excluding annuities)						
Annuities						
Short term business						

Notes (continued)

20 Contract holder liabilities – assumptions and estimates (continued)

	Liability	Renewal expenses decrease by X%	Expense inflation decreases by X%	Discontinuance rates decrease by X%	Mortality and morbidity decrease by X%	Investment returns reduce by X%
2018	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**
Long term business (excluding annuities)						
Annuities						
Short term business						

The sensitivities were chosen because they represent the main assumptions regarding future experience that the Company employs in determining its insurance liabilities.

It is not uncommon to experience one or more of the stated deviations in any given year. There might be some correlation between sensitivities; for instance, changes in investment returns are normally correlated with changes in discontinuance rates. The table above shows the impact of each sensitivity in isolation, without taking into account possible correlations.

21 Trade and other payables and deferred income

	2019 KSh '000	2018 KSh '000	
Amounts due to related parties (Note 41)			24p18,1p78
Trade payables and accrued expenses			
Social security and other tax payables			
Deferred income			
Total			

Deferred income is front-end fees received from investment contract holders as a pre-payment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered (Note 26).

The estimated fair values of amounts due to related parties and trade payables are the amounts repayable on demand of xx (2018: yy). All trade and other payables are current liabilities.

Notes (continued)

22 Borrowings IFRS7p7

	2019 KSh '000	2018 KSh '000	
Bank loans			IFRS7p8
Convertible bond			
Debentures and other loans			
Collateralised borrowings			IFRS7p13
Bank overdrafts			
Total borrowings			

Current portion

Non-current portion

Total borrowings include secured liabilities (bank and collateralised borrowings) of KSh XX (2018: KSh XX). Bank borrowings are secured by the Company's land and buildings (Notes 6).

23 Deferred income tax 12p74

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:

Year ended 31 December 2019	**At 1 January 2019 KSh '000**	**(Credited)/charged to P/L KSh '000**	**(Credited)/charged to OCI KSh '000**	**At 31 December 2019 KSh '000**
Provision for liabilities and charges				
Tax losses carried forward				
Property and equipment				
- on historical cost basis				
- on revaluation surplus				
Right-of-use asset				
- on historical cost basis				
- on revaluation surplus				
Investment property				
Lease liabilities				
Actuarial surplus				
Net deferred tax liability/(asset)				

IAS 12-74

Notes (continued)

23 Deferred income tax (continued)

Year ended 31 December 2018	**At 1 January 2018 KSh '000**	**(Credited) /charged to P/L KSh '000**	**(Credited) /charged to OCI KSh '000**	**At 31 December 2018 KSh '000**
Provision for liabilities and charges				
Tax losses carried forward				
Property and equipment				
- on historical cost basis				
- on revaluation surplus				

Right-of-use asset
- on historical cost basis
- on revaluation surplus

Investment property
Lease liabilities
Right-of-use asset
Net deferred tax liability/(asset)

The (credit)/charge to other comprehensive income relates to: IAS 12-81(ab)

	2019	**2018**
	KSh '000	**KSh '000**
Items that will not be reclassified subsequently to profit or loss:		
Gain/(loss) on revaluation of property and equipment		
Changes in fair value of equity instruments at FV through OCI		
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value debt instruments at FV through OCI		
Reclassification to profit or loss: gain on disposal in debt securities measured at fair value through other comprehensive income		

In addition, deferred tax of KSh ______ (2018: KSh) was transferred from the revaluation surplus to
Retained earnings. This relates to the difference between the actual depreciation of the revalued carrying amounts of buildings and plant and machinery and the equivalent depreciation based on the historical cost of those assets (the excess depreciation). IAS12-64

The deferred tax asset has been recognised based on management's projections of future taxable profits that will be available against which the deductible temporary differences and tax losses can be utilised. ***[OR]*** The deferred tax asset has not been recognised on deductible temporary differences and tax losses carried forward amounting to KSh ______ (2018: KSh ______) due to lack of certainty of availability of future taxable profits against which such deductible temporary differences and tax losses could be utilised. Under the Kenyan Income Tax Act, tax losses are allowable as a deduction only in the nine years succeeding the year in which they occurred. The tax losses of KSh _____ carried forward will expire as follows: IAS 12 – 82,81 (e)

Notes (continued)

23 Deferred income tax (continued)

Arising in:	Tax losses KSh ‘000	Expiring:
2015		31 December 2023
2016		31 December 2024
201		31 December 2025
2018		31 December 2026
2019		31 December 2027
Tax losses carried forward		

IAS 12p82,81(e)

If the whole of the retained earnings as at the reporting date were to be distributed, a further KSh _____ (2018: KSh _____) of tax would be payable. This liability has not been recognised.

