ALLIANZ INSURANCE COMPANY OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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DIRECTORS	Jean-Louis Clement Lemazurier *	- Chairman
	Mame Demba SY *	- Principal Officer
	Frederic Baccelli *	
	Patrick Ehrhart *	
	Jean-Jaquez Laffont *	
	Patrick Prado *	
	Linus Wangombe Gitahi	
	Maren Diale-Schellschmidit **	
	Anuj Agarwal	
	Owolabi Salami	
	* French	
	** German	
SECRETARY	Kaplan & Stratton Advocates 9th Floor, Williamson House Fourth Ngong Avenue Nairobi	
REGISTERED OFFICE	96 Riverside Allianz Plaza Off Riverside Drive P. O. Box 66257 - 00800 Nairobi	
AUDITOR	PricewaterhouseCoopers LLP PwC Tower, Waiyaki Way / Chroma Road, Westlands P. O. Box 43963 - 00100 Nairobi	
CONSULTING ACTUARIES	Zamara Financial Services Limited 10th Floor, Landmark Plaza P. O, Box 52439 - 00200 Argwings Kodhek Road Nairobi	
PRINCIPAL BANKER	Citibank N.A Upper Hill Road P. O. Box 30711 - 00100 Nairobi	

The Directors submit their report together with the audited financial statements for the year ended 31 December 2020 which disclose the state of affairs of Allianz Insurance Company of Kenya Limited (the "Company").

Incorporation

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

Directors

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

Principal activities

The Company underwrites all classes of non-life insurance risks as defined by the Insurance Act.

Results and dividends

The net loss for the year of Shs 300,887,527 (2019: Shs 48,191,918) has been added to accumulated losses. The Directors do not recommend the payment of a dividend (2019: Nil).

Business review

Premium income and claims

Consolidated gross premium recorded was Shs 929 million, up from Shs 911 million in 2019, representing an increase of only 2% as negative COVID-19 impact affected business prospects across most product lines. Nevertheless, Allianz Kenya managed to successfully expand the client base to over 3,800 customers served by a growing network of over 30 brokers and 130 agents. The growing network has contributed to a favourable business mix of 36%:64% in favour of non-motor. We will continue to build new business relationships while strengthening existing ones for the mutual benefit of all our stakeholders.

Net earned premium grew by 24% to Shs 500 million in 2020, up from Shs 404 million in the previous year. During the year, premium cessions to reinsurers closed at 47% of gross written premium, compared to 49% the previous year. This arose from slightly higher retention in 2020.

Net claims incurred in 2020 stood at Shs 329 million compared to Shs 219 million in the previous year. This was an increase of 50% and resulted from different incidences that cut across domestic fire, marine and WIBA policies culminating in a 66% loss ratio compared to 54% in 2019. We shall continue to focus on improving our underwriting and claims management procedures in order to improve underwriting results.

Commissions

Commission paid to intermediaries during the year was Shs 112 million, compared to Shs 114 million the previous year, representing a decline of 2%, while commission received from reinsurers increased by 4% to Shs 62 million, as compared to Shs 60 million in 2019.

Management expenses

Management expenses in 2020 increased marginally to Shs 283 million, from Shs 280 million in 2019, an increase of 1%. This level of expenses represents 30% (2019: 31%) of gross written premium. Notably, the expense ratio has recorded significant and consistent improvement year on year compared to previous years.

Investments

Investable funds achieved a 7% growth in 2020 and also recorded improved returns of Shs 115 million in 2020 compared to Shs 86 million in the previous year. This 34% increase in returns was mainly the result of a successful diversification strategy in treasury bills, bonds and the money markets. Investment in treasury bonds from the secondary market enabled the company to lock-in higher interest rates during the year even as market interest rates declined as a result of the COVID-19 pandemic.

Results

Operating results improved from a loss of Shs 63 million in 2019 to Shs 47 million in 2020. The net loss for the year of Shs 301 million was significantly higher than that reported in 2019 of Shs 48 million due to write-off of a deferred tax asset of Shs 225 in the year.

Statement as to disclosure to the Company's auditor

The directors confirm that with respect to each director at the time this report was approved:

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

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

Terms of appointment of the auditor

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

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

By order of the Board

Company Secretary

29. March 2021

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

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

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

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

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

Approved by the board of directors on 29 March 2021 and signed on its behalf by:

Jean-Louis Clement Lemazurier	Mame Demba SY
Chairman	Principal Officer

I have conducted an Insurance Liability Valuation of the short-term business of Allianz Insurance Company of Kenya Limited as at 31 December 2020.

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

I verify that the calculation of the short-term insurance liabilities as at 31 December 2020 is appropriate.

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

James I. O. Olubayi

Fellow of the Institute of Actuaries

Zamara Actuaries, Administrators & Consultants Limited

29. March 2021

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

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Allianz Insurance Company of Kenya Limited (the "Company") set out on pages 10 to 57 which comprise the statement of financial position at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Allianz Insurance Company of Kenya Limited at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2015.

Basis for opinion

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

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Determination of outstanding claims provisions

As disclosed in Note 15 of the financial statements, insurance contract liabilities comprise reported claims and incurred but not reported ("IBNR") claims. We considered claims provisions as a significant area of focus due to:

- The estimation of the provisions involves significant judgement given the inherent uncertainty in estimating expected future outflows in relation to claims incurred; and
- The valuation of these liabilities relies on the accuracy of claims data and the assumption that future claims development will follow a similar pattern to past claims development experience.

Any material changes in the projected claims due to changes in the underlying assumptions and methodology can result in a material impact to the valuation.

