



Solidifying the base

ANNUAL REPORT & FINACIAL STATEMENT 2019



WHAT GUIDES US

VISION

To be the most reliable protector of wealth and health in the East African Region.

MISSION

To bring peace of mind to our clients by providing the best insurance solutions.

OUR CORE VALUES

INTEGRITY

We are fair and honest; we do what we say and say what we do.

INNOVATION

We apply our imagination and modern technology to anticipate and respond to our customers' needs.

EMPOWERMENT

We create an enabling environment for our staff so they can serve our customers exceptionally well.

CUSTOMER FOCUS

All our products, business processes and relationships are engineered to yield maximum value for our customers.

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COMPANY INFORMATION

Board of Directors

- : Mike Eldon - Chairman
- : Asok Ghosh - Managing Director
- : Jimnah Mbaru
- : Dipak Shah
- : Tejal Ketul Dodhia
- : Mayank Patel
- : Archna Bulsara - (Alternate Maganlal Dodhia)
- : Fukunda Mbaru
- : Isaac P. Ngaru
- : Shailen M. Shah

Registered office

- : Plot No. L.R. 1870/III/42, School Lane, Westlands
- : P.O. Box 66249, 00800
- : NAIROBI

Principal place of business

- : Crescent Business Centre
- : 7th Floor, Parklands Road, Parklands
- : P.O. Box 39459, 00623
- : NAIROBI

Independent auditor

- : KPMG Kenya
- : Certified Public Accountants
- : P. O. Box 40612, 00100
- : NAIROBI

Company secretaries

- : D & M Management Services LLP
- : Certified Public Secretaries
- : P.O. Box 66249, 00800
- : NAIROBI

Consulting actuaries

- : Agency Advisory Actuarial Services
- : P.O. Box 45607, 00200
- : NAIROBI

Principal banker

- : Guaranty Trust Bank (Kenya) Limited
- : P.O. Box 20613, 00200
- : NAIROBI
- : Diamond Trust Bank Kenya Limited
- : P.O. Box 66213, 00800
- : NAIROBI
- : Habib Bank A. G. Zurich
- : P.O. Box 90131, 80100
- : NAIROBI
- : Guardian Bank Limited
- : P.O. Box 30584, 00100
- : NAIROBI

Principal legal advisors

- : Boniface Masinde & Company Advocates
- : Shirika Co-op House, 3rd Floor, Wing B
- : P.O. Box 15226, 00100
- : NAIROBI
- : C.W. Ngala & Company Advocates
- : 2nd Floor, Town House, Kaunda Street
- : P.O. Box 14102, 00100
- : NAIROBI

The development of our people continues to be a major priority in ensuring the sustainable growth of our company. We assist our staff in undertaking continuous professional development programmes to help them fulfil their potential, and we carry out uplifting performance management reviews with them.

I am delighted to present to you our 32nd Annual Report and Financial Statements for the year ended 31 December 2019.

The Economy:

The economy is estimated to have grown by 5.4% as at Q.3 2019 compared to 6.0% in a similar period in 2018. The reasons cited for the reduced growth include a slowdown in agricultural activities due to a delayed onset of the long rains, and a decreased output in transport and electricity activities. According to the Central Bank of Kenya, the Kenyan economy is expected to grow by 5.9 % in 2019.

In 2019 the average rate of inflation was 5.2% (compared to 4.7% in 2018), which is within the government's annual target of 2.5% - 7.5%. The growth was mainly due to a rise in food and transportation costs. Going forward, it is expected to remain within this target range in the near term, mainly due to expected lower food prices thanks to favourable weather conditions, the decline in international oil prices, and the recent downward revision in electricity tariffs.

Interest rates remained stable throughout the year, although in the latest interest rate review, the Monetary Policy Committee (MPC) lowered the rate to 8.5%, citing that inflation expectations remained well-anchored within the target range, and that the economy was operating below its potential level. The MPC also welcomed the repeal of the interest rate caps on commercial bank loans, noting that they had led to significant rationing of credit. It noted that this reform would restore clarity of monetary policy decisions and strengthen the transmission of policies by allowing the Central Bank of Kenya (CBK) to adjust the monetary policy rates in response to economic developments such as changes in inflation and GDP growth.

The Kenyan Shilling remained resilient in 2019, gaining 0.5% against the US Dollar to close at 101.3 in 2019, compared to 101.8 at the end of 2018. This was supported by inflows of hard currency from Kenyan



Mike Eldon

CHAIRMAN'S STATEMENT (CONTINUED)

workers abroad, a narrowing of the current account deficit, CBK's supportive activities in the money market and a high level of forex reserves – which were at USD 8.8 Bn at the end of the year (equivalent to 5.4 months of import cover, and above the statutory requirement of maintaining at least 4.0 months of import cover).

During the year under review, the equity market recorded a mixed performance, with the NASI and NSE 25 gaining by 18.5% and 15.5% respectively, while the NSE 20 declined by 6.3%. The stocks of most banks gained towards the end of the year as a result of the repeal of the interest rate cap. During 2019, T-bill auctions recorded an oversubscription, with the average subscription rate being 118.7%. The yields on the 91-day, 182-day and 364-day T-bills declined to 7.2%, 8.2% and 9.8% in 2019, from 7.3%, 9.0% and 10.0% respectively at the end of 2018. This is mainly attributed to CBK's efforts to keep rates low by rejecting expensive bids in the auction market. The real estate sector experienced a growth of 4.8% as at Q.3 2019 according to the Kenya National Bureau of Statistics. This is due to enhanced infrastructure and the huge housing deficit in the country. However, the sector continues to face challenges such as oversupply in the commercial office and retail sectors; insufficient access to financing; and delays in the processing of construction permits by some county governments.

The Insurance Industry:

The Insurance Regulatory Authority's industry release for Q4 2019 showed that insurance premiums grew by only 5.78%. This growth was largely driven by a growth of 11.9% in the long term insurance business segment, compared to a growth of only 1.76% in general insurance. Insurance industry premiums stood at Kshs 228.8 billion by the end of 2019, with 57.3% of the industry business comprising of general insurance, while long-term business equated to 42.7%. The insurance industry asset base grew by 11.4% to Kshs 642.3 billion as at December 2019, while the total insurance industry's liabilities grew by 12.8% to Kshs 516.6 billion.

Our Financial Performance:

During the year under review, the company performed commendably well despite the daunting challenges our industry faced and not least an increasingly competitive business environment. The company experienced a premium growth of 8.0 %, from Kshs 2.602 billion in 2018 to Kshs 2.810 billion in 2019. The total asset base of the company also grew from Kshs 3.943 billion in 2018 to Kshs 4.315 billion in 2019, while shareholders' funds grew from Kshs 1.321 billion to Kshs 1.560 billion. The company posted an underwriting profit of Kshs 19.2 million during the year, down from the Kshs 27.2 million underwriting profit recorded in 2018.

Our ongoing expansion and rebranding initiatives have started bearing fruit as indicated in our premium performance and in the containment of our management expenses. We expect an improvement in the underwriting result in the coming period, given our prudent underwriting practices and cost management initiatives. Our investment income grew by 6.2 %, from Kshs 358 million to Kshs 380 million. Profit before tax posted in 2019 was Kshs 307.1 million, up from the Kshs 290.7 million recorded in

the previous year. Our profit after tax grew by 1.3 %, to close at Kshs 248.1 million, up from the Kshs 244.9 million posted in the previous year.

Strategic Plan Review:

Following the formulation of a Balanced Scorecard- based 5-year strategic plan at the beginning of 2015, the board and senior management have constantly been driving and reviewing all aspects of the strategy. In a spirit of continuous improvement, we have re-engineered our business policies and processes, and also our technology support, to strengthen the company and improve both the top and bottom lines. I am extremely pleased with the progress achieved and the organizational and strategic flexibility championed by our board to enable us to successfully react to sudden shifts in the overall market conditions, and the company will continue working at achieving the targets stipulated in the Strategic Plan.

Further, our national claims-paying ability was affirmed at A-(KE) by the Global Credit Rating Company, a major milestone as we focus on business excellence and through it achieving increasing market prominence.

Going to the Counties and Going Retail: In line with our expansion plans and the need for improved service delivery and close customer interaction, I am delighted with the opening and subsequent success of our branch network and by the retail business segment generally. I am pleased to inform all stakeholders that we shall further increase our presence at the county level by opening more branches and satellite offices to serve our wide network of clients and other intermediaries.

Developing our People:

The development of our people continues to be a major priority in ensuring the sustainable growth of our company. We assist our staff in undertaking continuous professional development programmes to help them fulfil their potential, and we carry out uplifting performance management reviews with them. During the year under review, training programmes were undertaken at all levels of staff to enhance their skills and professionalism. We also launched a team-building initiative with the theme of "nijenge nikujenge", which promoted team-work and enhanced cohesion among our staff. These development initiatives have covered all aspects of our business and will continue in future. The consequence is that our expectation of being an "employer of choice" is seeing fulfilment through us earning the right to attract and retain the highest quality staff at all levels, from fresh millennials to senior professionals.

The company's relentless pursuit of excellence, not only in the insurance business but also in social activities, saw our sports team perform well in last year's Association of Kenya Insurance competition. We also participated in industry-oriented quiz competitions where we witnessed several notable individual performances. We congratulate all staff members who participated in such events as we aspire to maintain our pre-eminence not only in our core business of insuring risks but also in promoting social activities.

CHAIRMAN'S STATEMENT (CONTINUED)

Active Corporate Social Responsibility:

Our business philosophy is strongly anchored on being a responsible and supportive corporate citizen. During the year in review, we supported various initiatives spanning education, health and social and children's welfare. Notable activities included drilling a community borehole at Mbuvo, Makueni; donating food, shoes and mattresses to less fortunate children at the Ruai and Divine Mercy children homes, and constructing 9 pit latrines and 2 urinals in Ikutha, Kitui. We also participated in the Beyond Zero marathon, and hosted a medical camp at Kajiado. Giving back to the community is our joy at Occidental. In the coming period we will incorporate more environmental and mentorship programmes aimed at spreading our Corporate Social Responsibility outreach further, in line with selected Sustainable Development Goals.

LIVE LIFE CONFIDENT:

It was our increased spirit of dynamism and ambitiousness that led us to our highly successful rebranding programme – reflecting our new reality. Through this, with our vibrant new logo and colours and our inspiring tag line of LIVE LIFE CONFIDENT, we reinforced that spirit among our staff, our customers and other stakeholders. We strongly believe it is by living our vision and values that we will continue to strengthen the positive relationship between us all.

Appreciation:

Finally, I wish to extend my sincere appreciation to all our customers, business associates and service providers for their endearing trust in us, and the resulting support and loyalty to our company, which inspires our commitment to provide the best value insurance solutions in the region. I am equally grateful to my fellow directors for their wise counsel and exemplary leadership during the past year. I also wish to appreciate CEO Asok Ghosh and his management team for their engaged and positive leadership, and the entire staff for their dedication throughout the year. I am thankful to the Association of Kenyan Insurers (AKI), our consultative and advisory body, for its leadership in championing insurance growth and excellence within the region, and the various governance platforms it offers for creativity and teamwork. It is good to know that our CEO Asok Ghosh serves on the board of AKI. I am also thankful to the Insurance Regulatory Authority for their supervisory support and guidance, and while expecting this to continue in future I assure them of our company's commitment to the industry's robust development in all respects.