IAS 12-82A

24 Deposit administration contracts

The movement in the year for deposit administration contracts liabilities was as follows:

	2019 KSh ‘000	2018 KSh ‘000
At beginning of year		
Deposits received in the year		
Surrenders and other payments in the year		
Accretion of interest		
At end of year		
Current		
Non-current		

Notes (continued)

25 Net insurance premium revenue

IFRS4p37(b)

a) Gross premium revenue	2019 KSh '000	2018 KSh '000
Long-term insurance contracts		
Short-term insurance contracts:		
Premium revenue arising from insurance contracts issued		

Short-term insurance contracts per class

Engineering		
Fire domestic		
Fire industrial		
Liability		
Marine		
Motor private		
Motor commercial		
Motor PSV		
Personal accident		
Medical		
Theft		
Workmen compensation		
Miscellaneous		

b) Premium ceded to reinsurers		
Short-term reinsurance contracts		
Long-term reinsurance contracts		
Premium ceded to reinsurers		

26 Fee income	2019 KSh '000	2018 KSh '000	
Policy administration and asset management fees:			18p35(b)(ii)
– Investment contracts			
– Insurance contracts			IFRS4p37(b)
– Deposit administration			
Surrender charges:			
– Investment contracts			IFRS4p37(b)
– Insurance contracts			
Death benefit charges on long-term insurance contracts			
Total			

Fee income includes KSh xx (2018: KSh xx) and KSh xx (2018: KSh xx) arising from the release of deferred front-end fees for insurance and investment contracts, respectively.

Death benefits charges have been deducted from long-term insurance contracts without fixed terms for KSh xx (2018: KSh xy) and from long-term insurance contracts with DPF for KSh xy (2018: KSh xy).

Notes (continued)

27 Investment income

IFRS7p20 (b), 18p35

	2019	2018	
	KSh '000	KSh '000	IFRS7p20 (b)
Dividend income			
Interest income on:			
- Financial assets at amortised cost			
- Financial assets measured at fair value through other comprehensive income			
Rental income from investment property			18p35(b)
Total			

Included within interest income is KSh xxx (2018: KSh xxx) in respect of interest income accrued on impaired assets and in respect of the unwinding of the impairment provision discount. IFRS7p20 (d)

28 Net fair value gains on assets at fair value through profit or loss

	2019	2018	
	KSh '000	KSh '000	
Fair value gains on financial assets at fair value through profit or loss			IFRS7p20 (a)(i)
Fair value gains on investment property (Note 7)			40p76(d)
Total			

29 Insurance benefits and claims

IFRS4p37 (b)

	2019	2018
	KSh '000	KSh '000
Long term insurance contracts with fixed and guaranteed terms		
- Death and disability claims		
- Maturity and survival benefits		
- Policy surrenders		
- Annuities		
General insurance business claims		
Gross insurance benefits and claims paid		
Investment contract benefits paid (Note 19)		
Claims ceded to reinsurers		
Gross change in actuarial value of insurance contract liabilities		
Gross change in actuarial value of investment contract liabilities		
Change in contract liabilities ceded to reinsurers		

Net benefits and claims

Notes (continued)

30 Commission expense

1p88

	2019 KSh '000	2018 KSh '000
Amortisation of deferred acquisition costs (Note 4(i))		
Costs incurred for the acquisition of insurance contracts expensed in the year		
Costs incurred for the acquisition of investment contracts expensed in the year		
Total commissions expense		

31 Marketing and administrative expenses

1p88

	2019 KSh '000	2018 KSh '000
Marketing and administrative expenses		
Depreciation (Note 5)		
Amortisation of intangible assets – computer software (Note 4(ii))		
Costs relating to investment properties not let		
Total marketing and administrative expenses		

32 Expenses by nature

	2019 KSh '000	2018 KSh '000	
Depreciation, amortisation and impairment charges (Notes 4 and 5)			1p102
Employee benefit expense (Note 33)			1p102
Purchase of goods and services			1p102
Expenses relating to short term leases			IFRS16p53 (c)
Expenses relating to short term leases			IFRS16p53 (d)
Expenses relating to variable lease payments not included in the measurement of lease liabilities			IFRS16p53 (e)
Operating lease rentals expense			17p35 (c)
Auditor's remuneration			
Software costs			38p126
Other expenses			1p102
Total expenses			

33 Employee benefit expense

	2019 KSh '000	2018 KSh '000	
Wages and salaries			19p142
NSSF Costs			
Pension costs – defined contribution plans			19p46 19p120(g),
Other post-employment benefits			19p131

Total	

Notes (continued)

33 Employee benefit expense (continued)

The average number of persons employed during the year, by category were: CAs649

	2019	2018
- Category 1		
- Category 2		
- Category 3		

[The categories are to be determined by management, having regard to the manner in which the company's activities are organised.] CAs649(2)

34 Finance costs	2019 KSh '000	2018 KSh '000	
Interest expense:			1p82(b)
- Bank borrowings			
- Bank overdraft			
- Lease liabilities			IFRS 16 p53(b)
Net foreign exchange transaction gains on borrowings			21p52(a) 23p6(e)
Other			
Total			

35 Income tax expense

	2019 KSh '000	2018 KSh '000	
Current income tax			12p79
Deferred income tax (Note 23)			
Write down or reversal of previous write downs of deferred tax assets			
Income tax expense			

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows: 12p81(c)