</td><td>

Our procedures included the following;

- We agreed a sample of claims paid to supporting documentation and compared the claim payments in 2020 to the reserves previously held;
- We tested the reasonableness of claims outstanding by comparing the recorded amounts to the latest available information on source documents such as the loss assessors' reports;
- We performed reconciliations by agreeing the claims data used for the audit and that used by the appointed actuary to calculate reserves to supporting information;
- We assessed the appropriateness of the methodology and assumptions used in the estimation of reserves against generally accepted actuarial practice and entity-specific historical information;
- We checked the consistency of the reserving methods and assumptions bases year on year; and
- We back tested the robustness of the reserving process by performing an actual vs expected analysis on prior years' reserves to assess this for any surpluses or shortfalls.

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Other information

The other information comprises the Corporate information, the Directors' report, the Statement of directors' responsibilities, report of the consulting actuary and supplementary information but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Companies Act, 2015

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

PricewaterhouseCoopers LLP

Certified Public Accountants 30 **March 2021**

Nairobi

FCPA Richard Njoroge, Practising Certificate No.1244
Signing partner responsible for the independent audit

Statement of profit or loss and other comprehensive income

	Notes	2020 Shs	2019 Shs
Gross written premiums	5	929,347,444	910,743,864
Gross earned premiums	5	936,533,395	849,664,952
Less: reinsurance premiums ceded	7	(436,521,497)	(445,537,502)
Net earned premiums		500,011,898	404,127,450
Investment income	8	114,589,124	85,527,215
Commissions earned	9	62,547,942	60,416,264
Total income		677,148,964	550,070,929
Claims and policyholders' benefits payable	10(a)	(506,281,120)	(278,519,984)
Less: amounts recoverable from reinsurers	10(b)	176,963,671	59,399,288
Net incurred claims		(329,317,449)	(219,120,696)
Operating and other expenses	11	(282,866,523)	(280,335,337)
Commissions payable	13	(111,817,235)	(113,529,613)
Loss before income tax		(46,852,243)	(62,914,717)
Income tax (expense)/credit	16	(254,035,284)	14,722,799
Loss for the year		(300,887,527)	(48,191,918)
Other comprehensive income, net of tax		-	-
Total comprehensive loss for the year		(300,887,527)	(48,191,918)

Statement of financial position

	Notes	2020	2019
ASSETS		**Shs**	**Shs**
Property and equipment	18	39,180,859	44,602,637
Right of use asset	27	16,540,708	29,093,328
Intangible assets	19	81,137,917	99,505,408
Deferred income tax	20	-	225,388,003
Government securities at amortised cost	21	887,929,110	912,050,172
Receivables arising out of direct insurance arrangements		38,430,508	56,609,613
Reinsurers' share of insurance liabilities and reserves	22	222,086,803	224,136,086
Other receivables	23	19,021,315	203,416,297
Deferred acquisition costs	24	38,835,678	47,956,129
Cash and bank balances	25 (b)	537,538,411	414,863,616
Current income tax	16 (c)	6,349,251	-
TOTAL ASSETS		1,887,050,560	2,257,621,289
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	17	1,340,290,000	1,340,290,000
Accumulated losses		(638,829,676)	(337,942,149)
TOTAL EQUITY		701,460,324	1,002,347,851
Liabilities			
Insurance contract liabilities	15	241,233,200	209,373,245
Provision for unearned premium	6	335,912,211	343,098,163
Payables arising from reinsurance arrangements		292,896,661	344,317,363
Payables arising from direct insurance arrangements		21,903,601	21,561,186
Deferred reinsurance commission	24	19,681,672	22,257,619
Other payables	26	256,092,930	278,128,390
Lease liabilities	28	17,869,961	30,117,762
Current income tax	16	-	6,419,710
Total liabilities		1,185,590,236	1,255,273,438
TOTAL EQUITY AND LIABILITIES		1,887,050,560	2,257,621,289

The financial statements on pages 10 to 57 were approved for issue by the board of Directors on 29 March 2021 and signed on its behalf by:

Jean-Louis Clement Lemazurier
Chairman

Mame Demba SY
Principal Officer

Statement of changes in equity

	Notes	Share capital Shs	Accumulated Losses Shs	Total equity Shs
Year ended 31 December 2019				
At start of year		1,000,000,000	(289,750,231)	710,249,769
Loss for the year		-	(48,191,918)	(48,191,918)
Transactions with owners:				
Issue of new shares (Note 17)		340,290,000	-	340,290,000
At end of year		1,340,290,000	(337,942,149)	1,002,347,851
Year ended 31 December 2020				
At start of year		1,340,290,000	(337,942,149)	1,002,347,851
Loss for the year		-	(300,887,527)	(300,887,527)
At end of year		1,340,290,000	(638,829,676)	701,460,324

Statement of cash flows

	Notes	2020 Shs	2019 Shs
Cash flows from operating activities			
Cash generated from operations	25 (a)	171,087,383	248,194,949
Income tax paid during the year	16 (c)	(41,416,242)	(13,320,600)
Net cash flows from operating activities		129,671,141	234,874,349
Cash flows from investing activities			
Purchase of property and equipment	18	(8,167,405)	(1,216,840)
Purchase of intangible assets	19	(7,866,003)	(14,467,623)
Net investments in government securities	21	24,121,062	(856,215,876)
Net cash flows from/ (used in) investing activities		8,087,654	(871,900,339)
Cash flows from financing activities			
Principal lease payments	28	(15,084,000)	(15,764,500)
Issue of new shares		-	340,290,000
Net cash flows (used in)/from financing activities		(15,084,000)	324,525,500
Net increase/ (decrease) in cash and cash equivalents		122,674,795	(312,500,490)
Movement in cash and cash equivalents			
At start of year		414,863,616	727,364,106
Increase/(decrease) in the year		122,674,795	(312,500,490)
At end of year	25 (b)	537,538,411	414,863,616

Notes

1 General information

The Company is incorporated as a limited liability company in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya. The address of the Company's registered office is set out on page 1. The Company operates as a short-term insurance Company, selling all types of general insurance business a defined by Kenya Insurance Act.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The following standards and interpretations have been applied by the Company for the first time for the financial reporting year commencing on or after 1 January 2020 and they did not have a significant impact on the financial statements impact on the Company.