Mike Eldon

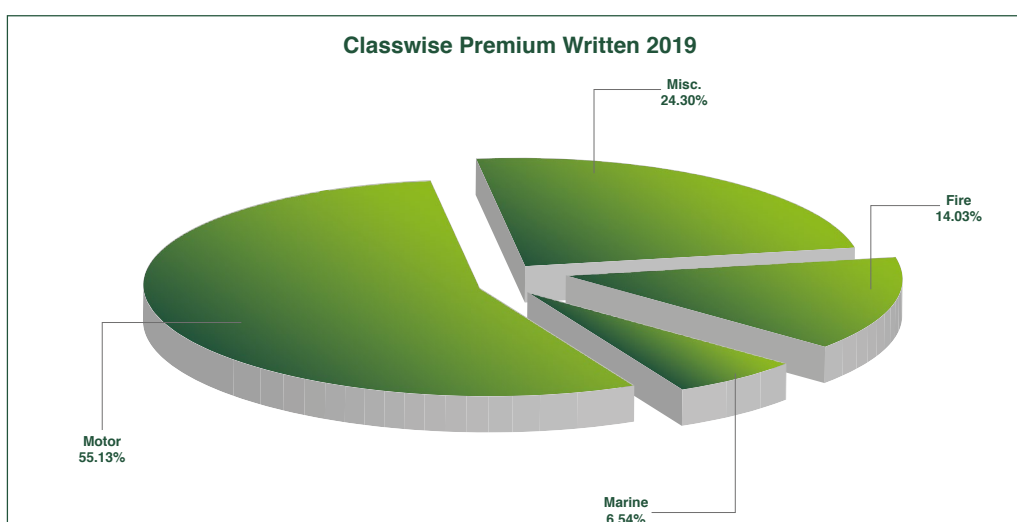
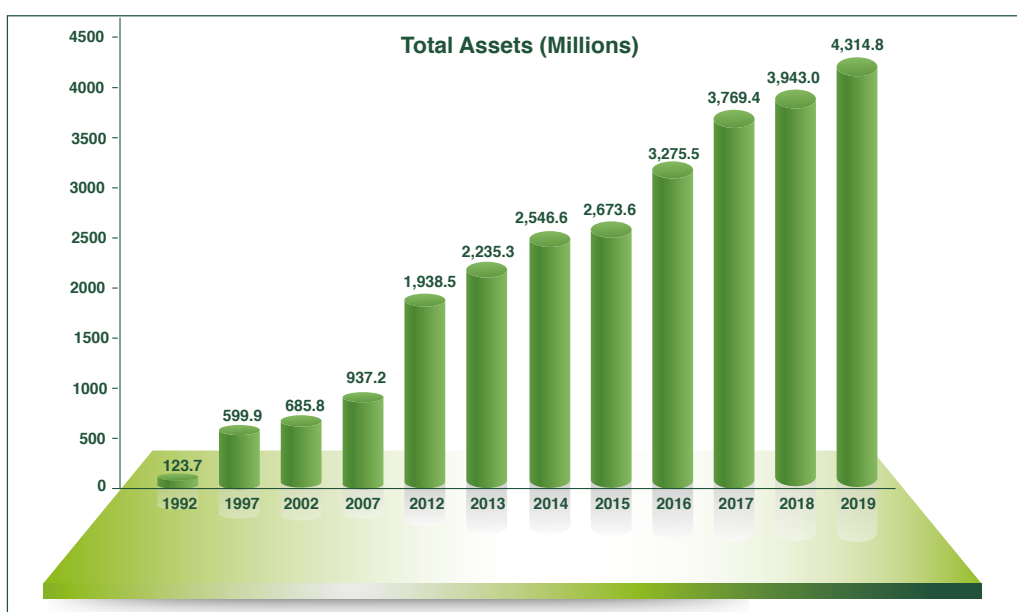
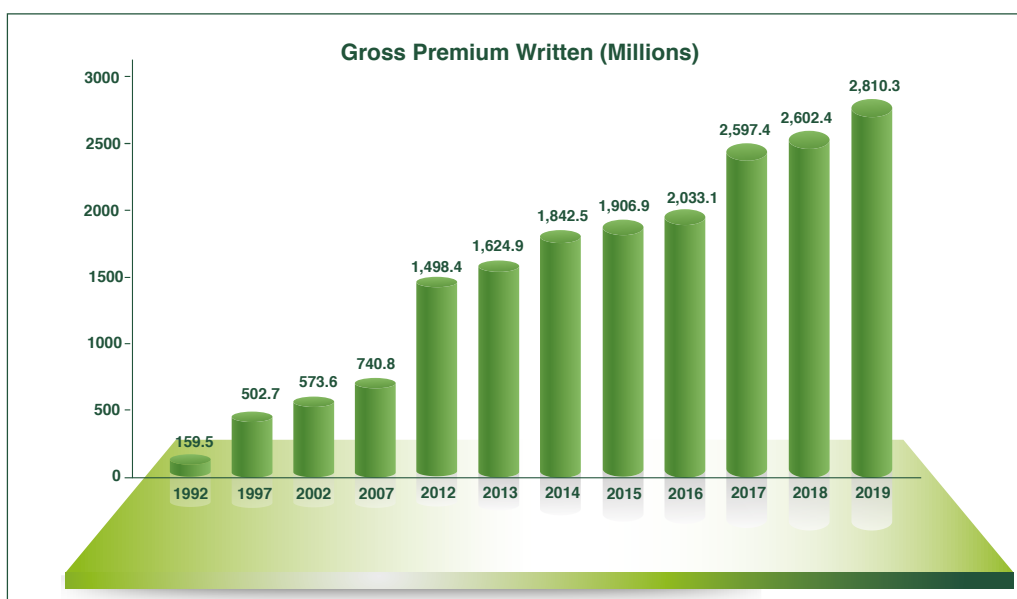
26 March 2020



Donating food stuff to Baringo residents.



Opening of 10 door latrines construction at Ikutha Primary School - Kitui county.



BOARD OF DIRECTORS



MIKE ELDON
CHAIRMAN

Mike Eldon is the founder and chairman of management consultancy, The DEPOT (The Dan Eldon Place of Tomorrow), which supports change management by aligning energy around common visions and healthy values. His earlier career was in the ICT sector, in London and from 1977 in Kenya where he also now sits on other boards.

He is an economics graduate and Sloan Masters Fellow at the London Business School.

He is former Chairman of the Council of the Kenya Institute of Management, where he is a Fellow. He chairs the council of KCA University and he was founder director and later Vice Chairman of KEPSA, where he is now on the advisory council. He writes a regular column in the Business Daily.



ASOK GHOSH
MANAGING DIRECTOR

Mr Asok Ghosh is a post graduate in economics and an Insurance Fellow with extensive experience in the insurance industry, both locally and abroad.

He is a board member of AKI, where he has also served on various committees. He works closely with them, contributing to the strengthening of the Kenyan insurance industry.



JIMNAH MBARU
DIRECTOR

Jimnah Mbaru is one of the leading investment bankers in Kenya. He has a wealth of experience in banking and insurance, as well as in leadership.

He sits on the boards of several major investment, insurance and other companies in Kenya.

He is a graduate in Management holding a Bachelor of Commerce degree, an LLB degree in addition to having an MBA degree from IMD Switzerland. He is a former chairman of the Nairobi Securities Exchange.



DIPAK SHAH
DIRECTOR

Dipak Shah has deep experience in management and marketing.

He leads Dodhia Packaging Limited, which enjoys a significant market share in the sector. As a result of this, he is very conversant with Kenya's manufacturing and service sectors.



TEJAL DODHIA
DIRECTOR

Tejal Dodhia is well known for the role she has played and continues to play as an investor and a leader in Kenya's textile industry. She owns and leads Thika Cloth Mills Ltd, one of the most prominent textile companies in Kenya, one that employs a substantial local workforce.

She also sits on the boards of a number of companies, whose activities range from manufacturing to real estate.

She is a business administration graduate with a wealth of knowledge in company management.



MAYANK PATEL
DIRECTOR

Mayank Patel is an economics graduate and a Chartered Accountant with wide knowledge in finance. He currently runs a business consultancy company offering financial advisory services.

BOARD OF DIRECTORS



SHAILEN SHAH
DIRECTOR

Shailen Shah is an experienced administrator, marketer and financial planner with knowledge in banking and finance.

He currently runs a number of companies, ranging from manufacturing to real estate.



ARCHNA BULSARA
DIRECTOR

Archna Bulsara is an economics graduate, a chartered accountant from the Institute of Wales, a strategic planner and a management consultant. She is well conversant with financial matters in the daily running of corporations both locally and abroad.

She sits on the boards of various other companies in Kenya and overseas.



ISAAC NG'ARU
DIRECTOR

Isaac Ng'aru has over 40 years' experience in insurance and risk Management. A well-known figure in the local insurance industry. He has been instrumental in formulating strategy documents for both listed and non-listed insurance companies.

He currently runs his own consultancy, which specialises in risk and insurance management.

He holds a Master of Science Degree in risk management and insurance.



FUKUNDA MBARU
DIRECTOR

Fukunda Mbaru is a graduate in economics, politics and international studies. He is quite knowledgeable on various economic aspects of corporations across the world.

He is an economic investment analyst in various companies around the globe.

He has also sat in the councils of a number of global organizations with mandates to drive economic and political agenda in various countries



ISMAIL MAWJI
COMPANY SECRETARY

Ismail Mawji was appointed as the Company Secretary in August 2013. He is the founder and senior partner of Mawji Sennik and Company, Certified Public Accountants.

He is a member of the Institute of Certified Public Secretaries of Kenya, a Chartered Accountant from the United Kingdom and a member of the Kenya Chapter of the Institute of Directors.

For many years he has served in the Insurance Committee of the Institute of Certified Public Accountants of Kenya and on the Corporate Governance Committee of The Institute of Certified Public Secretaries of Kenya.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements of Occidental Insurance Company Limited (the Company) for the year ended 31 December 2019, which disclose the state of affairs of the Company.

1. Principal activities

The Company conducts all classes of general insurance business as defined by the Kenyan Insurance Act, 2015.

2. Incorporation

The Company is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private Company limited by shares, and is domiciled in Kenya.

3. Results and dividend

Profit for the year of KShs 248,118,787 (2018: KShs 244,878,582) has been added to retained earnings. The Directors propose a final dividend of KShs 85,010,310 (2018: KShs 51,975,000) and no interim dividend was proposed for the year (2018: KShs 6,029,100).

4. Directors

The Directors who held office during the year and to the date of this report are shown on page 1. In accordance with the Company's Articles of Association, no directors are due for retirement by rotation.

5. Business review

During the year 2019, the Company performed well despite the challenges within the economy and the industry. The Company experienced a premium growth of 7.99% from KShs 2.60 billion in 2018 to KShs 2.81 billion in 2019. The total asset base of the Company also improved by 9.43%, growing from KShs 3.94 billion in 2018 to KShs 4.315 billion in 2019. The Company has maintained its track record of consistently posting underwriting profit. Profit before tax posted in 2019 was KShs 307.08 million against KShs 290.71 million recorded in 2018.

6. Relevant audit information

The Directors in office at the date of this report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware of; and
- Each director has taken all the steps that they 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.

7. Employees

The Directors are pleased to record their appreciation for the untiring efforts of all employees of the Company. The average number of employees in 2019 was 178 (2018 – 158).

8. Independent auditor

The Company's auditor, KPMG Kenya, will continue in office in accordance with the Kenyan Companies Act, 2015.

9. Approval of financial statements.

The financial statements were approved and authorised for issue at a meeting of the Directors held on 26 March 2020.

By order of the board



D & M Management Services LLP
Certified Public Secretaries
Secretary
Nairobi
26 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the financial statements of Occidental Insurance Company Limited set out on pages 18 to 59 which comprise the statement of financial position of the Company as at 31 December 2019, and the Company's statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows, for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and fairly presenting the financial statements in the circumstances, preparation and presentation of the Company financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of Company financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year, which give a true and fair view of the financial position of the Company as at the end of the financial year and of the profit or loss of the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial affairs of the Company and of the Company operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 26 March 2020.