	2019 KSh '000	2018 KSh '000
Profit/(loss) before income tax		
Tax calculated at statutory rate of 30% (2018:30%)		
Tax effects of:		
- Income not subject to tax		
- Income subject to tax at the capital gains tax rate of 5%		
- Expenses not deductible for tax purposes		

- Utilisation of previously unrecognised tax losses
- Tax losses for which no deferred income tax asset was recognized

Adjustment in respect of prior years

Income tax expense/(credit)

Notes (continued)

35 Income tax expense (continued)

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2019			**2018**			
	Before Tax	**Tax Charge**	**After Tax**	**Before Tax**	**Tax Charge**	**After Tax**	12p81ab
	KSh '000	**KSh '000**	**KSh '000**	**KSh '000**	**KSh '000**	**KSh '000**	
Fair value gains;							
– Land and buildings							1p90
– Financial assets							1p90
Liabilities for insurance contracts and investment contracts with PDF							
Other comprehensive income							

36 Dividends

At the forthcoming annual general meeting, a final dividend in respect of the year ended 31 December 2019 of KSh …….per share amounting to KSh ….. (2018: KSh .... per share amounting to KSh …….) is to be proposed.

During the year, an interim dividend of KSh …………. per share amounting to KSh ………. (2018: KSh ……per share amounting to KSh …….) was paid. The total amount of dividend paid and proposed per share for the year is KSh …… (2018: KSh ……) amounting to KSh ……….. (2018: KSh ……). Payment of dividends to shareholders (other than companies owning more than 12.5% of the issued shares) is subject to deduction of withholding tax at a rate of 5% for residents and 10% for non-residents. 1p107, 10p12, 1p137(a)

Notes (continued)

37 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	2019 KSh '000	2018 KSh '000
Profit before tax:		
Adjusted for:		
Interest income on financial assets at fair value through profit and loss		
Interest income on amortised cost financial assets		
Revaluation gain on investment property		
Depreciation of property and equipment		
Depreciation of right-of-use assets		
Amortisation of intangible assets		
Fair value gains on financial assets at fair value through profit or loss		
Rental income		
Other investment income		
Impairment of financial assets		
Changes in working capital:		
Actuarial value of policyholder liabilities		
Payables under deposit administration contracts		
Reinsurance share of insurance contract liabilities		
Insurance receivables		
Insurance payables		
Receivables and other financial assets		
Payables and other charges		
Cash utilised in operations		
Tax paid		
Net cash utilised in operations		

The Company classifies the cash flows for the purchase and disposal of financial assets as operating cash flows since the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of insurance benefits and claims and investment contract benefits.

In the statement of cash flows, proceeds from sale of plant and equipment and investment property comprise:

	2019 KSh '000	2018 KSh '000

Property and equipment	
Net book amount (Note 6)	
Profit/(loss) on sale of property	
Proceeds from sale of property	

Notes (continued)

37 Cash generated from operations (continued)

Net debt reconciliation

This section sets out an analysis of the net debt and the movements in net debt for each of the periods presented.

	2019 KSh '000	**2018 KSh '000**
Cash and cash equivalents		
Liquid investments (i)		
Borrowings – repayable within one year (including overdrafts)		
Borrowings – repayable after one year		
Net debt		
Cash and liquid investments		
Gross debt – fixed interest rates		
Gross debt – variable interest rates		
Net debt		

	Other assets			**Liabilities from financing activities**				
	Cash/ bank overdraft	**Liquid investments**	**Finance leases due within 1 year**	**Lease liabilities**	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**	IAS7R(44A)-(44E)
	KSh '000	**KSh '000**	**KSh '000**	**KSh '000**	**KSh '000**	**KSh '000**	**KSh '000**	
Net debt at 1 January 2018								
Cash flows								
Acquisitions – finance leases and lease incentives								
Foreign exchange adjustments								
Other non-cash movements								
Net debt at 31 December 2018								
Cash flows								
Acquisitions – finance leases								
Payments under leases								
Foreign exchange adjustments								

Other non-cash movements	
Net debt at 31 December 2019	

Liquid investments comprise current investments that are traded in an active market, being the Company's financial assets held at fair value through profit or loss.

Notes (continued)

38 Lease liabilities	**2019 KSh '000**	**2018 KSh '000**
Current		
Non-current		

The total cash outflow for leases in the year was:	**2019 KSh '000**	IFRS16p53(g)
Payments of principal portion of the lease liability		
Interest paid on lease liabilities		

In 2018 the Company recognized lease assets and lease liabilities only for those leases that were classified as finance leases under the accounting policy at that time. The assets were included in property and equipment and the liabilities were included in borrowings. For adjustments recognized on adoption of IFRS 16 on 1 January 2019, see Note 2 (a).

For more information on the nature of the leases entered into and the related right-of-use assets, see Note 6.