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures(continued)

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

Number	Effective date	Summary
Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'	1 January 2020	These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs: • use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting; • clarify the explanation of the definition of material; and • incorporate some of the guidance in IAS 1 about immaterial information. The amended definition is: "*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.*"
COVID-19-Related Rent Concessions	1 June 2020	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures(continued)

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

Number	Effective date	Executive summary
IFRIC 23, 'Uncertainty over income tax treatments'	Annual periods beginning on or after 1 January 2020 Published 7 June 2017)	IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures(continued)

ii) New and amended standards not yet adopted by the Company

The following standards and interpretations have been issued but were not mandatory for annual reporting periods ending 31 December 2020:

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

The Directors do not plan to apply the above standard, until it becomes effective. Based on their assessment of the potential impact of application of the above, IFRS 17 is expected to have a significant impact on the Company's financial statements.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, placements with banks and deposits held at call with banks as well as short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

(c) Functional currency and translation of foreign currency

(i) Functional and presentation currency

The financial statements are presented in Kenya shillings (Shs), which is the Company's functional currency.

(ii) Transactions and balances

Transactions are recorded on initial recognition in Kenya Shillings, being the currency of the primary economic environment in which the Company operates (the 'Functional Currency'). Transactions in foreign currencies are converted into Kenya Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(d) Income tax expense

Income tax expense comprises current and deferred income tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current income tax

Current income 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 income tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred income tax

Deferred income 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 income 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 Company 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Income tax expense (continued)

(ii) Deferred income tax (continued)

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for the Company and the reversal of temporary differences. Deferred income 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 realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred income tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred income tax is measured at 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.

The measurement of deferred income tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset only if certain criteria are met.

(e) Insurance Contracts

(i) Classification

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

Insurance contracts issued by the Company are classified as general insurance business based on the duration of the risk insured as per the provisions of the Kenya Insurance Act.

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Insurance Contract (continued)

(ii) Recognition and measurement

Premium income

Premium income is recognized on assumption of risks and includes estimates of premiums due but not yet received 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 financial reporting date.

Unearned premium to date is computed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Commission's payable and deferred acquisition costs ("DAC")

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

Claims

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 financial 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.

Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of related DAC. 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.

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss. The company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Insurance Contract (continued)

(ii) Recognition and measurement (continued)

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 recognized 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 recognized 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 recognizes 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 amortized cost. The impairment loss is also calculated following the same method used for these financial assets.

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. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

(f) Revenue recognition

(i) Insurance premium revenue

The revenue recognition policy relating to insurance contracts is set out under Note 2 (e) (ii)) above.

(ii) Commissions

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

(g) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation on property and equipment is calculated using the straight-line method to write down their cost to their residual values over their estimated useful lives, as follows:

- Furniture and fittings - 8 years
- Motor vehicles - 4 years
- Computer and office equipment - 3 years

(h) Intangible assets

Intangible assets comprise the cost of acquired computer software programmes. Where computer software is not an integral part of the related computer hardware it is recognised as an intangible asset. The software is stated on the statement of financial position at costs less accumulated amortisation and impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Expenditure on acquired computer software programmes is capitalised and amortised over the estimated useful life of the software at an annual rate of 33.3%.

(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. The carrying amounts of the company's non-financial assets, other than deferred tax, are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Impairment of non – financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that largely are independent from other assets and groups. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Retirement benefit obligations

The Company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme to which the Company's obligation is limited to a specified contribution per employee per month. Contributions to this scheme are determined by local statute. The Company's obligations to these schemes are charged to profit or loss as they fall due.

(k) Other employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the financial reporting date.

Entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued on the reporting date.

(l) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Shares are classified as equity when there is no obligation to transfer cash or other assets.

(m) Financial assets

(i) Classification

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Management determines all classification of financial assets at initial recognition.

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(ii) Recognition and derecognition

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost. The Company has no financial instruments measures at fair value through other comprehensive income (OCI) or fair value through profit or loss.

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

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

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

Classification and subsequent measurement of debt instruments depends on:

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

Based on these factors, there are two measurement categories into which the Company classifies its debt instruments:

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

Business model: the business model reflects how the Company manages the assets in order to generate cash flows i.e. whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(iii) Measurement (continued)

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

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

The Company's receivables out of direct insurance arrangements, government securities, cash at bank and in hand and inter-company receivables are classified at amortised cost.

(iv) Impairment

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

The expected credit loss impairment model applies to the following financial instruments measured at amortised cost:

- Government securities;
- Receivables arising from insurance arrangements;
- Other receivables;
- Deposits with financial institutions; and
- Cash and bank balances.