Mike Eldon
Chairman

Mayank Patel
Director

26 March 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OCCIDENTAL INSURANCE COMPANY LIMITED



KPMG Kenya
 Certified Public Accountants
 8th Floor, ABC Towers
 Waiyaki Way
 PO Box 40612 00100 GPO
 Nairobi, Kenya

Telephone +254 20 2806000
 Email info@kpmg.co.ke
 Website www.kpmg.com/eastafrica

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Occidental Insurance Company Limited (the "Company") set out on pages 18 to 59 which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Occidental Insurance Company Limited as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 other 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Premium income and receivables	
See Notes 4 & 5 to the financial statements.	
The key audit matter	How the matter was addressed
"Significant judgment is involved in premium income recognition, determination of unearned premiums and estimation of provisions for uncollected premiums receivables. There are inherent risks in the valuation of insurance and reinsurance receivables and these balances require judgement to be applied by the Directors and Management in the valuation. In addition their processing requires manual adjustments to be made. Due to the significant judgement involved in determination of premium income and receivables, we considered premium income and receivables to be a key audit matter."	<ul style="list-style-type: none"> - Evaluation and testing of key controls over the processes designed to record and monitor premium income and insurance and reinsurance receivables; - Inspection of management's aged premium receivable analysis and recoveries as at 31 December 2019. - Understanding the terms of the reinsurance programmes in place and conducting relevant substantive procedures to assess the reasonableness of the reinsurance assets relative to gross provisions. - Testing of the manual adjustments on a sample basis by tracing back to supporting documentation. - Assessing the premium receivables that fall under the scope of IFRS 9 Financial Instruments for impairment; and - Assessing the adequacy and accuracy of disclosures of key judgements and assumptions used in determination of premium income and receivables

KPMG Kenya is registered partnership and a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Partners
(British*)

EE Aholi
 BC D'Souza
 JM Galhecha
 JI Kariuki
 PI Kinuthia

AM Mbai
 JL Mwaura
 BM Ndung'u
 JM Ndunyu
 AW Pringle*

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OCCIDENTAL INSURANCE COMPANY LIMITED (CONTINUED)



Insurance contract liabilities	
See Note 3 & 25 to the financial statements.	
The key audit matter	How the matter was addressed
<p>"Short term insurance contract liabilities constitute about 50% of the Company's total liabilities. Valuation of these liabilities is highly judgmental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities that are recognized in respect of claims that have occurred, but have not yet been reported to the Company. Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation and reserving of insurance liabilities. The key assumptions that drive the reserving calculations include graduate development factors, loss ratios, inflation assumptions and claims expense assumptions. The valuation of insurance contract liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise. Consequently, we have determined the valuation of short term insurance contract liabilities to be a key audit matter."</p>	<p>"Our audit procedures in this area included, among others;"</p> <ul style="list-style-type: none"> - Evaluating and testing key controls around the claims handling and reserve setting processes of the Company; - Checking for any unrecorded liabilities at the end of the period; - Checking samples of claims reserves through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters; - Re-performing reconciliations between the data recorded in the financial systems and the data used in the actuarial reserving calculations; - Using our internal actuarial specialists to review the reserving methodology applied and analytically reviewing the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; and - Considering the validity of management's liability adequacy testing by assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of Company and industry experience data and specific product features. <p>Assessing the adequacy of disclosures of key judgements and assumptions used in determination of insurance contract liabilities.</p>
Information Technology (IT) systems and controls	
The key audit matter	How the matter was addressed
<p>Many financial reporting controls depend on the correct functioning of related elements of the operational and financial IT systems, for example interfaces between policy administration and financial reporting systems or automated controls which are designed to prevent inaccurate or incomplete transfers of financial information.</p> <p>If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly where systems require increased manual inputs.</p>	<p>In this area our audit procedures included, among others:</p> <ul style="list-style-type: none"> - Testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; - With the support of our internal IT specialists, we tested these controls through examining whether changes made to the systems were appropriately approved, and assessing whether appropriate restrictions were placed on access to core systems through testing the permissions and responsibilities of those given that access;

Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditor's report is the Chairman's statement, the Report of the Directors, Statement of Directors' responsibilities, Company Information and Supplementary Information, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and other information to be included in the Annual Report and Financial Statements, which is expected to be made available to us after that date.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OCCIDENTAL INSURANCE COMPANY LIMITED (CONTINUED)



Other information (continued)

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

If, based on the work we have performed on the other information that we obtained 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.

Directors' responsibilities for the financial statements

As stated on page 13, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, 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 intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OCCIDENTAL INSURANCE COMPANY LIMITED (CONTINUED)



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 legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you, based on our audit that:-

- In our opinion, the information given in the Directors report on page 4 is consistent with the financial statements.
- Our report on the financial statements is unqualified.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Joseph Kariuki – P/2102

A handwritten signature in blue ink, appearing to read 'KPMG Kenya', written over the printed text of the firm's name and address.

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612
00100 Nairobi GPO
26 March 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019 KShs	2018 KShs
Gross written premium		2,810,253,425	2,602,359,380
Net decrease in unearned premium reserves	26	12,355,717	31,589,230
Gross earned premiums	5	2,822,609,142	2,633,948,610
Less: reinsurance premium ceded		(725,737,548)	(640,612,513)
Net earned premiums		2,096,871,594	1,993,336,097
Investment and other income	6	340,211,386	327,962,007
Gain on revaluation of investment properties	15	40,000,000	30,000,000
Commissions earned		206,232,647	180,324,530
Net income		2,683,315,627	2,531,622,634
Claims payable	7	1,718,219,803	1,700,077,921
Less: amounts recoverable from reinsurers		(390,597,368)	(475,760,472)
Net claims payable		1,327,622,435	1,224,317,449
Operating and other expenses	8	(650,014,880)	(643,350,965)
Commissions payable		(398,595,549)	(373,248,696)
Profit before tax		307,082,763	290,705,524
Income tax expense	10	(58,963,976)	(45,826,942)
Profit for the year after tax		248,118,787	244,878,582
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Change in fair value of quoted shares	22(a)	64,378,103	(39,757,223)
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of government securities (FVOCI)	21(b)	8,405,991	-
Deferred tax on fair value (gain)/loss	23	(2,521,797)	5,836,096
Total other comprehensive income		70,262,297	(33,921,127)
Total comprehensive income for the year attributable to shareholders of the Company		318,381,084	210,957,455
Earnings per share	30	358.04	353.36
Interim dividend proposed for the year	32	-	6,029,100
Final dividend proposed for the year	32	85,010,310	51,975,000

The notes on pages 22 to 59 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	2019 KShs	2018 KShs
CAPITAL EMPLOYED			
Share capital	11	693,000,000	693,000,000
Retained earnings	12	730,430,017	588,632,649
Revaluation reserve	13	51,465,032	(18,797,265)
Proposed dividend	32	85,010,310	58,004,100
Shareholders' funds		1,559,905,358	1,320,839,484
REPRESENTED BY:			
Assets			
Vehicles and equipment	14	69,257,088	79,476,974
Investment properties	15	410,000,000	540,000,000
Intangible assets	16	39,199,334	39,199,334
Deferred acquisition cost	17	130,791,945	126,752,444
Kenya Motor Insurance Pool	18	9,074,691	11,599,648
Reinsurers' share of technical provisions and reserves	19	427,939,228	369,089,497
Other receivables and prepayments	20	206,204,171	30,096,715
Right of use assets	31(a)	173,173,887	-
Current tax recoverable	10	-	3,247,319
Government securities at amortised cost	21(a)	569,667,662	1,376,750,506
Government securities at FVOCI	21(b)	915,980,670	-
Corporate bonds at amortised cost	21(c)	7,250,700	10,962,922
Equity investments at FVOCI:-			
- Listed securities	22(a)	262,421,436	176,676,531
- Unlisted securities	22(b)	824,875	824,875
Receivables arising out of reinsurance arrangements	4(b)(ii)	184,122,068	245,233,004
Receivables arising out of direct insurance arrangements	4(b)(i)	555,211,786	738,478,979
Deferred tax asset	23	5,900,781	-
Deposits with financial institutions	24	238,943,231	112,780,687
Cash and cash equivalents	24	108,790,361	81,847,714
TOTAL ASSETS		4,314,753,914	3,943,017,149
Liabilities			
Deferred tax liability	23	-	6,462,672
Current tax payable	10	43,913,086	-
Insurance contract liabilities	25	1,355,006,089	1,449,888,441
Unearned premium reserve	26	942,821,362	919,037,227
Creditors arising from reinsurance arrangements		165,023,820	159,220,657
Lease liabilities	31(b)	188,279,539	-
Other payables	27	59,804,660	87,568,668
Total liabilities		2,754,848,556	2,622,177,665
NET ASSETS		1,559,905,358	1,320,839,484

The financial statements on pages 18 to 59 were approved and authorised for issue by the Board of Directors on 26 March, 2020 and were signed on its behalf by:


Mike Eldon
Chairman


Mayank Patel
Director


Asok Ghosh
Principal Officer

The notes on pages 22 to 59 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Fair value reserve	Proposed dividends	Total
Year ended 31 December 2019	KShs	KShs	KShs	KShs	KShs
At 1 January 2019	693,000,000	588,632,649	(18,797,265)	58,004,100	1,320,839,484
Effect of IFRS 9 transition adjustment					
- impairment on receivables (Note 4(b))	-	(43,481,219)	-	-	(43,481,219)
Effect of IFRS 9 transition adjustment					
- government securities (Note 2(b(i)))	-	13,036,777	-	-	13,036,777
Related tax on IFRS transition adjustments	-	9,133,333	-	-	9,133,333
Restated balance at 1 January 2019	693,000,000	567,321,540	(18,797,265)	58,004,100	1,299,528,375
Total comprehensive income:					
Profit for the year	-	248,118,787	-	-	248,118,787
Other comprehensive income:					
Change in fair value of FVOCI investments (Note 22(a))	-	-	64,378,103	-	64,378,103
Change in fair value of government securities (FVOCI) (Note 21(b))	-	-	8,405,991	-	8,405,991
Deferred income tax relating to components of other comprehensive income (Note 23)	-	-	(2,521,797)	-	(2,521,797)
Total comprehensive income for the year	-	248,118,787	70,262,297	-	318,381,084
Transaction with owners					
Dividends:					
- Final dividend paid for 2018 (Note 32)	-	-	-	(6,029,100)	(6,029,100)
- Interim dividend paid 2018 (Note 32)	-	-	-	(51,975,000)	(51,975,000)
- Final dividend proposed 2019 (Note 32)	-	(85,010,310)	-	85,010,310	-
Total transaction with owners	-	(85,010,310)	-	27,006,210	(58,004,100)
At 31 December 2019	693,000,000	730,430,017	51,465,032	85,010,310	1,559,905,358

	Share capital	Retained earnings	Fair value reserve	Proposed dividends	Total
Year ended 31 December 2018	KShs	KShs	KShs	KShs	KShs
At 1 January 2018	693,000,000	401,758,167	15,123,862	12,474,000	1,122,356,029
Total comprehensive income:					
Profit for the year	-	244,878,582	-	-	244,878,582
Other comprehensive income:					
Change in fair value of 'Available-for-sale' investments (Note 22(a))	-	-	(39,757,223)	-	(39,757,223)
Deferred income tax relating to components of other comprehensive income (Note 23)	-	-	5,836,096	-	5,836,096
Total comprehensive income for the year	-	244,878,582	(33,921,127)	-	210,957,455
Transaction with owners					
Dividends:					
- Final dividend paid for 2017 (Note 32)	-	-	-	(12,474,000)	(12,474,000)
- Interim dividend proposed 2018 (Note 32)	-	(6,029,100)	-	6,029,100	-
- Final dividend proposed 2018 (Note 32)	-	(51,975,000)	-	51,975,000	-
Total transaction with owners	-	(58,004,100)	-	45,530,100	(12,474,000)
At 31 December 2018	693,000,000	588,632,649	(18,797,265)	58,004,100	1,320,839,484

The notes on pages 22 to 59 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2019 KShs	2018 KShs
Operating activities			
Cash from operations	28	(82,193,282)	(39,638,620)
Tax paid	10	(17,555,489)	(18,030,957)
Net cash from operations		(99,748,771)	(57,669,577)
Investing activities			
Net purchase in government securities		(87,455,058)	(175,356,978)
Interest received from current bank accounts	6	11,857,082	10,204,146
Interest income from fixed deposits	6	15,307,238	12,781,982
Interest income from government securities	6	210,434,447	149,837,654
Share of profit from Kenya Motor Insurance Pool	6	-	158,493
Proceeds from disposal of vehicles and equipment	6	34,000	755,485
Purchase of vehicles and equipment	14	(17,154,100)	(58,348,488)
Disposal of investment property - proceeds due		170,000,000	-
Proceeds on disposal of shares	22(b)	9,735,450	203,500,000
Proceeds from disposal of investment property		50,602,000	20,543,000
Purchase of intangible assets	16	-	(731,888)
Net movement in corporate bonds	21(b)	3,712,222	3,582,399
Purchase of quoted shares	22(a)	(31,102,252)	(85,053,470)
Net cash from investing activities		335,971,029	81,872,335
Financing activities			
Dividend paid	32	(58,004,100)	(12,474,000)
Lease payments	31(b)	(24,875,487)	-
Lease prepayments	31(b)	(237,480)	-
Net cash (used in) financing activities		(83,117,067)	(12,474,000)
Net increase in cash and cash equivalents		153,105,191	11,728,758
Movement in cash and cash equivalents			
At start of year		194,628,401	182,899,643
Increase/(decrease)		153,105,191	11,728,758
At end of year	24	347,733,592	194,628,401

The notes on pages 22 to 59 form an integral part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

The Company is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability Company and is domiciled in Kenya. The address of its registered office is:

Plot No. LR 1870/III/42, School Lane, Westlands

P.O. Box 66249, 00800

Nairobi

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

(i) Statement of compliance

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenya Companies Act, 2015. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs).