39 Contingent Liabilities

The Company, like other insurers, is subject to litigation arising in the normal course of insurance business. The directors are of the opinion that this litigation will not have a material effect on the financial statements of the Company. 37p86

40 Commitments

a) Capital commitments

Capital expenditure contracted for as at the balance sheet date but not recognised in the financial statements is as follows:

	2019 KSh '000	**2018 KSh '000**

Property and equipment 16p74(c)
Investment property 40p75(b)
Intangible assets 18p122(e)

Notes (continued)

40 Commitments (continued)

b) Operating lease rental commitments

The future minimum lease payments under non-cancellable operating leases are as follows: 17p35(a)

	2018 KSh '000
Not later than 1 year	
Later than 1 year and not later than 5 year	
later than 5 years	

The future minimum sublease payments expected to be received under non-cancellable subleases was KSh xxx,000 at 31 December 2018.

41 Related-party transactions 1p138(c),24 p12

The holding company is ……………………………, incorporated in ………………., while the ultimate holding company is …………………………, incorporated in ……………………. The Company is related to other companies which are related through common shareholding or common directorships.

By virtue of its shareholding of [xx%] in ABC Insurance Co. Limited, [XX] has significant influence over the Company. The remaining shares are widely held by public and non-public shareholders.

Apart from the shareholders' roles as related parties discussed above, no other ABC Insurance Co. Limited shareholders have a significant influence and thus no other shareholder is a related party.

Other related parties include directors and key management personnel. Key management personnel for the Company are defined as the executive and non-executive directors. To the extent that specific transactions have occurred between the Company and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management, where full details of all relationships and terms of the transactions are provided.
The following transactions were carried out with related parties. 24p17,19,23

(a) Sales of insurance contracts and other services 24p18(a)

	2019 KSh '000	2018 KSh '000
Sales of insurance contracts:		
Sales of other services:		
Total		

Notes (continued)

41 Related-party transactions (continued)

(b) Purchases of products and services 24p18(a)

	2019 KSh '000	2018 KSh '000
Purchases of products and services:		
Total		

(c) Key management compensation (including directors' remuneration) 24p17

	2019 KSh '000	2018 KSh '000	
Salaries and other short-term employee benefits			24p17(a)
Post-employment benefits			24p17(b)
Other long-term benefits			24p17(c)
Termination benefits			24p17(d)
Total			

(d) Directors' benefits and other remuneration CAs650

	2019 KSh '000	2018 KSh '000
Salaries		
Fees		
Termination benefits		
Post-employment benefits		
Other long-term benefits		
Share-based payments		
Total		

(e) Loans to related parties 24p18

	2019 KSh '000	2018 KSh '000
Loans to directors and key management of the Company		
Year ended 31 December		
At beginning of year		
Loans advanced during year		
Loan repayments received		
Interest charged		
At end of year		
Total		

	2019	2018

	KSh '000	KSh '000
Loans to other related parties:		
At beginning of year		
Loans advanced during year		
Loan repayments received		
Interest charged		
Interest received		
Total		

Notes (continued)

41 Related-party transactions (continued)

(e) Loans to related parties (continued)

	2019 KSh '000	2018 KSh '000
Total loans to related parties:		
At beginning of year		
Loans advanced during year		
Loan repayments received		
Interest charged		
Interest received		
Total		

The loans advanced to directors have the following terms and conditions: [………]

(f) Outstanding balances arising from sale of insurance and other services and purchase of products and services

	2019 KSh '000	2018 KSh '000
Receivables from related parties		
Parent company		
Other related parties		
Total		
Payables to related parties		
Parent company		
Other related parties		
Total		

Notes (continued)

42 Management of insurance and financial risk *(tailor as appropriate – the disclosures should provide an overview of the Company's exposure to risks based on the information provided to key management personnel.)*

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

42.1 Insurance risk

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

IFRS4p39(a)

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.

42.1.1 Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. IFRS4p39(a)

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

<u>Short-term insurance risks</u>

The concentration of insurance risk before and after reinsurance by geographical location in relation to the type of short-term insurance risk accepted is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from short-term insurance contracts: IFRS4p39(c)(ii)

Year ended 31 December 2019

		Type of Risks			
Territory		**Motor**	**Fire**	**Other types of Short-term risk**	**Total**
Kenya	Gross				
	Net				
Uganda	Gross				
	Net				

Tanzania	Gross				
	Net				
Rwanda	Gross				
	Net				
Burundi	Gross				
	Net				
Total	**Gross**				
	Net				

Notes (continued)

42 Management of insurance and financial risk (continued)

42.1 Insurance risk (continued)

42.1.1 Frequency and severity of claims (continued)

<u>**Short-term insurance risks (continued)**</u>

Year ended 31 December 2018

		Type of Risks			
Territory		**Motor**	**Fire**	**Other types of Short-term risk**	**Total**
Kenya	Gross				
	Net				
Uganda	Gross				
	Net				
Tanzania	Gross				
	Net				
Rwanda	Gross				
	Net				
Burundi	Gross				
	Net				
Total	**Gross**				
	Net				

The following tables disclose the concentration of short-term insurance liabilities by the industry sector in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from short-term insurance contracts. IFRS4p39(c)(ii)

Year ended 31 December 2019

		Maximum Insured Loss			
Industry Sector		**10m-20m**	**20m-40m**	**40m-100m**	**Total**
Manufacturing	Gross				
	Net				
Service	Gross				
	Net				
Construction	Gross				
	Net				

Governmental	Gross				
	Net				
Others	Gross				
	Net				
Total	**Gross**				
	Net				

The concentration by sector or maximum insured loss at the end of the year is broadly consistent with the prior year.