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(iv) Impairment (continued)

Measurement of expected credit losses

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

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

Financial asset	**Impairment approach**
Receivables arising insurance arrangements	Simplified approach
Other receivables	Simplified approach
Government securities	General approach
Deposits with financial institutions	General approach
Cash and bank balances	General approach

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

Expected credit losses

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

ECL = PD x LGD x EAD

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

- The general approach
- The simplified approach

Simplified approach

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(iv) Impairment (continued)

General approach

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

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Company will recognize 12-month ECL and recognize interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.
- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Company will recognize lifetime ECL, but interest income will continue to be recognized on a gross basis.
- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Company will continue to recognize lifetime ECL, but they will now recognize interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

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

Definition of default

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(iv) Impairment (continued)

Significant increase in credit risk (SIICR)

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

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

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

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses. The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

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

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:

- Probability of Default (PD)
- Loss given default (LGD) and
- Exposure at default (EAD)

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(iv) Impairment (continued)

Measurement of ECL (continued)

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

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

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

The groupings are subject to regular review to ensure that exposures within a group remain appropriately homogeneous.

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

Insurance receivables

The Expected Credit Loss on insurance receivables is determined using a provision matrix. Loss rates are calculated with reference to days past due and actual credit loss experience over the past few years.

(n) Financial liabilities

The Company classifies its financial liabilities as subsequently measured at amortised cost. These include insurance contract liabilities, provision for unearned premium, payables arising from reinsurance arrangements, payables arising from direct insurance arrangements, deferred reinsurance commission and other payables.

Offsetting

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(o) Leases

Leases under which the Company is the lessee

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

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

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

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

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

Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Company at the end of the lease term, the estimated useful life would not exceed the lease term.

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

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(o) Leases (continued)

Measurement of lease liabilities

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

Measurement of right of use assets

Right-of use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2020.

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

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

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

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

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

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

To determine the incremental borrowing rate, the Company:

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(o) Leases (continued)

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

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

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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

3 Critical accounting estimates and judgement

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

(a) Claims reserving and determination of IBNR

The estimation of future contractual cash flows in relation to reported losses and losses incurred but not reported 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. Case estimates are computed on the basis of the best information available at the time the records for the year are closed. Further details on the process used to estimate claims incurred but not reported and amounts recorded as liabilities at the end of the current and previous year are set out in Note 17 of these financial statements.

(b) Calculation of loss allowances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Notes (continued)

4 Financial risk management objectives and policies

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

(a) 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.

Notes (continued)

4 Financial risk management objectives and policies (continued)

(a) Insurance risk (continued)

The following tables disclose the concentration of insurance risks by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the maximum insured loss limit of the insurance liabilities (gross) arising from insurance contracts.

			Maximum insured loss (Gross)		
	Shs 0m - 15m	Shs 15m-250m	Shs 250m-1000m	Shs Above 1000m	Shs Total
31 December 2020					
Motor	7,647,476,166	229,597,040	350,000,000	21,583,000,000	29,810,073,206
Fire	1,855,969,122	18,049,165,100	27,692,886,466	67,686,454,032	115,284,474,720
Accident	950,003,747	12,080,000,000	-	-	13,030,003,747
Other classes	8,010,715,185	22,854,708,897	25,414,226,600	140,375,870,528	196,655,521,210
	18,464,164,220	53,213,471,037	53,457,113,066	229,645,324,560	354,780,072,882
31 December 2019					
Motor	9,616,003,682	492,216,740	-	-	10,108,220,422
Fire	1,563,373,276	19,035,962,932	18,487,257,346	42,675,874,124	81,762,467,678
Accident	761,729,858	7,355,344,996	-	-	8,117,074,854
Other classes	6,539,405,749	18,695,065,657	14,118,953,826	11,350,019,662	50,703,444,895
	18,480,512,565	45,578,590,325	32,606,211,172	54,025,893,786	150,691,207,849

Notes (continued)

4 Financial risk management objectives and policies (continued)

(b) Credit risk

The board of directors has the responsibility of managing the company's credit risk.

For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure. The Company has policies in place to ensure that credit terms are made to customers with an appropriate credit history. The credit controllers assess the credit quality of each customer, taking into account its financial position, past experience and other factors. For banks and financial institutions, only reputable well-established financial institutions are accepted. The utilisation of credit limits is regularly monitored.

Credit risk arises from cash and short-term investments, government securities as well as receivables from direct insurance and other receivables. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Receivables arising out of direct insurance

The company applies the IFRS 9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance for all receivables arising from reinsurance arrangements.

The expected loss rates are based on the provision matrix for the receivables balances over a period of 2 years and the corresponding development of the balances within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the debtors to settle the receivables. The company has assessed the impact of macroeconomic factors and the impact has been incorporated in the model.

Receivables arising out of direct insurance are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others where the company has been declared insolvent. Debts that are considered to be non-performing are impaired at 100%.

Related party receivables

Related party receivable balances are assessed for impairment based on the counterparty's ability to settle on demand.

Cash and bank balances

For cash at bank, management assesses the expected credit loss based on probability of default attached to the various banks by external rating agencies.

Government securities

Management assesses the expected credit loss on government securities based on probability of default attached to the Government of Kenya by external rating agencies.

Deposits with financial institutions

For term and call deposits, management assesses the expected credit loss based on probability of default attached to the various banks by external rating agencies.