This is the first set of the annual financial statements in which IFRS 16 Leases and IFRS 9 Financial Instruments have been applied. The related change to significant accounting policies are described in Note 2(b)(i).

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

(ii) Basis of measurement

The financial statements are prepared under the historical cost basis except where otherwise stated in the policies below.

(iii) Functional presentation currency

The financial statements are presented in Kenya Shillings, which is the Company's functional and presentation currency.

(iv) Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The estimates and assumptions are based on the directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have a significant effect on the amounts recognised in the financial statements is described in Note 3.

(b) New standards, amendments and interpretations

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

The Company has adopted the following new standards and amendments during the year ended 31 December 2019, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2019. The nature and effects of the changes are as explained here in.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF OCCIDENTAL INSURANCE COMPANY LIMITED (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) New standards, amendments and interpretations

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

New standard or amendments	Effective for annual periods beginning on or after
IFRS 9 Financials Instruments (2014)	01 January 2018
IFRS 16 Leases	01 January 2019
IFRIC 23 Uncertainty over income tax treatments	01 January 2019
IFRS 9 Prepayment Features with Negative Compensation	01 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	01 January 2019
Annual improvements cycle (2015-2017)	01 January 2019
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	01 January 2019

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2019, but have not been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out below.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

The standard eliminates the previous IAS 39 categories of held-to-maturity, Financing arrangements and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, as shown below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2019. As prior year figures have not been restated, there has been no impact on the basic and diluted earnings per share of prior periods.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 9: Financial Instruments (2014) (continued)

Classification and measurement of financial assets and financial liabilities (continued)

Financial statement line item	Classification in terms of IAS 39	Classification and measurement	Balance at 1 Jan 2019- IAS 39 Kshs	Re-classification Kshs	Re-measurement Kshs	Balance at 1 Jan 2019- IFRS 9 Kshs
Listed equities investments	Available for sale	FVOCI	176,676,531	-	-	176,676,531
Unlisted equities	Available for sale	FVOCI	824,875	-	-	824,875
Corporate bonds	Held to maturity	Amortised cost	10,962,922	-	-	10,962,922
Government securities-T/ Bonds	Held to maturity	Amortised cost	1,245,780,216	(929,056,998)	-	316,723,218
Government securities-T/ Bonds	Held to maturity	FVOCI*	-	929,056,998	13,036,777	942,093,775
Government securities-T/ Bills	Held to maturity	Amortised cost	130,970,290	-	-	130,970,290
Other receivables	Loans and receivables	Amortised cost	23,101,987	-	-	23,101,987
Cash and bank balances	Loans and receivables	Amortised cost	81,847,714	-	-	81,847,714
Deposits with financial institutions	Loans and receivables	Amortised cost	112,780,687	-	-	112,780,687
Receivables arising out of direct insurance arrangements	Loans and receivables	Amortised cost	738,478,979	-	(15,559,332)	722,919,647
Receivables arising out of re-insurance arrangements	Loans and receivables	Amortised cost	245,233,004	-	(27,921,887)	217,311,117
Kenya Motor Insurance Pool	Loans and receivables	Amortised cost	11,599,648	-	-	11,599,648
Total financial assets			2,778,256,853	-	(30,444,442)	2,747,812,411

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF OCCIDENTAL INSURANCE COMPANY LIMITED (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 9: Financial Instruments (2014) (continued)

*Included in the FVOCI balance as at 1 January 2019 is accrued interest of Kshs 25,402,474. The FVOCI balance net of interest is Kshs 903,654,524.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see Note 4(b).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2019. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9. The Company used the exemption not to restate comparative periods.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- Determination of factors to consider in determining whether there has been a significant increase in credit risk.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 2(e).

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

- (a) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 16: Leases (continued)

(b) Depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(c) Separately, the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognise assets and liabilities for:

- (a) short-term leases (i.e. leases of 12 months or less) and;
- (b) leases of low-value assets

The Company adopted the new standard effective on 1 January 2019. Refer to Note 31 in these financial statements.

Impact on financial statements on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019
	KShs
Right-of-use assets	190,610,773
Lease liabilities	190,373,293
Lease prepayment	237,480

For the impact of IFRS 16 on profit or loss for the period and the details of accounting policies under IFRS 16 and IAS 17, see Note 31.

When measuring lease liabilities for leases that were classified as operating leases, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted- average rate applied is 13%.

	January 2019
	KShs
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements	225,580,838
Discounted using the incremental borrowing rate at 1 January 2019	190,373,293
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease term at transition	-
Lease liabilities recognised at 1 January 2019	<u>190,373,293</u>

IFRIC 23 Clarification on accounting for income tax exposures

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 16: Leases (continued)

IFRIC 23 Clarification on accounting for income tax exposures (continued)

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

- (a) judgments made;
- (b) assumptions and other estimates used; and
- (c) potential impact of uncertainties not reflected.

The adoption of this standard did not have a material impact on the Company's financial statements.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The adoption of these amendments did not have an impact on the financial statements of the Company.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The adoption of these standards did not have an impact on the financial statements of the Company.

Annual improvement cycle (2015 – 2017) – various standards

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: <ul style="list-style-type: none"> - If a party maintains (or obtains) joint control, then the previously held interest is not - If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 16: Leases (continued)

IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard will not have an impact on the financial statements of the Company.

(ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2019*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below;

Standard	Application date
IFRS 3 Definition of a Business	01 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	01 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	01 January 2020
IFRS 17 Insurance contracts	01 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

IFRS 3 Definition of a Business

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- Optional concentration test
The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.
- Substantive process
If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019 (continued)

IFRS 3 Definition of a Business - (continued)

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The adoption of this standard will not have an impact on the financial statements of the Company.

Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASB's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

Amendments IAS 1 and IAS 8 Definition of Material

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

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

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

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

The amendments are effective from 1 January 2020 but may be applied earlier.

The Company is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

- (a) insurance contracts, including reinsurance contracts, it issues;
- (b) reinsurance contracts it holds; and
- (c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019 (continued)

IFRS 17 Insurance Contracts (continued)

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

- (a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
- (b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

- (a) Accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
- (b) Chooses where to present the effects of some changes in discount rates - either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2023. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The Company expects to incrementally provide more disclosures to facilitate an understanding of the changes and the impact that such changes have on the Company as the implementation programme progresses. At implementation, extensive disclosures will be provided to explain the transition approach followed as well as the calculation basis for the fulfilment cash flow components. IFRS 17 requires considerable additional disclosures including the nature and extent of risks arising from insurance contracts; detailed reconciliations for the liability for incurred claims and each measurement component of the liability for remaining coverage; as well as significant judgements made in applying the standard.

Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised. The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

The Company did not early adopt new or amended standards in the year ended 31 December 2019.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Insurance contracts

Recognition and measurement

Premium income

Premium income is recognized on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the reporting date, and is computed using the 365th method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims payable

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims.

Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted. The methods used for estimating the provision for IBNR include;

- Basic Chain-Ladder Method ("BCL")
- Bornhuetter-Ferguson Method ("BF")
- IRA Standard Development Model ("SD")

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. 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.

A proportion of commissions payable is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

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.

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.

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 the income statement. 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 also calculated following the same method used for these financial assets. (Note 2 (g)).

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Insurance contracts (continued)

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in the income statement. 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 also calculated under the same method used for these financial assets (Note 2 (g)).

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).

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.

Income other than premium income is recognised as follows:

- Investment income is stated net of investment expenses.
- Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.
- Rental income is recognised as income in the period in which it is earned.
- Dividend income is recognised when the shareholders' right to receive payment has been established.

(d) Vehicles and equipment

All vehicles and equipment are initially recorded at cost. All vehicles and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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

Depreciation is calculated on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life. The vehicles and equipment are depreciated over a period of between 3 and 8 years.

Vehicles and equipment are reviewed at each reporting date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Asset residual values and their estimated useful lives are reviewed at each reporting date and adjusted if appropriate. Gains and losses on disposal of vehicles and equipment are determined immediately by reference to their carrying amounts.

(e) Financial instruments

Policy applicable after 1 January 2019

Classification

The Company classifies its financial assets into the following categories:

- Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

Policy applicable after 1 January 2019 (continued)

Classification (continued)

The classification depends on both the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Recognition and derecognition

Financial assets are recognised when the Company becomes a party to the contractual provisions of the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs.

(i) Debt Instruments

Debt instruments include government and corporate bonds. Classification and subsequent measurement of debt instruments depends on:

- The Company's business model for managing the financial assets; and
- The cash flow characteristics of the asset.

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

- **Amortised Cost:** assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method. The Company has adopted the business model of 'Held to collect' for a portfolio of government securities and corporate bonds reflecting the Company's objective of generating cash flows for liquidity needs as well as better matching of duration of its liabilities.
- **FVOCI:** assets that are held for collection of contractual cash flows and for selling the financial assets, where the cash flows represent solely payments of principal and interest, are measured at FVOCI. Movement in the carrying value is taken through OCI, except for impairment gains or losses and interest income which are recognised in the profit or loss. The Company has adopted the business model of 'Held to collect and sell' for a portfolio of government securities reflecting the Company's objective of maximising return on the portfolio as well as generating cash flows for meeting the Company's liquidity needs.

(ii) Equity investments

Equity investments are carried at fair value and classified as FVOCI. Gains and losses arising from changes in the fair value of equity investments are recognised in other comprehensive income. When equity investments are derecognised, the cumulative gain or loss previously recognised in other comprehensive income are transferred to retained earnings. Dividends on equity instruments are recognised in the income statement when the company's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices. Fair values for unquoted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Any financial assets not classified and measured at amortised cost or FVOCI are measured at FVTPL.

Financial liabilities

All financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability.

All financial liabilities are held at amortised cost, in accordance with the effective interest rate method.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

Financial liabilities

Financial liabilities classified as held for trading are subsequently measured at fair value through profit or loss, with changes in fair value being recognised in profit or loss.

A financial liability may be designated at fair value through profit or loss if (i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy.

Policy applicable before 1 January 2019

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than (a) those that the Company upon initial recognition designates as available-for-sale; or (b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Company's loans and receivables comprise receivables arising out of reinsurance arrangements, receivables arising out of direct insurance arrangements, other receivables and prepayments and 'cash and cash equivalents' in the statement of financial position.

(ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Were the Company to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available-for-sale.

(iii) Available-for-sale financial assets

'Available-for-sale' investments are those non-derivative financial assets that are not classified under any of categories (i) – (ii) above and are neither classified as fair value through profit or loss.

(f) Investment properties

Investment properties are long-term investments in land and buildings that are not occupied substantially for own use. Investment properties are initially recognised at cost and subsequently measured at fair value representing open market value at the reporting date and is determined annually by independent external registered valuers. Changes in fair value are recorded in profit or loss. Gains and losses on disposal of investment property are determined by reference to their carrying amount and are taken into account in determining profit before tax.