Notes (continued)

42 Management of insurance and financial risk (continued)

42.1 Insurance risk (continued)

42.1.1 Frequency and severity of claims (continued)

Short-term insurance contracts (continued)

Year ended 31 December 2018

Industry Sector		**Maximum Insured Loss** 10m-20m	**20m-40m**	**40m-100m**	**Total**
Manufacturing	Gross				
	Net				
Service	Gross				
	Net				
Construction	Gross				
	Net				
Governmental	Gross				
	Net				
Others	Gross				
	Net				
Total	**Gross**				
	Net				

Long-term insurance contracts

IFRS4p38

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS, TB and a human form of avian flu) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. IFRS4p39(a)(c)

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

Notes (continued)

42 Management of insurance and financial risk (continued)

42.1 Insurance risk (continued)

42.1.1 Frequency and severity of claims (continued)

Long-term insurance contracts (continued)

The table below presents the concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above. At year-end, none of these insurance contracts had triggered a recovery under the reinsurance held by the Company. IFRS4p39(c)(ii)

These tables do not include annuity contracts, for which a separate analysis is reported further below.

Benefits assured per life assured at the end of 2019	Total Benefits Insured		
	Before Reinsurance KSh '000	%	After Reinsurance KSh '000
0-100			
100-200			
200-300			
300-400			
More than 400			
Total			

Benefits assured per life assured at the end of 2018	Total Benefits Insured		
	Before Reinsurance KSh '000	%	After Reinsurance KSh '000
0-100			
100-200			
200-300			
300-400			
More than 400			
Total			

Notes (continued)

42 Management of insurance and financial risk (continued)
42.1 Insurance risk (continued)

42.1.1 Frequency and severity of claims (continued)

<u>Long-term insurance contracts (continued)</u>

The following tables for annuity insurance contracts illustrate the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity were in payment at the year end. The Company does not hold any reinsurance contracts against the liabilities carried for these contracts.

Annuity payable in KSh per annum per life insured at the end of 2019	**Total annuities payable per annum**	
	KSh '000	**%**
0 to 10		
10 to 20		
20 to 30		
30 to 40		
More than 40		
Total		

Annuity payable in KSh per annum per life insured at the end of 2018	**Total annuities payable per annum**	
	KSh '000	**%**
0 to 10		
10 to 20		
20 to 30		
30 to 40		
More than 40		
Total		

42.1.2 Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour.

The Company uses appropriate base tables of standard mortality according to the type of contract being written and the territory in which the insured person resides. An investigation into the actual experience of the Company over the last three years is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future.

Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. Where this is not the case, the best estimate of future mortality is based on standard industry tables adjusted for the Company's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies. The impact of any historical evidence of selective termination behaviour will be reflected in this experience. The Company maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

Notes (continued)

42 Management of insurance and financial risk (continued)

42.2 Financial risk management

The Company's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Company's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the Company's performance by setting acceptable levels of risk. The Company does not hedge against any risks. IFRS 7-33

i) <u>Credit risk</u>

IFRS 7-33

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets. Key areas where the Company is exposed to credit risk are:

- receivables arising out of direct insurance arrangements;
- receivables arising out of reinsurance arrangements; and
- reinsurers' share of insurance liabilities.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.
Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

The maximum exposure of the Company to credit risk (financial instruments subject to impairment) as at the balance sheet date is as follows: IFRS 7-36(a)

31 December 2019	Stage 1 KSh '000	Stage 2 KSh '000	Stage 3 KSh '000	Total KSh '000
Government securities				
Corporate bonds				

Other receivables	
Loans receivables	
Insurance receivables	
Deposits with FIs	
Cash at bank	
Exposure to credit risk	

Notes (continued)

42 Management of insurance and financial risk (continued)

42.2 Financial risk management (continued)

(i) Credit risk (continued)

31 December 2018	**Stage 1 KSh '000**	**Stage 2 KSh '000**	**Stage 3 KSh '000**	**Total KSh '000**
Government securities				
Corporate bonds				
Other receivables				
Loans receivables				
Insurance receivables				
Deposits with FIs				
Cash at bank				
Exposure to credit risk				

Maximum exposure to credit risk – financial instruments not subject to impairment
The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL): IFRS 7(34)(a), IFRS7(36)(a)

	Maximum exposure to credit risk KSh '000
Government securities at FVTPL	

Notes (continued)

42 Management of insurance and financial risk (continued)

42.2 Financial risk management (continued)

(i) Credit risk (continued)

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent 'step-up' (or 'step-down') between 12 month and Lifetime ECL;
- Additional allowance for new financial instruments recognised in the period, as well as releases for financial instruments;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind with ECL due to passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements;
- Financial assets derecognised during the period and write off of allowances related to assets that were written off during the period.