Notes (continued)

4 Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

The amount that best represent the company's maximum exposure to the credit risk as at 31 December 2020 are made up as follows:

	Gross amounts	Expected Credit Loss (ECL)	Total
	Shs	Shs	Shs
31 December 2020			
Receivables arising out of direct insurance	45,527,855	(7,097,347)	38,430,508
Government securities	887,929,110	-	887,929,110
Deposits with financial institutions	172,456,436	-	172,456,436
Bank balances	365,049,075	-	365,049,075
Other receivables	19,021,315	-	19,021,315
	1,489,983,791	(7,097,347)	1,482,886,44
31 December 2019			
Receivables arising out of direct insurance	63,706,960	(7,097,347)	56,609,613
Government securities	912,050,172	-	912,050,172
Deposits with financial institutions	268,010,707	-	268,010,707
Bank balances	146,842,865	-	146,842,865
Other receivables	200,195,881	-	200,195,881
	1,590,806,585	(7,097,347)	1,583,709,23

(c) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its obligations from its financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes (continued)

4 Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

The amount that best represent the company's maximum exposure to the credit risk as at 31 December 2020 are made up as follows:

31 December 2020	Up to 1 month Shs	1-3 months Shs	3-12 months Shs	1-5 years Shs	Total Shs
Liabilities					
Insurance contract liabilities	10,240,000	36,849,314	147,425,215	46,718,671	241,233,200
Payables arising from reinsurance arrangements	-	33,197,389	44,123,564	215,575,708	292,896,661
Lease liabilities	-	-	15,084,000	4,195,500	19,279,500
Other creditors	31,089,619	49,920,168	65,904,217	109,178,926	256,092,930
Total financial liabilities	41,329,619	119,966,871	272,536,996	375,668,805	809,502,291

31 December 2019	Up to 1 month Shs	1-3 months Shs	3-12 months Shs	1-5 years Shs	Total Shs
Liabilities					
Insurance contract liabilities	19,918,727	32,740,459	132,358,905	24,355,154	209,373,245
Payables arising from reinsurance arrangements	-	125,158,347	219,159,016	-	344,317,363
Lease liabilities	-	-	15,084,000	19,279,500	34,363,500
Other creditors	31,652,927	83,549,217	76,888,788	86,037,458	278,128,390
Total financial liabilities	51,571,654	241,448,023	443,490,709	129,672,112	866,182,498

Notes (continued)

4 Financial risk management objectives and policies (continued)

(d) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The company underwrites some short-term insurance policies contracted in foreign denominated currency (US dollars and Euro's) and maintains foreign currency denominated current accounts with local banks. Additionally, the company is involved in intercompany transactions with its related parties in Africa and Europe. This exposes the company to foreign exchange risk arising from the various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The table below summarises the company's exposure to foreign currency risks:

31 December	2020 Shs	2019 Shs
Assets		
USD	30,450,862	34,844,859
Euro	53,824,149	174,363
	84,275,011	35,019,222

The following exchange rates were applied during the period:

	2020		2019	
	Average rate	**Closing rates**	**Average rate**	**Closing rates**
USD	106	109	102	101
Euro	131	133	112	112

Notes (continued)

4 Financial risk management objectives and policies (continued)

(d) Market Risk (continued)

Currency risk (continued)

Sensitivity analysis

A 10 percent strengthening of the Shs against the major currencies at 31 December 2020 would have increased the profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant.

Effect in foreign currency	Profit or loss/equity	
	2020	2019
US Dollar	(3,045,086)	(3,484,486)
Euro	(5,382,415)	(17,436)
	(8,427,501)	(3,501,922)

A 10 percent weakening of the Shs against the above currency at 31 December 2020 would have had an equal but opposite effect on the profit by the amounts shown above, on the basis that all other variables remain constant.

Price risk

The Company is not exposed to both equity securities and commodity price risk.

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 and deposits with financial institutions. The Company has no variable interest rate financial instruments hence not exposed to cash flow interest rate risk. No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments.

Investment contracts with fixed and guaranteed terms, government securities and deposits with financial institutions held to maturity are accounted for at amortized cost and their carrying amounts are not sensitive to changes in the level of interest rates. All the government securities held are fixed interest coupons.

Notes (continued)

4 Financial risk management objectives and policies (continued)

(d) Market Risk (continued)

Interest rate risk (continued)

The table below summarises the exposure to interest rate risks. Included in the table are the company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2020	Effective interest rate %	Due within 3 months	Due within 3 and 12 months	Due between 1 and 5 years	Total
		Shs	Shs	Shs	Shs
Treasury bonds	10%	-	-	887,929,110	887,929,110
Fixed deposits	8%	122,633,915	49,822,521	-	172,456,436
		122,633,915	49,822,521	887,929,110	1,060,385,546
31 December 2019					
Treasury bills	9.5%	-	284,081,532	-	284,081,532
Treasury bonds	10.2%	-	-	627,968,640	627,968,640
Fixed deposits	8.0%	234,588,016	33,422,691	-	268,010,707
Total assets		234,588,016	317,504,223	627,968,640	1,180,060,879

Notes (continued)

4 Financial risk management objectives and policies (continued)

(e) Fair Value

The fair values of financial assets and financial liabilities approximate to the carrying amounts as shown in the statement of financial position.