(g) Impairment of financial assets

Policy applicable after 1 January 2019

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model and results in credit losses being recognised earlier than under IAS 39. The new impairment model applies to financial assets measured at amortised cost and FVOCI. As a consequence of the new standard, the company has revised its impairment methodology under IFRS 9 for each of the classes of assets measured at amortised cost and FVOCI.

The ECL impairment loss allowance is an unbiased, probability-weighted amount determined by evaluating a range of possible outcomes that reflects reasonable and supportable information that is available without undue cost or effort of past events, current conditions and forecasts of forward-looking economic conditions. The ECL model is dependent on the availability of relevant and accurate data to determine whether a significant increase in credit risk occurred since initial recognition, the probability of default (PD), the loss given default (LGD) and the possible exposure at default (EAD). Of equal importance is sound correlation between these parameters and forward-looking economic conditions.

ECL reflects an entity's own expectations of credit losses. However, when considering all reasonable and supportable information that is available without undue cost or effort in estimating ECL, an entity should also consider observable market information about the credit risk of the particular financial instrument or similar financial instruments.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of financial assets (continued)

Policy applicable after 1 January 2019 (continued)

Forward-looking information includes, but is not limited to macro-economic conditions expected in the future. Forward looking information used in the ECL calculation should reflect the nature and characteristics of the credit risk exposures. All reasonable and supportable information that is available should be used when incorporating forward-looking information into the ECL allowance. Forward looking assessments can be performed on an individual or collective basis.

Forward-looking factors should be aligned with risk factors used in risk assessments, stress testing, budgeting as well as strategy and pricing decisions. Relevant factors include factors intrinsic to the entity and its business or derived from external conditions.

Estimates regarding credit risk parameters and the impact of forward-looking information used in the calculation of the ECL loss amount should be reviewed at each reporting date and updated if necessary. The ECL loss amount depends on the specific stage where the financial instrument has been allocated to within the ECL model:

Stage 1: At initial recognition a financial instrument is allocated into stage 1, except for purchased or originated credit impaired financial instruments.

Stage 2: A financial instrument is allocated to stage 2 if there has been a significant increase in credit risk since initial recognition of the financial instrument.

Stage 3: A financial instrument is allocated to stage 3 if the financial instrument is in default or is considered to be credit impaired.

Under IFRS 9, impairment loss allowances are measured on either of the following bases:

12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the company considers quantitative and qualitative information, based on the company's historical experience, credit assessment and including forward-looking information. The Company's assessment of a significant increase in credit risk from initial recognition consists of a primary and secondary risk driver as follows:

- The primary risk driver aligns to the quantitative credit risk assessments performed, such as the credit score, credit rating, probability of default or arrears aging of a financial instrument.
- The secondary risk assessment considers a broad range of qualitative risk factors based on a forward looking view such as economic and sector outlooks. The secondary risk assessment can be performed on a portfolio basis as opposed to a quantitative assessment at a financial instrument level.

When making a quantitative assessment, the company uses the change in the probability of default occurring over the expected life of the financial instrument. This requires a measurement of the probability of default at initial recognition and at the reporting date.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk. Details on the impact of adoption of IFRS 9 impairment of financial instruments is outlined in note 4(b).

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of financial assets (continued)

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- (i) when there is a breach of financial covenants by the debtor; or
- (ii) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due except for insurance contracts where default occurs when the receivables are outstanding after the contract has lapsed. All the amounts meeting this criteria is considered past due are therefore uncollectible and fully impaired.

Policy applicable before 1 January 2019

(i) Financial assets carried at amortised cost

The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence.

Evidence of impairment as a result of one or more following events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated:

- objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events;
- significant financial difficulty of the issuer;
- a breach of contract, such as default or delinquency in interest or principal repayments;
- it is becoming probable that the issuer will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the Company.

(ii) Assets carried at fair value

In the case of equity investments classified as 'Available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for 'Available-for-sale' financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income – is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of an equity investment classified as 'Available-for-sale' increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(k) Accounting for leases

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

Policy applicable from 1 January 2019

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

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

Company acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by analysing its bank borrowings and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Accounting for leases (continued)

Policy applicable from 1 January 2019 (continued)

Company acting as a lessee (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Company acting as a lessor

The Company leases out its investment property, including own property and right-of-use assets. The Company has classified these leases as operating leases. The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company has not sub-leased its investment property.

Policy applicable before 1 January 2019

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 profit or loss on a straight-line basis over the period of the lease.

(l) Employee benefits

(i) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both Company and employees. The Company has no legal or constructive obligations 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 and prior periods. The employees of the Company are also members of the National Social Security Fund ("NSSF").

The Company's contributions to the defined contribution scheme and NSSF are charged to the profit or loss in the year to which they relate.

(ii) Other entitlements

The estimated monetary liability for employees accrued gratuity entitlement at the reporting date is recognised as an expense accrual.

(m) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income, in which case, the tax is also recognised in the statement of other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Taxation

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the entity is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

(n) Dividends

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

(o) Share capital

Ordinary shares are classified as equity.

(p) Comparatives

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expected future events that are believed to be reasonable under the circumstances.

The estimation of future benefit payments from general insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The determination of the liabilities under general insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected amounts of claims to be paid in future. Judgment is also applied in the estimation of future contractual cash flows in relation to reported losses incurred but not reported. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Case estimates are computed on the basis of the best information available at the time the records for the year are closed. The assumption, methodology and risks managed in the determination of insurance contract liabilities are described in note 2(c) and note 4.

The Directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

- Impairment of receivables

The Company reviews its portfolio of receivables on a regular basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

- Fair value measurement and valuation process

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available.

- Useful lives of vehicles and equipment

Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the Directors determined no significant changes in the useful lives and residual values.

- Financial assets held at amortised cost

The Directors have reviewed the Company's held to collect financial assets in light of its capital maintenance and liquidity requirements and have confirmed the Company's positive intention and ability to hold those assets to maturity.

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company's activities expose it to a variety of risks, including insurance risk and financial risk (credit risk, and the effect changes in debt and equity market prices and interest rates).

The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

This section summarises the way the Company manages key risks:

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. 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.

The concentration of insurance risk before and after reinsurance the type of casualty insurance risk accepted is summarised in the revenue account, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from casualty insurance contracts.

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and incurred but not reported claims (IBNR) for each successive year at each reporting date, together with cumulative payments to date from the short term insurance contracts.

	2014 Kshs	2015 Kshs	2016 Kshs	2017 Kshs	2018 Kshs	2019 Kshs	Total KShs
At end of accident year	537,988,066	471,704,462	494,218,430	653,378,127	713,450,953	826,257,340	
One year later	917,203,792	910,290,749	899,847,040	1,230,632,688	1,370,238,367		
Two years later	997,414,620	1,040,229,968	1,043,487,950	1,374,170,220			
Three years later	1,102,295,579	1,111,396,276	1,114,766,034				
Four years later	1,140,873,855	1,154,300,380					
Five years later	1,166,711,657						
Ultimate Claims Estimate	1,195,208,143	1,206,933,863	1,214,121,359	1,545,841,618	1,710,197,287	1,892,102,342	8,764,404,612
Reserves relating to years before 2013							(402,954,525)
Less:- Cumulative payments to date	(1,166,711,657)	(1,154,300,380)	(1,114,766,034)	(1,374,170,220)	(1,370,238,367)	(826,257,340)	(7,006,443,998)
Total gross claims liability in financial statements	28,496,486	52,633,483	99,355,325	171,671,398	339,958,920	1,065,845,002	1,355,006,089

The liabilities included in the claims development table above considers the gross incurred but not reported reserve (IBNR). Below is a reconciliation to insurance contract liabilities disclosed in the financial statements:

	2019 KShs	2018 KShs
Claims reported and claims handling expenses (Note 25)	796,612,739	868,726,191
Gross claims Incurred but not reported (IBNR)	558,393,350	579,980,710
As above	1,355,006,089	1,448,706,901
Less reinsurance share of IBNR (Note 19)	(132,446,556)	(131,124,609)
Insurance contract liabilities	1,222,559,533	1,317,582,292

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts.

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

(a) Market risk

(i) Price risk

The Company is exposed to equity securities price risk because of investments in quoted securities classified as 'Available-for-sale'. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity the Company diversifies its portfolio on several counters.

Diversification of the portfolio is done in accordance with limits set by the Company and guidelines per the Insurance Act. All quoted shares held by the Company are traded on the Nairobi Securities Exchange (NSE).

The table below summarises the impact of an increase/decrease in the NSE index on the Company's post-tax profit for the year. The analysis is based on the assumption that the equity indexes had increased by 5% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation with the index:

Impact on other comprehensive income:	2019 KShs	2018 KShs
Index		
Increase/decrease	13,121,072	8,833,827

(ii) Interest rate risk

Fixed interest rate financial instruments expose the Company to fair value interest rate risk. Variable interest rate financial instruments expose the Company to cash flow interest rate risk.

The Company's fixed interest rate financial instruments are government securities, corporate bonds and deposits with financial institutions. The Company has no variable interest rate financial assets.

No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The government securities, cash and equivalents and deposits with financial and non financial assets at year end totalled KShs 1,840,632,624 (2018: KShs 1,582,341,829) representing a significant portion of total assets.

	2019 Kshs	2018 Kshs
Government securities at amortised cost	569,667,662	1,376,750,506
Government securities at FVOCI	915,980,670	-
Corporate bond	7,250,700	10,962,922
Deposits with financial institutions	238,943,231	112,780,687
Cash and cash equivalents	108,790,361	81,847,714
	1,840,632,624	1,582,341,829

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

Financial risk (continued)

(a) Market risk (continued)

(ii) Interest rate risk (Continued)

At 31 December 2019, if the interest rates had been 5 percent basis points higher/lower with all other variables held constant, the effect on the post tax profit for the year would have been an increase/decrease of KShs 92,031,631 (2018: KShs 79,117,092).

(iii) Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to currency risk as it does not have transactions in foreign currency.

(b) Credit risk

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

- Receivables arising out of direct insurance arrangements;
- Receivables arising out of reinsurance arrangements;
- Reinsurers' share of insurance liabilities;
- Corporate bonds;
- Cash and deposits with financial institutions;
- Government securities; and
- Other receivables.

The Company has no significant concentrations of credit risk. The Company structures the levels of credit risk it accepts by placing limits to counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors. For debt securities, the Company has a policy to invest only in high-quality corporate and government debt.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. This assessment is done based on external credit ratings and internal reviews.

Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring by the management credit committee.

The management is responsible for developing and maintaining the Company's risk ratings to categorise exposures according to the degree of risk of default when external credit ratings are not available. Risk grades are subject to regular review by management.

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

Maximum exposure to credit risk before collateral held

	2019 KShs	2018 KShs
Receivables arising out of direct insurance arrangements	555,211,786	738,478,979
Receivables arising out of reinsurance arrangements	184,122,068	245,233,004
Reinsurers' share of insurance liabilities	427,939,228	369,089,497
Government securities at amortised cost	569,667,662	1,376,750,506
Government securities at FVOCI	915,980,670	-
Corporate bonds at amortised cost	7,250,700	10,962,922
Deposits with financial institutions	238,943,231	112,780,687
Cash and cash equivalents	108,790,361	81,847,714
Kenya Motor Insurance Pool	9,074,691	11,599,648
Other receivables	197,691,611	30,096,715
	<u>3,214,672,008</u>	<u>2,976,839,672</u>

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(b) Credit risk (continued)

No collateral is held for any of the above assets. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on loans and receivables and subsequent write-offs.

Credit quality analysis

Trade receivables as at 1 January and 31 December 2019

The following tables provides information about the exposure to credit risk and ECLs for receivables arising from reinsurance arrangements and receivables arising from direct insurance arrangements as at 31 December 2019 and 31 December 2018.