The table below explains the changes in the loss allowance between the beginning and the end of the annual period due to these factors: IFRS 7p35H

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12 month ECL	**Lifetime ECL**	**Lifetime ECL**	
	KSh '000	**KSh '000**	**KSh '000**	**KSh '000**
Loss allowance as at 1 January 2019				
Movements with P&L impact:				
Transfers:				
Transfer from stage 1 to stage 2				
Transfer from stage 1 to stage 3				
Transfer from stage 2 to stage 1				

New financial assets originated				
Changes in PDs/LGDs/EADS				
Modification of contractual cash flows of financial assets				
FX and other movements				
Total net P&L charge during the year				

Notes (continued)

42 Management of insurance and financial risk (continued)

42.2 Financial risk management

(i) Credit risk (continued)

Loss allowance (continued)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12 month ECL	**Lifetime ECL**	**Lifetime ECL**	
	KSh ‘000	**KSh ‘000**	**KSh ‘000**	**KSh ‘000**
Other movements with no P & L impact:				
Transfers:				
Transfer from stage 2 to stage 3				
Transfer from stage 3 to stage 2				
Write offs				
Financial assets derecognised during the period				
Total non P&L movement during the year				
Loss allowance as at 31 December 2019				

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Company manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls. IFRS 7-33, 39(b)

Notes (continued)

42 Management of insurance and financial risk (continued)

42.2 Financial risk management (continued)

(ii) <u>Liquidity risk (continued)</u>

The table below presents the cash flows payable by the Company by their remaining contractual maturities (other than insurance contract liabilities which are based on expected maturities) ***(time intervals to be based on what is provided to management, or what is appropriate for the business)***. The amounts disclosed are the contractual undiscounted cash flows. IFRS 7-39(a)

	Less than 1 month	Between 1-3 months	Between 3-12 months	Over 1 year	Discounting effect	Total
	KSh '000	KSh '000	KSh '000	KSh '000	KSh '000	KSh '000
At 31 December 2019						
Assets						
Equity securities:						
- At fair value through other comprehensive income						
- At fair value through profit or loss						
Debt securities:						
- At amortised cost						
- At fair value through other comprehensive income						
- At fair value through profit or loss						
Loans and receivables including insurance receivables						
Reinsurance assets						
Contract assets						
Cash and cash equivalents						
Total assets						

Liabilities	
Insurance contract liabilities	
Investment contract liabilities	
Payables under deposit administration contracts	
Borrowings	
Lease liabilities	
Provisions for other liabilities and charges	
Trade and other payables	
Contract liabilities	
Total liabilities	
Excess (shortfall) of assets over liabilities	

Notes (continued)

42 Management of insurance and financial risk (continued)

42.2 Financial risk management (continued)

(ii) Liquidity risk (continued)

	Less than 1 month	Between 1-3 months	Between 3-12 months	Over 1 year	Discounting effect	Total
	KSh '000	KSh '000	KSh '000	KSh '000	KSh '000	KSh '000
At 31 December 2018						
Assets						
Equity securities:						
- At fair value through other comprehensive income						
- At fair value through profit or loss						
Debt securities:						
- At amortised cost						
- At fair value through other comprehensive income						
- At fair value through profit or loss						
Loans and receivables including insurance receivables						
Reinsurance assets						
Contract assets						
Cash and cash equivalents						
Total assets						
Liabilities						
Insurance contract liabilities						
Investment contract liabilities						
Payables under deposit administration contracts						

Borrowings	
Provisions for other liabilities and charges	
Trade and other payables	
Contract liabilities	
Total liabilities	
Excess (shortfall) of assets over liabilities	

Notes (continued)

42 Management of insurance and financial risk (continued)

42.2 Financial risk management (continued)

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk. IFRS 7-33
(Sensitivity analysis should reflect changes that are reasonably possible - both positive and negative)

Interest rate risk

The Company is exposed to cash flow interest risk on its variable rate borrowings because of changes in market interest rates. The Company manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs. If the interest rates on the Company's borrowings at the year-end were to increase/decrease by __ percentage points, with all other factors remaining constant, the post-tax profit would be lower/higher by KSh ______ (2018: KSh ______) respectively.

Currency risk **(to be disclosed for each significant foreign currency)**
Currency risk arises on financial instruments that are denominated in foreign currency. The Company has trade receivables, trade payables and borrowings which are denominated in foreign currency. IFRS 7-33

The significant exposure in respect of each currency is as follows: IFRS 7-33

	US$	**Euro**	**Total**
	KSh ‘000	**KSh ‘000**	**KSh ‘000**
At 31 December 2019			
Trade receivables			
Trade payables			

Borrowings			
Net exposure			

	US$ KSh '000	Euro KSh '000	Total KSh '000
At 31 December 2018			
Trade receivables			
Trade payables			
Borrowings			
Net exposure			