31 December 2020	Other liabilities Shs	Amortized cost Shs	Total carrying Shs	Fair value Shs
Financial assets				
Government securities	-	887,929,110	887,929,110	887,929,110
Term deposit	-	172,456,436	172,456,436	172,456,436
Receivables – Direct insurance	-	38,430,508	38,430,508	38,430,508
Reinsurance share of liabilities and reserves	-	222,086,803	222,086,803	222,086,803
Other receivables	-	19,021,315	19,021,315	19,021,315
Cash and Bank balances	-	365,081,975	365,081,975	365,081,975
	-	1,705,006,147	1,705,006,147	1,705,006,147
Financial liabilities				
Insurance contract liabilities	241,233,200	-	241,233,200	241,233,200
Payables arising from Reinsurance arrangements	292,896,661	-	292,896,661	292,896,661
Payables arising from direct insurance arrangements	21,903,601	-	21,903,601	21,903,601
Other payables	256,092,930	-	256,092,930	256,092,930
Lease liabilities	19,279,500	-	19,279,500	19,279,500
	831,405,892	-	831,405,892	831,405,892
31 December 2019				
Financial assets				
Government securities	-	912,050,172	912,050,172	912,050,172
Term deposit	-	268,010,706	268,010,706	268,010,706
Receivables – Direct insurance	-	56,609,613	56,609,613	56,609,613
Reinsurance share of liabilities and reserves	-	224,136,086	224,136,086	224,136,086
Other receivable	-	203,416,297	203,416,297	203,416,297
Cash and Bank balances	-	146,852,909	146,852,909	146,852,909
	-	1,811,075,783	1,811,075,78	1,811,075,783
Financial liabilities				
Insurance contract liabilities	209,373,245	-	209,373,245	209,373,245
Creditors arising from Reinsurance	344,317,363	-	344,317,363	344,317,363
Payables arising from direct insurance arrangements	21,561,186	-	21,561,186	21,561,186
Other payables	278,128,390	-	278,128,390	278,128,390
Lease liabilities	34,363,500	-	34,363,500	34,363,500
	887,743,684	-	887,743,684	887,743,684

Notes (continued)

4 Financial risk management objectives and policies (continued)

(e) Capital risk 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 and 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.

Externally imposed capital requirements

The Kenyan Insurance Act requires each insurance company carrying out general insurance business to hold the minimum level of paid up capital of Shs 600 million.

The Kenyan Insurance Act further requires each insurance company carrying out general insurance business to hold the minimum level of paid up capital of not less than ten percent of the total gross written premium during the financial year in question.

The revised insurance act specifies the minimum capital requirement as the risk-based capital computed as per the guideline on capital adequacy paragraph 12. With effect from March 2017 an insurer carrying on insurance business in Kenya shall at all times maintain the capital adequacy ratio of one hundred per centum as per the new capital adequacy guidelines, 2015.

On this basis the capital adequacy ratio is 107%. The company therefore meets the statutory minimum solvency requirement as the available capital exceeds risk-based capital.

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 Company's paid up Capital at the end of 2020 and 2019 is presented on Note 17.

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

	2020 Shs	2019 Shs
Total capital available	644,251,646	607,153,292
Minimum required capital	600,000,000	600,000,000
Capital adequacy ratio	107%	101%

Notes (continued)

5 Gross earned premium

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

	Gross Written Premium		Gross Earned Premium	
	2020	2019	2020	2019
	Shs	Shs	Shs	Shs
Aviation	21,335,851	23,588,225	23,434,918	17,713,738
Engineering	19,260,131	29,506,235	30,001,308	38,789,391
Fire	146,092,198	149,553,854	157,059,414	148,025,821
Liability	97,567,364	91,861,565	94,257,577	97,732,036
Marine cargo	52,136,636	53,649,780	51,773,002	63,365,771
Motor	337,384,914	328,995,549	335,734,965	291,231,251
Personal accident	2,431,258	3,943,561	2,897,886	3,966,104
Theft	25,487,488	25,807,088	25,751,061	24,883,259
Workmen's compensation	89,123,698	83,749,953	93,053,723	70,596,045
Medical	104,252,566	91,661,431	91,551,846	65,585,501
Miscellaneous	34,275,340	28,426,623	31,017,695	27,776,035
	929,347,444	910,743,864	936,533,395	849,664,952

6 Unearned premium

Unearned premium represents the liability for short term business contracts where the Company's obligations are not expired at end of year. Movements in the reserve are shown below:

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Shs	Shs	Shs	Shs	Shs	Shs
At start of year	343,098,163	(172,846,107)	170,252,055	282,019,252	(166,734,184)	115,285,068
Increase/ (decrease	(7,185,952)	16,607,241	9,421,290	61,078,912	(6,111,923)	54,966,989
At end of year	335,912,211	(156,238,866)	179,673,345	343,098,164	(172,846,107)	170,252,057

Notes (continued)

7 Reinsurance premium ceded

	2020			2019		
	Gross	Unearned	Net	Gross	Unearned	Net
	Shs	Shs	Shs	Shs	Shs	Shs
Aviation	21,169,814	1,940,156	23,109,970	23,243,237	(5,917,345)	17,325,892
Engineering	13,181,764	10,378,527	23,560,291	22,774,885	9,796,112	32,570,997
Fire	104,791,005	11,818,654	116,609,659	121,898,743	5,050,540	126,949,283
Liability	86,080,850	(4,585,363)	81,495,487	75,017,737	3,588,006	78,605,743
Marine cargo	21,252,978	(590,476)	20,662,502	20,244,619	7,146,258	27,390,877
Motor	18,865,803	7,220,268	26,086,071	37,171,398	2,300,321	39,471,719
Personal	125,050	80,544	205,594	442,730	61,612	504,342
Theft	22,976,449	237,291	23,213,740	23,264,089	(874,018)	22,390,071
Workmen's	4,594,940	2,331,532	6,926,472	9,402,319	(259,222)	9,143,097
Medical	93,827,309	(8,634,446)	85,192,863	91,661,431	(26,136,477)	65,524,954
Miscellaneous	33,048,294	(3,589,446)	29,458,848	26,528,238	(867,711)	25,660,527
	419,914,256	16,607,241	436,521,497	451,649,426	(6,111,924)	445,537,502