(i) Receivables arising out of direct insurance arrangements

	2019 Kshs	2018 Kshs
Amount due but not impaired	555,211,786	738,478,979
Impaired	5,934,516	-
Gross	561,146,302	738,478,979
Less: allowance for impairment	(5,934,516)	-
Net	555,211,786	738,478,979
Allowance for impairment		
At start of year	-	-
IFRS 9 transition adjustment	15,559,332	-
Impairment/write back allowance for the period	(9,624,816)	-
At end of year	5,934,516	-

Receivables arising out of direct insurance arrangements are summarised as follows:

	2019 Kshs	2018 Kshs
Amount due but not impaired:		
by up to 30 days	133,606,492	137,107,084
by 31 to 60 days	227,199,619	259,601,360
by 61 to 90 days	74,861,660	132,496,007
Over 90 days	119,544,015	209,274,528
	555,211,786	738,478,979

All receivables past due by more than 365 days are deemed to be financial assets in default. They have been assigned Stage 3 status and treated as 'Non-performing fully impaired financial assets'. Receivables arising out of direct insurance arrangements that are within the contract period, fall within the ambit of IFRS 4. Receivables arising out of direct insurance arrangements are individually impaired. Of the total gross amount of impaired receivables the following amounts have been individually assessed:

	2019 Kshs	2018 Kshs
Individually assessed and impaired receivables		
Brokers	738,445	-
Agents	5,196,071	-
Direct clients	-	-
	5,934,516	-

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(b) Credit risk (continued)

Credit quality analysis (continued)

(ii) Receivables arising out of reinsurance arrangements

	2019 Kshs	2018 Kshs
Past due but not impaired	184,122,068	245,233,004
Impaired	27,533,902	-
Gross	211,655,970	245,233,004
Less: allowance for impairment	(27,533,902)	-
Net	184,122,068	245,233,004
Allowance for impairment		
At start of year	-	-
IFRS 9 transition adjustment	27,921,887	-
Impairment/write back allowance for the period	(387,985)	-
At end of year	27,533,902	-

Receivables arising from reinsurance arrangements that remained unpaid after expiry of the contract period are classified as financial assets in default.

Measurement of ECL

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

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

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

Other financial assets

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

A 12 month and lifetime probabilities of default are based on historical data supplied by Moody's rating agency for each credit rating. Loss given default rates are based on assumed recovery rate of 0%. The exposure to credit risk for debt securities at amortised cost, (2018: held-to- maturity) at the reporting date was not material.

(c) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Company is exposed to daily calls on its available cash for claims settlement and other administration expenses. To meet such liquidity needs, the Company manages its financial assets to generate sufficient cash flows. The Company does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the maximum level of bank overdraft facilities that should be in place to cover expenditure at unexpected levels of demand.

The table below presents the cash flows payable by the Company under financial liabilities by remaining contractual maturities (other than insurance contract liabilities which are based on expected maturities) at the reporting date.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(c) Liquidity risk (continued)

Short term insurance business maturing between 1 to 5 years

As at 31 December	2019 Kshs	2018 Kshs
Insurance contract liabilities (Note 25)	1,355,006,089	1,449,888,441
Creditors arising from reinsurance arrangements	165,023,820	159,220,657
Lease liabilities	188,279,539	-
Other payables	59,804,660	87,568,668
Total liabilities	1,768,114,108	1,696,677,766

(d) Fair value estimation

IFRS 7 and IFRS 13 require disclosure of fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities .
- Level 2 - 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 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Company's assets that are measured at fair value:

2019	Level 1 KShs	Level 2 KShs	Level 3 KSh	Total Balances KShs
Financial assets at fair value				
Equity investments	262,421,436	-	824,875	263,246,311
Investment property	-	-	410,000,000	410,000,000
Government securities at FVOCI	915,980,670	-	-	915,980,670
Total	1,178,402,106	-	410,824,875	1,589,226,981
2018	Level 1 KShs	Level 2 KShs	Level 3 KSh	Total Balances KShs
Financial assets at fair value				
Equity investments	176,676,531	-	824,875	177,501,406
Investment property	-	-	540,000,000	540,000,000
Total	176,676,531	-	540,824,875	717,501,406

The fair value of financial instruments traded in active markets is based on quoted market prices at the financial reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments and government securities 'held to collect and sell'.

Financial instruments measured at fair value that are not traded in active markets relate to the Company's investment in investment properties. Fair value estimate is based on external valuation which relies on discounted cash flows. The valuation model considers the present value of net cash flows to be generated from the property taking into account expected rental growth, occupancy rates and other costs not paid by tenants. The net cash flows are discounted using the risk adjusted discount rate. During the year, the Company sold one of its properties with a carrying value of Kshs 170 million (2018: nil). The movement in these assets are summarized in note 15.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(e) Financial assets by category

Financial assets As at 31 December 2019	Amortised cost KShs	FVTPL KShs	FVOCI KShs	Total KShs
Equity investments:				
- unlisted securities	-	-	824,875	824,875
- listed securities	-	-	262,421,436	262,421,436
Government securities	569,667,662	-	915,980,670	1,485,648,332
Corporate bonds	7,250,700	-	-	7,250,700
Receivables arising out of Reinsurance arrangements	184,122,068	-	-	184,122,068
Reinsurance share of insurance liabilities	427,939,228	-	-	427,939,228
Receivables arising out of direct insurance arrangements	555,211,786	-	-	555,211,786
Deposits with financial institutions	238,943,231	-	-	238,943,231
Cash and cash equivalents	108,790,361	-	-	108,790,361
Other receivables	199,209,443	-	-	199,209,443
Kenya Motor Insurance Pool	9,074,691	-	-	9,074,691
	2,300,209,170	-	1,179,226,981	3,479,436,151

Receivables	Available for sale equity investments KShs	Equity Investments at cost KShs	Held to maturity KShs	Total KShs
As at 31 December 2018				
Equity investments at FVOCI:				
- unlisted securities	-	824,875	-	824,875
- listed securities	176,676,531	-	-	176,676,531
Government securities	-	-	1,376,750,506	1,376,750,506
Corporate bonds	10,962,922	-	-	10,962,922
Receivables arising out of reinsurance arrangements	245,233,004	-	-	245,233,004
Reinsurance share o insurance liabilities	369,089,497	-	-	369,089,497
Receivables arising out of direct insurance arrangements	738,478,979	-	-	738,478,979
Deposits with financial institutions	112,780,687	-	-	112,780,687
Cash and cash equivalents	81,847,714	-	-	81,847,714
Other receivables	23,101,987	-	-	23,101,987
Kenya Motor Insurance Pool	11,599,648	-	-	11,599,648
	1,593,094,438	176,676,531	1,376,750,506	3,147,346,350

(f) Capital management

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

- to comply with the capital requirements as set out in the Insurance Act;
- to comply with regulatory solvency requirements as set out in the Insurance Act.
- to safeguard the company's ability to continue as a going concern, so that it can continue to provide returns to shareholders.
- benefits for other stake holders; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

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

- Composite insurance companies Shs 1 Billion;
- General insurance business companies Shs 600 million; and
- Long term business companies Shs 400 million

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(f) Capital management

The Company's paid up capital at 31 December 2019 and 2018 as presented in note 11, meets the minimum level required.

The Insurance (Capital Adequacy) Guidelines, 2018 requires an insurer to maintain a capital adequacy ratio of at least 100 percent of the minimum capital prescribed under the Act.

During the year the Company held the minimum paid up capital required as well as met the required solvency margins.

Capital adequacy and solvency margin are monitored regularly by management. The required information is filed with the Insurance Regulatory Authority on a quarterly basis.

The table below summarises the solvency margin of the Company at 31 December:

	2019 KShs	2018 KShs
Tier-1 Capital	1,508,440,327	1,338,394,268
Tier-2 Capital	51,465,032	(12,706,194)
Deductions	209,711,324	219,390,443
Total Capital Available (TCA)	1,350,194,035	1,106,297,631
Absolute Amount Minimum	600,000,000	600,000,000
Volume of Business Minimum	398,667,219	339,161,537
Risk Based Capital Minimum	853,690,882	1,023,643,774
Minimum Required Capital	853,690,882	1,023,643,774
Capital Adequacy Ratio (%)	158%	108%

5. GROSS EARNED PREMIUMS

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

	2019 KShs	2018 KShs
General insurance business:		
Motor	1,549,799,932	1,455,027,637
Fire and engineering	525,752,744	462,886,200
Personal accident	47,210,117	55,208,541
Marine	183,910,881	160,521,721
Theft	121,616,431	124,628,505
Workmens compensation	333,507,580	328,802,521
Public liability	16,098,799	14,147,346
Miscellaneous	44,712,658	32,726,139
Gross earned premiums	2,822,609,142	2,633,948,610

6. INVESTMENT AND OTHER INCOME

	2019 KShs	2018 KShs
Interest from government securities	210,434,447	155,079,161
Amortisation of government bond	-	(5,241,507)
Interest from bank deposits	15,307,238	12,781,982
Interest on current bank accounts	11,857,082	10,204,146
Net rental income from investment properties	38,395,445	38,848,962
Dividends received from equity investments	10,210,883	6,914,288
Gain on disposal of quoted equity investments	1,199,324	-
Gain on disposal of unquoted equity investments	-	103,500,000
Gain on disposal of investment property (Note 15)	50,602,000	4,943,00
Gain on disposal of vehicles and equipment	34,000	583,218
Share of profit from Kenya Motor Insurance Pool (Note 18)	854,734	158,493
Other income	1,316,233	190,264
	340,211,386	327,962,007

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

7. CLAIMS PAYABLE

Net claims payable by principal class of business comprises of:

	2019 KShs	2018 KShs
Motor	1,040,968,146	815,063,004
Fire and engineering	410,415,116	371,415,005
Personal accident	40,511,136	31,853,227
Marine	100,226,112	240,684,403
Theft	112,726,867	93,153,776
Workmen's compensation	472,543	114,646,916
Public liability	4,047,107	12,352,609
Miscellaneous	8,852,776	20,908,981
Total claims and policyholder benefits payable	1,718,219,803	1,700,077,921

8. OPERATING AND OTHER EXPENSES

	2019 KShs	2018 KShs
Staff costs (Note 9)	341,305,404	312,085,160
Marketing expenses	17,333,994	49,219,688
Printing and stationery	33,542,249	47,745,494
Directors remuneration	48,610,000	42,099,247
Rent	14,312,605	36,353,233
Depreciation on vehicles and equipment	27,373,986	24,843,114
Premium tax	26,926,549	24,730,580
Legal and professional fees	18,783,883	16,918,823
Repairs and maintenance	16,552,961	12,356,845
Bank charges, interest on overdraft and commission	5,690,591	10,800,863
Travelling and transport	3,069,086	8,253,063
Insurance and licenses	10,323,366	7,740,794
Advertising	5,926,275	6,811,206
Policy holder compensation	7,224,068	6,305,008
Postages and telephones	8,146,500	5,978,485
Subscriptions, newspapers and periodicals	9,139,986	5,256,493
Entertainment	6,141,707	5,235,909
Miscellaneous	4,596,728	4,560,333
Audit fees	5,445,382	4,155,630
Other administrative expenses	105,920	3,244,682
Security expenses	3,012,455	2,535,092
Vehicle running expenses	1,696,119	2,399,206
Donations	2,792,500	1,853,490
Secretarial fees	1,113,600	1,113,600
Association charges	653,148	554,927
Fines and penalties	-	200,00
Depreciation on Right of Use Expense	17,436,886	-
Interest on lease liabilities	22,781,733	-
Impairment write back for receivables arising from direct and reinsurance insurance arrangements	(10,022,801)	-
Total expenses	650,014,880	643,350,965

9. STAFF COSTS

Staff costs include the following:

	2019 KShs	2018 KShs
Salaries and wages	316,937,067	291,268,582
Defined benefit scheme and National Social Security Fund	18,065,600	14,307,500
Other staff expenses	6,302,737	6,509,078
	341,305,404	312,085,160

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

9. STAFF COSTS (Continued)

The average staff numbers categorised per department during the period is as shown below:

	2019	2018
Accounts	9	12
Audit	3	3
Claims and legal	25	26
Human resource and administration	20	18
Information technology	7	7
Marketing	11	7
Retail	24	15
Risk and compliance	3	3
Underwriting and reinsurance	45	41
Branches	31	26
Average number of staff	178	158