If the United States Dollar and the Euro were to appreciate against the Kenya Shilling by __% and __% respectively, with all other factors remaining constant, the post-tax profit would be lower by KSh ______ and KSh ______ (2018: KSh ______ and KSh ______) respectively. If the United States Dollar and the Euro were to depreciate against the Kenya Shilling by __% and __% respectively, with all other factors remaining constant, the post-tax profit would be higher by KSh ______ and KSh ______ (2018: KSh ______ and KSh ______) respectively. IFRS 7-40

Notes (continued)

42 Management of insurance and financial risk (continued)

42.2 Financial risk management (continued)

(iii) Market risk (continued)

Other price risk

Other price risk arises on financial instruments because of changes in the price of a financial instrument. The Company is exposed to other price risk on its investment in quoted shares. If the price of financial assets at fair value decreased/increased by __ %, with other factors remaining constant, other comprehensive income would decrease/increase by KSh ______ (2018: KSh ______). ***(In case of financial assets at fair value through profit or loss, the impact would be on profit).*** IFRS 7-33, 40

42.3 Capital management

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

- Comply with the capital requirements as set out in the Insurance Act
- Comply with the regulatory solvency requirements as set out in the Insurance Act
- Safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders

Provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The Insurance Act requires each insurance company to hold the minimum level of paid up capital depending on the insurance business they carry.

General insurance business is required to maintain the higher of the following as its minimum capital;

- KSh 600 million; or
- Risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or
- 20% of net earned premiums of the preceding financial year

Life insurance business is required to maintain the higher of the following as its minimum capital;

- KSh 400 million; or
- Risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or
- 5% of liabilities of the life business for the financial year

Notes (continued)

42 Management of insurance and financial risk (continued)

42.4 Fair value estimation

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).

IFRS13p76
IFRS13p81,
IFRS13p86

The following table presents the Company's financial assets and liabilities measured at fair value at 31 December 2019 and 31 December 2018

IFRS7p27B (a)

	Level 1 KSh '000	Level 2 KSh '000	Level 3 KSh '000	Total KSh '000
31 December 2019				
Financial assets at fair value through other comprehensive income:				
Equity instruments				
Debt instruments				
Financial assets at fair value through profit or loss:				
Equity securities				
Debt securities				
Total financial assets				
Unit linked contracts				

Total financial liabilities	
31 December 2018	
Financial assets at fair value through other comprehensive income:	
Equity instruments	
Debt instruments	
Financial assets at fair value through profit or loss:	
Equity securities	
Debt securities	
Total financial assets	
Unit linked contracts	
Total financial liabilities	

Notes (continued)

42 Management of insurance and financial risk (continued)

42.4. Fair value estimation (continued)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2019.

	Financial assets at fair value through other comprehensive income – Debt securities	**Financial assets at fair value through profit or loss – Debt securities**	**Total assets**	**Investment contract liabilities**	**Total liabilities**
	KSh '000	**KSh '000**	**KSh '000**	**KSh '000**	**KSh '000**
2018					
Opening balance					
Total gains and losses recognised in:					
- Profit or loss					
- Other comprehensive income					
Transfer into or out of level 3					
Reclassified to loans and receivables					
Purchases					
Sales					
Issues					
Settlements					

IFRS7p27B(c)

Closing balance	
Total gains or losses for the period included in income for assets and liabilities held at the end of the reporting period	IFRS7p27B(d)

Notes (continued)

42 Management of insurance and financial risk (continued)

42.4 Fair value estimation (continued)

	Financial assets at fair value through other comprehensive income – Debt securities	**Financial assets at fair value through profit or loss – Debt securities**	**Total assets**	**Investment contract liabilities**	**Total liabilities**	IFRS7p27B(c)
	KSh '000	**KSh '000**	**KSh '000**	**KSh '000**	**KSh '000**	
2018						
Opening balance						
Total gains and losses recognised in:						
Profit or loss						
Other comprehensive income						
Transfer into or out of level 3						
Reclassified to loans and receivables						
Purchases						
Sales						
Issues						
Settlements						
Closing balance						

Total gains or losses for the period included in income for assets and liabilities held at the end of the reporting period	

IFRS7p27B(d)

In 2019, the Company transferred certain privately placed company debt securities from Level 3 into Level 2. This was due to the fact that the Company changed to a different pricing methodology for these securities that used more inputs derived from publicly observable data. There was no transfer into or out of level 3 in 2019. There were no significant transfers of financial assets between the Level 1 and Level 2 fair value hierarchy classifications in 2019 and 2018.

The following table shows the sensitivity of Level 3 measurements to reasonably possible favourable or unfavourable changes in the assumptions used to determine the fair value of the financial asset or liability. If discount rates were to change by +/- 5%, which management considers a reasonably possible change in assumptions for the 'Fair value of available-for-sale financial assets – debt securities' and 'Financial assets at fair value through profit or loss – debt securities', the impact is outlined below. Also, if volatility factors were to change by +/- 10%, which management considers a reasonably possible change in assumptions for the fair value of investments contract liabilities, the impact is outlined below.