8 Investment income

The investment is comprised of interest income from:

	2020	2019
	Shs	Shs
Bank balances	1,982,565	7,517,920
Time deposits	28,518,349	13,767,144
Treasury bills	4,244,312	20,708,280
Treasury bonds	79,843,898	43,533,871
Total	114,589,124	85,527,215

Notes (continued)

9 Commission earned

	2020	2019
	Shs	Shs
Aviation	2,694,016	2,314,240
Engineering	4,413,124	6,861,767
Fire	11,459,847	18,349,058
Liability	6,231,400	5,969,186
Marine cargo	1,172,265	1,290,488
Motor	85,592	152,558
Theft	6,921,140	6,685,329
WIBA	680	62,927
Medical	16,986,665	14,026,496
Miscellaneous	12,583,213	4,704,215
	62,547,942	60,416,264

10 (a) Claims and policyholders' benefits payable

Aviation	12,028,235	(162,310)
Engineering	40,747,000	102,231
Fire	107,228,653	30,916,068
Liability	(7,777,483)	2,031,862
Marine cargo	65,687,652	9,097,291
Motor	161,754,376	185,763,591
Personal accident	112,675	1,161,933
Theft	17,039,015	19,508,451
Workmen's compensation	71,359,056	13,157,933
Medical	33,585,282	17,268,774
Miscellaneous	4,516,659	(325,840)
	506,281,120	278,519,984

Notes (continued)

10 (b) Claims and policyholder benefit payable

	2020			2019		
	Gross Shs	Reinsurance Shs	Net Shs	Gross Shs	Reinsurance Shs	Net Shs
Aviation	12,028,235	(1,785,135)	10,243,100	(162,310)	162,850	540
Engineering	40,747,000	(16,499,777)	24,247,223	102,231	4,611,698	4,713,929
Fire	107,228,653	(60,095,819)	47,132,834	30,916,068	(2,095,575)	28,820,493
Liability	(7,777,483)	6,338,586	(1,438,897)	2,031,862	(1,954,038)	77,824
Marine cargo	65,687,652	(24,153,496)	41,534,156	9,097,291	(5,692,343)	3,404,948
Motor	161,754,376	(5,043,643)	156,710,733	185,763,591		166,257,552
Personal	112,675	22,136	134,811	1,161,933	4,865	1,166,798
Theft	17,039,015	(15,319,728)	1,719,287	19,508,451		2,034,040
Workmen's	71,359,056	(31,155,746)	40,203,310	13,157,933	(481,401)	12,676,532
Medical	33,585,282	(30,597,460)	2,987,822	17,268,774		(1,101)
Miscellaneous	4,516,659	1,326,411	5,843,070	(325,840)	294,981	(30,859)
	506,281,12	(176,963,671	329,317,44	278,519,984	(59,399,288)	219,120,696

11 Operating and other expenses

	2020 Shs	2019 Shs
Employee benefits (Note 12)	88,774,171	110,893,221
Auditor's remuneration	3,767,896	3,000,000
Depreciation of property and equipment (Note 18)	13,589,184	11,719,093
Amortization of intangible assets (Note 19)	26,233,494	18,755,600
Depreciation of right of use asset (Note 27)	12,552,620	12,552,622
Provision for doubtful debts	-	1,802,823
Intercompany expenses	49,274,361	22,842,102
Interest expense on lease liabilities (Note 28)	2,836,199	4,236,312
Other expenses	85,838,598	94,533,564
	282,866,523	280,335,337

12 Employee benefits

Salaries and wages	80,494,019	103,887,366
Social security benefit expenses	363,880	322,160
Defined contribution pension expenses	7,599,088	5,961,144
Other staff benefits	317,184	722,551
	88,774,171	110,893,221

The number of employees during the year was 28 (2019: 25). All staff previously contracted through Human Capital Synergies now have their contracts directly with the Company.

Notes (continued)

13 (a) Commission payable

	2020 Shs	2019 Shs
Aviation	553,106	682,785
Engineering	3,654,702	5,858,059
Fire	33,760,090	33,620,505
Liability	3,488,456	4,363,099
Marine cargo	7,085,810	7,962,823
Motor	32,253,017	31,617,866
Personal accident	391,595	643,953
Theft	4,859,919	4,986,433
Workmen's compensation	16,171,705	15,997,879
Medical	6,313,116	4,927,536
Miscellaneous	3,285,719	3,078,675
	111,817,235	113,529,613

14 Loss before income tax

Loss before tax is arrived at after charging the following:		
Depreciation of property and equipment (Note 18)	13,589,184	11,719,093
Amortization of intangible assets (Note 19)	26,233,494	18,755,600
Directors remuneration	28,356,313	32,268,578
Auditors' remuneration	3,767,896	3,000,000

15 Insurance contract liabilities

Short term insurance contracts:		
- claims reported and claims handling expenses	187,805,677	165,448,459
- claims incurred but not reported (IBNR)	53,427,523	43,924,786
	241,233,200	209,373,245

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

In previous years' valuations, the IBNR was determined using the Standard Development method for all classes of business due to insufficient historical data resulting from Allianz's few years in operation. However, the valuation as at 31 December 2020 was based on statistical methods as sufficient historical data is now available for all classes of business except medical.