10. TAX CHARGE

	2019 KShs	2018 KShs
Recognised in profit or loss		
Current tax	64,715,894	45,310,523
Deferred tax charge (Note 23)	(5,751,918)	516,419
	58,963,976	45,826,942
Recognised in other comprehensive income		
Deferred tax charge (Note 23)	2,521,797	(5,836,096)
Total tax charge	61,485,773	39,990,846

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:-

	2019 KShs	2018 KShs
Profit before tax		
Profit & loss	307,082,763	290,705,524
Other comprehensive income	64,378,103	(39,757,223)
	371,460,866	250,948,301
Tax calculated at a tax rate of 30% (2018: 30%)	111,438,260	75,284,490
Tax effect of:		
- expenses not allowable for tax purposes	3,987,480	3,890,115
- fair value gain taxable on investment property at lower rate	(12,000,000)	(9,000,000)
- fair value gain on investment property (taxed at 5%)	2,000,000	1,500,000
- non-taxable gain on sale of shares	(359,797)	(31,050,000)
- fair value gain on disposal of shares (taxed at 5%)	-	5,175,000
- gain on disposal of investment property taxed at lower rate	(15,180,600)	(1,482,900)
- gain on sale of investment property (taxed at 5%)	2,530,100	247,150
- non-taxable (gain)/loss on listed equity investments	(19,313,432)	11,927,167
- prior year under provision of deferred tax (OCI)	2,521,797	(5,836,096)
- income not subject to tax	(17,144,875)	(10,664,080)
	58,478,933	39,990,846
Movement in tax balances		
At the beginning of the year	3,247,319	30,526,885
Tax charge	(64,715,894)	(45,310,523)
Tax paid	17,555,489	18,030,957
At the end of the year	(43,913,086)	3,247,319

* Fair value gains on investment property in Kenya are taxed at the enacted capital gains tax rate of 5%.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

11. SHARE CAPITAL

Authorised:

1,000,000 (2018: 1,000,000)

Ordinary shares of KShs 1,000 each

Issued and fully paid:

693,000 (2018: 693,000)

Ordinary shares of KShs 1,000 each

2019 KShs	2018 KShs
1,000,000,000	1,000,000,000
693,000,000	693,000,000

12. RETAINED EARNINGS

Included within retained earnings of 2019 of Kshs 730,440,017 (2018: Kshs 588,632,649) are surpluses arising from the revaluation of investment properties whose distribution is subject to restrictions imposed by legislation. The Commissioner has placed restrictions on distribution on gains arising from revaluation of investment properties. As at 31 December 2019, the cumulative fair value gains on the investment properties amounted to KShs 262,395,300 (2018: KShs 302,395,300).

13. FAIR VALUE RESERVE

The revaluation reserve relates to unrealized gains/losses on the Company's equity investments and government bonds that are carried at fair value through other comprehensive income. Movements in the revaluation reserve are shown in the statement of changes in equity. The fair value reserve is not distributable to the shareholders of the Company. The fair value reserves were KShs 51,465,032 (2018: KShs (18,797,265)).

14. VEHICLES AND EQUIPMENT

	Motor vehicles KShs	Computers KShs	Fittings and equipment KShs	Total KShs
2019				
Cost				
At start of year	9,849,160	59,288,016	114,491,538	183,628,714
Additions	-	11,410,028	5,744,072	17,154,100
Disposals	(102,673)	(57,507)	(159,985)	(320,165)
At end of year	9,746,487	70,640,537	120,075,625	200,462,649
Depreciation				
At start of year	7,630,357	47,027,224	49,494,159	104,151,740
Charge for the year	1,459,637	12,532,885	13,381,464	27,373,986
Disposals	(102,673)	(57,507)	(159,985)	(320,165)
At end of year	8,987,321	59,502,602	62,715,638	131,205,561
Carrying amount	759,166	11,137,935	57,359,987	69,257,088
2018				
Cost				
At start of year	10,502,575	42,901,339	73,505,751	126,909,665
Additions	110,685	17,236,036	41,001,767	58,348,488
Disposals	(764,100)	(849,359)	(15,980)	(1,629,439)
At end of year	9,849,160	59,288,016	114,491,538	183,628,714
Depreciation				
At start of year	6,768,795	37,172,449	36,824,554	80,765,798
Charge for the year	1,459,637	10,704,134	12,679,343	24,843,114
Disposals	(598,075)	(849,359)	(9,738)	(1,457,172)
At end of year	7,630,357	47,027,224	49,494,159	104,151,740
Carrying amounts	2,218,803	12,260,792	64,997,379	79,476,974

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

15. INVESTMENT PROPERTIES

	2019 KShs	2018 KShs
At start of year	540,000,000	531,000,000
Fair value gain	40,000,000	30,000,000
Disposal *	(170,000,000)	(21,000,000)
At end of year	410,000,000	540,000,000

The fair value of investment property was determined using the market approach by reference to the market prices of similar properties of the type and in the area in which the property is situated. The valuation was carried out on 31 December 2019 by Milligan Limited, an independent professional valuer with recent experience in the location and category of the investment property being valued. These are categorized as Level 3 in the fair value hierarchy. The estimated fair values would increase/ (decrease):

- If property prices near the location of the property were higher/ (lower); and
- With improvements/ (deterioration) in infrastructure development

The book values of properties was adjusted and the resultant surplus was credited to the statement of profit or loss. Direct operating expenses arising on the investment property amounted to KShs 7,462,016 (2017: KShs 7,030,970).

* During the year, the Company disposed of its investment property (Fina House) which had a valuation of KShs 170,000,000 as at 31 December 2018 for net disposal proceeds of KShs 220,002,000, realising a net gain of KShs 50,602,000 (gross gain of KShs 60,000,000 before selling costs).

16. INTANGIBLE ASSETS - WORK IN PROGRESS

	2019 KShs	2018 KShs
At start of year	39,199,334	38,467,446
Additions	-	731,888
At end of year	39,199,334	39,199,334

The above work in progress relates to a computer software (Agilis) being implemented by the Company.

17. DEFERRED ACQUISITION COSTS

	2019 KShs	2018 KShs
At start of year	126,752,444	131,268,908
(Increase)/decrease during the year	4,039,501	(4,516,464)
At end of year	130,791,945	126,752,444

18. KENYA MOTOR INSURANCE POOL (KMIP)

	2019 KShs	2018 KShs
At start of year	11,599,648	11,441,155
Receipts during the period	(3,379,691)	-
Share of profit (Note 6)	854,734	158,493
At end of year	9,074,691	11,599,648

19. REINSURERS' SHARE OF TECHNICAL PROVISIONS AND RESERVES

	2019 KShs	2018 KShs
Reinsurer's share of		
- Unearned premium reserves	228,036,863	191,897,010
- Outstanding claims	111,968,323	83,705,834
- Incurred but not reported	132,446,556	131,124,609
- Deferred acquisition costs	(44,512,514)	(37,637,956)
At end of year	427,939,228	369,089,497

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

20. OTHER RECEIVABLES AND PREPAYMENTS

	2019 KShs	2018 KShs
Prepayments	8,750,040	6,994,728
Staff loans and advances	9,262,194	7,681,097
Rent receivable	6,587,823	5,247,052
Receivables on sale of property	170,000,000	-
Deposits	6,015,994	6,001,894
Restricted cash amounts	10,000	10,000
Other receivables	5,578,120	4,161,944
	206,204,171	30,096,715

21. (a) Government securities at amortised cost

	2019 KShs	2018 KShs
(i) Treasury Bills		
Within 1 year	252,896,297	130,970,290
(ii) Treasury Bonds		
Between 1 and 5 years of the reporting date	-	618,025,373
After 5 years of the reporting date	316,771,365	627,754,843
	569,667,662	1,376,750,506

(b) Government securities at FVOCI

	2019 KShs	2018 KShs
Between 1 and 5 years of the reporting date		
- Fair Value	642,075,375	-
- Accrued interest	26,167,175	-
	668,242,550	-
After 5 years of the reporting date		
- Fair Value	247,738,120	-
	915,980,670	-

Movement in Government securities net of interest can be summarised as follows:

At 1 January	916,691,303	-
Additions	47,738,659	-
Maturities	(83,022,458)	-
Fair value gain	8,405,991	-
At 31 December	889,813,495	-

(c) Corporate bonds

	2019 KShs	2018 KShs
At start of year	10,962,922	14,545,321
Additions	-	-
Redemptions	(3,712,222)	(3,582,399)
At end of year	7,250,700	10,962,922

(d) Weighted average effective interest rates

	2019 %	2018 %
Government securities	12.25	12.05
Deposits with financial institutions	7.84	7.96
Commercial paper	14.17	13.34

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

22. EQUITY INVESTMENTS

(a) Listed securities

At start of year

Additions

Disposal

Fair value (loss)/gain

At end of year

(b) Unlisted securities

At start of year

Disposal proceeds

Fair value gain on disposal

At end of year

The investment in unquoted investments can be summarised as:

Spire Bank Limited

22,347 (2018:22,347) Ordinary shares

	2019 KShs	2018 KShs
At start of year	176,676,531	131,380,284
Additions	31,102,252	85,053,470
Disposal	(9,735,450)	-
Fair value (loss)/gain	64,378,103	(39,757,223)
At end of year	262,421,436	176,676,531
	2019 KShs	2018 KShs
At start of year	824,875	100,824,875
Disposal proceeds	-	(203,500,000)
Fair value gain on disposal	-	103,500,000
At end of year	824,875	824,875
	824,875	824,875

23. DEFERRED TAX

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2018 – 30%). The movement on the deferred income tax account is as follows:

	2019 KShs	2018 KShs
At start of year	6,462,672	11,782,349
Charge to profit or loss (Note 10)	(5,751,918)	516,419
Prior year under provision - OCI	-	(5,836,096)
Charge to other comprehensive income	2,521,797	-
Charge to retained earnings - IFRS 9 transition adjustments	(9,133,333)	-
At end of year	(5,900,781)	6,462,672

Deferred income tax assets and liabilities and deferred income tax charge/(credit) to profit or loss are attributable to the following items:

2019	At start of the year KShs	IFRS 9 day 1 adjustment KShs	Recognised in OCI KShs	Recognised in profit or loss KShs	At end of the year KShs
Deferred income tax					
Excess depreciation over capital allowances	(5,946,728)	-	-	(2,397,700)	(8,344,428)
Leave provisions	(2,710,365)	-	-	241,382	(2,468,983)
Excess lease liability	-	-	-	(4,602,940)	(4,602,940)
Fair value gain on investment properties	15,119,765	-	-	(1,999,500)	13,120,265
Fair value gain on government securities - FVOCI	-	-	6,432,830	-	6,432,830
Allowance for impairment	-	(13,044,366)	-	3,006,840	3,006,840
Net deferred tax	6,462,672	(13,044,366)	6,432,830	(5,751,918)	7,143,585
2018		At start of the year	Prior year over provision recognised in OCI	Recognised in profit or loss	At end of the year
		KShs	KShs	KShs	
Deferred income tax					
Excess depreciation over capital allowances		(4,228,020)	-	(1,718,708)	(5,946,728)
Leave provisions		(3,511,346)	-	800,981	(2,710,365)
Fair value loss on quoted investments		5,836,096	(5,836,096)	-	-
Fair value gain on investment properties		13,685,619	-	1,434,146	15,119,765
Net deferred tax		11,782,349	(5,836,096)	516,419	6,462,672

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

24. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2019 KShs	2018 KShs
Cash and bank balances	108,790,361	81,847,714
Fixed deposits maturing within 90 days	238,943,231	112,780,687
	347,733,592	194,628,401

25. INSURANCE CONTRACT LIABILITIES

	2019 KShs	2018 KShs
Short term insurance contracts:		
- claims reported and claims handling expenses	796,612,739	868,726,191
- claims incurred but not reported (IBNR)	558,393,350	579,980,710
	1,355,006,089	1,448,706,901
Long term insurance contracts:		
- claims reported and claims handling expenses	-	1,181,540
Total gross insurance liabilities	1,355,006,089	1,449,888,441