Notes (continued)

42 Management of insurance and financial risk (continued)

42.4 Fair value estimation (continued)

	Reflected in income		Reflected in OCI	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
	KSh '000	**KSh '000**	**KSh '000**	**KSh '000**
At 31 December 2019				
Financial assets at fair value through other comprehensive income – debt securities				
Financial assets at fair value through profit or loss – debt Securities				
Investment contract liabilities				
At 31 December 2018				
Financial assets at fair value through				

other comprehensive
income – debt
securities
Financial assets at fair
value through profit or
loss – debt
Securities
Investment contract
liabilities

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LONG TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

	Ordinary life business KSh '000	Group life business KSh '000	Others KSh '000	Total 2018 KSh '000
Gross earned premium				
Reinsurance premium ceded				
Net premium				
Investment income				
Commission received				
Other income(including fees)				
Life and health claims				
Surrenders and annuity payments				
Policyholders bonuses and interest				
Change in the actuarial value of policyholders benefits				
Claims handling expenses				
Less: amounts recoverable from reinsurers				
Net claims and policyholder benefits holders payable				
Operating and other expenses				
Commissions payable				
Net profit before tax- long term business				
Tax charge				
Long term business profit after tax				
Long term funds at the end of the year comprise amounts attributable to policyholders				
- actuarial liabilities				
-deposit administration funds				
Shareholders				
- statutory reserves				
- equity component of discretionary participation features				

Presenting a long term business revenue account is not a requirement of IFRS. However, the statement has been included to provide additional information that the user of the financial statements may find useful. When included, the information presented needs to be consistent with the rest of the financial statements (e.g. premiums, benefits and profit should tie to that shown on the statement of profit or loss), and full comparative information needs to be shown.

LONG TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018

	Ordinary life business KSh '000	Group life business KSh '000	Others KSh '000	Total 2018 KSh '000
Gross earned premium				
Reinsurance premium ceded				
Net premium				
Investment income				
Commission received				
Other income(including fees)				
Life and health claims				
Surrenders and annuity payments				
Policyholders bonuses and interest				
Change in the actuarial value of policyholders benefits				
Claims handling expenses				
Less: amounts recoverable from reinsurers				
Net claims and policyholder benefits holders payable				
Operating and other expenses				
Commissions payable				
Net profit before tax- long term business				
Tax charge				
Long term business profit after tax				
Long term funds at the end of the year comprise amounts attributable to policyholders				
- actuarial liabilities				
-deposit administration funds				
Shareholders				
- statutory reserves				
- equity component of discretionary participation features				

Presenting a long term business revenue account is not a requirement of IFRS. However, the statement has been included to provide additional information that the user of the financial statements may find useful. When included, the information presented needs to be consistent with the rest of the financial statements (e.g. premiums, benefits and profit should tie to that shown on the statement of profit or loss), and full comparative information needs to be shown.

SHORT TERM BUSINESS REVENUE ACCOUNT

Class of insurance business	Aviation KSh '000	Engineering KSh '000	Fire Industrial KSh '000	Fire Domestic KSh '000	Liability KSh '000	Marine KSh '000	Motor Private KSh '000	Motor Commercial KSh '000	Personal Accident KSh '000	Theft KSh '000	Workmen's Compensation KSh '000	Medical KSh '000	Miscellaneous KSh '000	Total 2019 KSh '000	Total 2018 KSh '000
Gross premiums written															
Change in Unearned Premium Reserve (UPR) b/f															
Unearned Premium Reserve (UPR) for the year															
Unearned Premium Reserve (UPR) c/f															
Gross earned premium															
Less: reinsurance premium payable															
Net premium															
Net written premium															
Claims outstanding b/f															
Gross claims paid															
Claims outstanding c/f															
Less: Reinsurance recoverable															
Net claims incurred															
Commissions receivable															
Commissions payable															
Expenses of management															
Total expenses and commissions															
Underwriting profit /(loss)															
Key ratios :															
Claims ratios															
Solvency Ratios															
Expense ratio															
Capital Adequacy Ratios															

Re - insurance ratios

[This appendix is for guidance only, and does not form part of the Specimen Financial Statements. The summary below is applicable for 31st December 2019 year ends only.]

The following standards and amendments have become effective for the first time for the financial year beginning 1 January 2019:

IFRS 16 Leases (issued in January 2016)

The new standard, effective for annual periods beginning on or after 1 January 2019, introduces a new lessee accounting model, and requires a lessee to recognise assts and liabilities for all leases with a term of more than 12months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRIC 23 *Uncertainty over Income Tax Treatments* (issued in June 2017)
The Interpretation, applicable to annual periods beginning on or after 1 January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

Amendments to IFRS 9 titled *Prepayment Features with Negative Compensation* (issued in October 2017)
The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle(issued in December 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle (issued in December 2017)
The amendments, applicable to annual periods beginning on or after 1 January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.

Amendments to IAS 12 - *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1 January 2019, clarify that all income tax consequences of dividends should be recognized when a liability to pay a dividend is recognised, and that these income tax consequences should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Amendments to IAS 23 - *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1 January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled *Plan Amendment, Curtailment or Settlement* (issued in February 2018)
The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability(asset) in the manner specified in the amended standard.