26. UNEARNED PREMIUM RESERVES

	2019 KShs	2018 KShs
At start of year	919,037,227	960,191,548
Net (decrease)/increase	(12,355,717)	(31,589,230)
Reinsurance share	36,139,852	(9,565,091)
At end of year	942,821,362	919,037,227

27. OTHER PAYABLES

	2019 KShs	2018 KShs
Rental deposits	7,186,296	7,216,008
Other accrued expenses	11,653,966	19,221,365
Accrued leave due	8,229,943	9,034,551
Other liabilities	32,734,455	52,096,744
	59,804,660	87,568,668

28. CASH FROM OPERATIONS

	2019 KShs	2018 KShs
Reconciliation of profit before tax to cash from operations:		
Profit before tax	307,082,763	290,705,524
Adjustments for:		
- Interest income from government securities	(237,598,767)	(172,823,782)
- Gain on revaluation of investment property (Note 15)	(40,000,000)	(30,000,000)
- Gain on disposal of unquoted equity investments (Note 22(b))	-	(103,500,000)
- Gain on disposal of investment property (gross)	(50,602,000)	(4,943,000)
- Amortisation of government bonds	-	5,241,507
- Gain on disposal of vehicles and equipment	(34,000)	(583,218)
- Depreciation on right of use asset	17,436,886	-
- Interest expense on lease liabilities	22,781,733	-
- Depreciation on vehicles and equipment (Note 14)	27,373,986	24,843,114

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

28. CASH FROM OPERATIONS (Continued)

	2019 KShs	2018 KShs
Changes in:		
- insurance contract liabilities	(94,882,352)	68,129,261
- provisions for unearned premium	23,784,135	(41,154,321)
- receivables arising out of direct insurance arrangements	167,707,861	(71,889,748)
- other receivables and prepayments	(176,107,456)	(2,102,622)
- other payables	(27,764,008)	(7,253,308)
- increase in creditors arising out of reinsurance arrangements	5,803,163	(39,265,909)
- movement in reinsurance debtors	(58,849,731)	166,167
- movement in deferred acquisition costs	(4,039,501)	4,516,464
- net movement in Kenya Motor Insurance Pool	2,524,957	(158,493)
- receivables arising out of reinsurance arrangements	33,189,049	40,433,744
Cash from operations	(82,193,282)	(39,638,620)

29. RELATED PARTY TRANSACTIONS

The following companies are related to Occidental Insurance Company Limited through common directorships.

The following transactions were carried out with related parties:

	2019 KShs	2018 KShs
Gross earned premium:		
Dyer & Blair Limited	937,671	965,915
Dodhia Packaging Limited	(2,453,510)	8,669,778
Biashara Development Limited	(1,374,383)	253,473
Paramount Chief Estate Limited	143,434	143,857
Mbaru Securities Company Limited	32,500	-
Inyeka Limited	209,583	-
Kiiso Group Limited	500,000	-
VIP Holding	-	1,031,983
Zen International Limited	708,721	-
Infpac Limited	105,600	-
Amara Trading Limited	401,911	-
Ghanima Limited	15,000	-
Capet Management Services Limited	304,291	181,424
Reef Securities Limited	59,865	59,865
Eagle Investments Limited	83,200	83,200
Bhagwanji & Company Limited	97,800	226,387
Thika Cloth Mills Limited	10,882,760	10,743,417
Total	10,654,443	22,359,299
Net claims incurred:		
Dodhia Packaging Limited	246,276	981,005
Capet Management Services Limited	240,700	-
Zen International Limited	436,560	-
Dyer & Blair Limited	955,282	-
Biashara Development Limited	72,900	-
Thika Cloth Mills Limited	1,071,508	2,313,213
Total	3,023,226	3,294,218
Key management personnel compensation		
The remuneration of directors and other key management during the year were as follows:		
Fees for services as directors	15,810,000	12,550,000
Other remuneration	32,800,000	29,549,247
	48,610,000	42,099,247

In the normal course of business, the Company has entered into transactions with certain related parties. These transactions are at commercial terms and conditions.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

30. EARNINGS PER SHARE

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of the bonus shares issued if any.

	2019	2018
Net profit for the year attributable to shareholders (KShs)	248,118,787	244,878,582
Adjusted weighted average number of ordinary shares in issue	693,000	693,000
Earnings per share - basic and diluted (KShs)	358.04	353.36

There were no potential dilutive shares outstanding as at 31 December 2019 and 2018.

31. IFRS 16 - LEASES

Company as a lessee

Office and branch premises

The Company leases a number of premises for head office and branch operations. The leases typically run for an initial period of between five and six years with an option to renew the lease at its expiry for the same period.

Previously, these leases were classified as operating leases under IAS 17. Information about leases for which the Company is a lessee is presented below.

(a) Right-of-Use assets

Right-of-use assets relate to leased branch and office premises that are presented below:

Balance at 1 January

Depreciation charge for the year

Total right of use assets at 31 December

2019 KShs
190,610,773
(17,436,886)
173,173,887

Depreciation on Right-of-use assets

Head office and branch premises

2019 KShs
17,436,886

(b) Lease liabilities

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Balance at January 2019

Prepaid lease

Interest expense

Repayment of the lease liability

Balance at 31 December 2019

2019 KShs
190,610,773
(237,480)
22,781,733
(24,875,487)
188,279,539

Maturity analysis – Contractual cash flows

Expected to be settled within 12 months after the year end

Expected to be settled more than 12 months after the year end

2019 KShs
9,698,309
178,581,230
188,279,539

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

31. IFRS 16 - LEASES (Continued)

Company as a lessee (continued)

Office and branch premises (continued)

(b) Lease liabilities (continued)

2018 – Operating leases under IAS 17

As at 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Tenancy

Less than one year

Between one and five year

Total undiscounted lease liabilities at 31 December

2018 KShs
39,518,322
186,062,516
225,580,838

(c) Amounts recognised in profit or loss

2019 – Leases under IFRS 16

Interest in lease liabilities

Depreciation of right of use assets

KShs
22,781,733
17,436,886

2018 – Leases under IAS 17

Lease expense

KShs
36,353,233

Extension options

Some property leases contain extension options exercisable by the Company up to one year before the end of the non cancellable contract period.

Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Company as a lessor

The Company leases out its investment property. The Company has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 15 sets out information about the operating leases of investment property.

Rental income earned during the year was KShs 48,113,546 (2018: KShs 46,310,978). The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

2019 - Operating Leases under IFRS 16

Less than 1 year

One to two years

Two to three years

Three to four years

Four to five years

Five to six years

2019 KShs
41,179,936
30,376,321
23,656,590
12,860,921
5,993,235
816,785
114,883,788

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

31. IFRS 16 - LEASES (Continued)

Company as a lessee (continued)

Office and branch premises (continued)

(c) Amounts recognised in profit or loss (continued)

2018 - Operating lease under IAS 17

Within 1 year

In the second to fifth year inclusive

2018 KShs
43,959,546
110,495,216
154,454,762

32. DIVIDENDS

The Directors propose a final dividend of KShs 85,010,310 (2018: KShs 51,975,000) for the year. In accordance with the Kenyan Companies Act, 2015, these financial statements reflect this dividend payable, which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 31 December 2019.

Payment of dividend is subject to withholding tax at a rate of 0%, 5% or 10% depending on the tax status or residency of the shareholder. Below is a summary of dividends paid in the year:

	2019 KShs	2018 KShs
2018 and 2017 interim dividends proposed and paid	(6,029,100)	(12,474,000)
2018 and 2017 final dividend proposed and paid	(51,975,000)	6,029,100
2019 proposed final dividend	85,010,310	51,975,000
	27,006,210	45,530,100

33. CONTINGENT LIABILITIES

As is common with the insurance industry in general, the Company 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 position or profits of the Company.

The Company has issued various custom bonds. No material loss is anticipated from these.

34. CAPITAL COMMITMENTS

Capital expenditure commitments that had been authorized and contracted for as at the year end were as follows:

	2019 KShs	2018 KShs
Software upgrade	2,304,000	-

35. SUBSEQUENT EVENTS

There are no material events after the reporting date which require to be disclosed. The world has been grappling with a significant health challenge in the form of a Coronavirus which the World Health Organisation (WHO) has named COVID-19 and the same has been identified as a pandemic. The situation with Covid-19 is still developing and is being followed worldwide with great interest and obvious concern. The company has keenly followed developments, in particular being on the lookout in order to better plan for containment of any unexpected exposures to all our stakeholders.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

General insurance business revenue account

Class of insurance business	Engineering KShs	Fire Domestic KShs	Fire Industrial KShs	Public Liability KShs	Marine KShs	Motor Private KShs	Motor Commercial KShs	Personal Accident KShs	Theft KShs	Workmen's Compensation KShs	Miscellaneous KShs	2019 Total KShs	2018 Total KShs
Gross premiums written	136,504,431	63,903,168	330,343,357	16,484,673	183,737,291	791,525,467	757,880,948	47,298,698	121,245,654	313,874,593	47,455,144	2,810,253,425	2,602,359,380
Change in gross UPR	(5,073,291)	988,963	(913,884)	(385,874)	173,590	7,501,336	(7,107,820)	(88,581)	370,777	19,632,987	(2,742,486)	12,355,717	31,589,230
Gross earned premiums	131,431,140	64,892,131	329,429,473	16,098,799	183,910,881	799,026,803	750,773,128	47,210,117	121,616,431	333,507,580	44,712,658	2,822,609,142	2,633,948,610
Less: Reinsurance payable	109,471,670	19,128,149	264,923,085	12,429,921	122,231,209	7,630,283	6,926,082	31,995,380	63,398,053	56,158,085	31,445,630	725,737,548	640,612,513
Net earned premiums	21,959,470	45,763,982	64,506,388	3,668,878	61,679,672	791,396,520	743,847,046	15,214,737	58,218,378	277,349,495	13,267,028	2,096,871,594	1,993,336,097
Gross claims paid	208,347,300	108,679,628	109,893,681	4,779,765	103,208,713	526,244,882	509,312,587	40,517,164	96,344,940	121,309,163	12,867,227	1,841,505,050	1,640,837,780
Change in gross o/s claims	(4,725,341)	(5,619,250)	(6,160,902)	(732,658)	(2,982,601)	18,677,000	(13,266,323)	(6,028)	16,381,927	(120,836,620)	(4,014,451)	(123,285,247)	59,240,141
Less: Reinsurance recoverable	102,498,295	25,325,734	65,453,481	3,432,460	57,468,590	16,217,088	14,249,788	36,390,302	53,003,461	10,083,323	6,474,846	390,597,368	475,760,472
Net claims incurred	101,123,664	77,734,644	38,279,298	614,647	42,757,522	528,704,794	481,796,476	4,120,834	59,723,406	(9,610,780)	2,377,930	1,327,622,435	1,224,317,449
Commissions receivable	(32,464,745)	(6,043,579)	(90,031,034)	(3,244,790)	(30,188,356)	-	-	(8,575,788)	(17,080,901)	(13,246,473)	(8,192,037)	(209,067,703)	(184,331,189)
Commissions payable	24,270,882	12,679,944	79,999,962	3,296,934	32,076,405	78,541,676	75,699,322	8,446,653	16,086,841	62,769,115	4,727,815	398,595,549	373,248,696
Less:- Change Deferred acquisition cost	(902,386)	181,523	(262,087)	(78,137)	36,784	788,577	(688,885)	(9,001)	177,496	3,880,113	(288,941)	2,835,056	4,006,659
Expenses of management	5,840,856	12,172,463	17,157,634	975,861	16,405,774	210,498,405	197,851,030	4,046,869	15,485,127	73,770,384	3,528,811	557,733,214	548,918,861
Total expenses and commissions	(3,255,393)	18,990,351	6,864,475	949,868	18,330,607	289,828,658	272,861,467	3,908,733	14,668,563	127,173,139	(224,352)	750,096,116	741,843,027
Underwriting profit/(loss)	(75,908,802)	(50,961,013)	19,362,615	2,104,364	591,543	(27,136,932)	(10,810,897)	7,185,170	(16,173,591)	159,787,136	11,113,450	19,153,043	27,175,621

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