Notes (continued)

16 Income tax

(a) Income tax expense

	2020 Shs	2019 Shs
Current tax charge for the year	28,647,281	25,658,165
Deferred income tax charge/(credit) (Note 20)	400,335	(40,380,964)
Deferred income tax write-off (Note 20)	224,987,668	-
Income tax expense/(credit)	254,035,284	(14,722,799)

(b) Reconciliation of tax charged to expected tax based on accounting loss

The tax on the Company's loss before income tax differs from the theoretical amount using the basic tax rate as follows:

	2020 Shs	2019 Shs
Loss before income tax	(46,852,244)	(62,914,717)
Tax calculated at a tax rate of 25% (2019: 30%)	(11,713,061)	(18,874,415)
Tax effect of expenses not deductible for tax purposes	265,748,345	4,151,616
	254,035,284	(14,722,799)

(c) Current income tax

	2020 Shs	2019 Shs
At start of year	6,419,710	(5,917,855)
Current income tax charge (Note 16(a))	28,647,281	25,658,165
Tax paid in the year	(41,416,242)	(13,320,600)
At end of year	(6,349,251)	6,419,710

17 Share capital

	2020		2019	
	Number of Shares	Share capital (Shs)	Number of Shares	Share capital (Shs)
Authorised, issued and fully paid				
At start of year	1,340,290	1,340,290,000	1,000,000	1,000,000,000
Issue of new shares	-	-	340,290	340,290,000
At end of year	1,340,290	1,340,290,000	1,340,290	1,340,290,000

The total authorised number of ordinary shares is 1,340,290 (2019:1,340,290) with a par value of Shs 1,000 per share. All the authorised shares have all been issued and fully paid up. The holders of ordinary shares are entitled to receive dividends when declared and are entitled to one vote per share at general meetings of the company. All shares rank equally.

Notes (continued)

18 Property and equipment

	Computer and Office equipment	Furniture and fittings	Motor vehicles	Building fit out costs	Total
	Shs	Shs	Shs	Shs	Shs
Year ended 31 December 2020					
Cost					
At start of year	9,160,023	2,322,253	18,054,355	52,456,186	81,992,817
Additions	-	59,160	-	8,108,245	8,167,405
At end of year	9,160,023	2,381,413	18,054,355	60,564,431	90,160,222
Accumulated depreciation					
At start of year	7,075,258	1,025,728	8,810,506	20,478,689	37,390,180
Charge for the year	808,974	295,799	3,095,336	9,389,074	13,589,184
At end of year	7,884,232	1,321,527	11,905,842	29,867,763	50,979,364
Net book value at end of year	821,535	1,059,886	6,148,513	31,150,924	39,180,859
Year ended 31 December 2019					
Cost					
At start of year	7,962,903	2,302,533	18,054,355	52,456,186	80,775,977
Additions	1,197,120	19,720	-	-	1,216,840
At end of year	9,160,023	2,322,253	18,054,355	52,456,186	81,992,817
Accumulated depreciation					
At start of year	5,301,101	737,736	5,547,461	14,084,789	25,671,087
Charge for the year	1,774,156	287,992	3,263,045	6,393,900	11,719,093
At end of year	7,075,257	1,025,728	8,810,506	20,478,689	37,390,180
Net book value at end of year	2,084,766	1,296,525	9,243,849	31,977,497	44,602,637

Notes (continued)

19 Intangible assets

	2020 Shs	2019 Shs
Cost		
At start of year	131,017,692	116,550,069
Additions	7,866,003	14,467,623
At end of year	138,883,695	131,017,692
Accumulated amortisation		
At start of year	31,512,284	12,756,684
Amortisation charge for the year	26,233,494	18,755,600
At end of year	57,745,778	31,512,284
Net book value at end of year	81,137,917	99,505,408

The intangible assets relate to software development costs for the Archipel system used in the underwriting process.

20 Deferred income tax

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

	2020 Shs	2019 Shs
At start of year	225,388,003	185,007,039
Charge/(credit) to profit or loss	(400,335)	40,380,964
Deferred tax written-off	(224,987,668)	-
At end of year	-	225,388,003

Notes (continued)

20 Deferred income tax (continued)

The deferred tax assets and deferred tax movement recognised in profit or loss account are attributable to:

	At start of year	Recognized in profit or loss	Written off in the year	At end of year
	Shs	Shs		Shs
Year ended 31 December 2020				
Property and equipment	(7,655,437)	4,299,265	3,356,172	-
Tax losses	231,996,416	(4,344,733)	(227,651,683)	-
Deferred tax on provisions	2,129,208	(354,867)	(1,774,341)	-
Over provision in 2018	(1,082,184)	-	1,082,184	-
	225,388,003	(400,335)	(224,987,668)	-

	At start of year	Recognized in profit or loss	At end of year
	Shs	Shs	Shs
Year ended 31 December 2019			
Property and equipment	(8,495,097)	839,660	(7,655,437)
Tax losses	191,913,777	40,082,639	231,996,416
Deferred tax on provisions	1,588,359	540,849	2,129,208
Over provision in 2018	-	(1,082,184)	(1,082,184)
	185,007,039	40,380,964	225,388,003

21 Government securities at amortised cost

	2020 Shs	2019 Shs
Maturing in 1 to 5 years	887,929,110	912,050,172

Movement in government securities in the year:

	2020	2019
At start of year	912,050,172	55,834,296
Purchases during the year	367,408,923	915,615,876
Maturities/ redemptions during the year	(391,529,985)	(59,400,000)
At end of year	887,929,110	912,050,172

Notes (continued)

22 Reinsurers' share of insurance liabilities and reserves

	2020 Shs	2019 Shs
Reinsurer's share of:		
Unearned premium (Note 6)	156,238,866	172,846,107
Claims incurred but not reported	15,851,967	18,055,578
Outstanding claims	49,995,970	33,234,401
	222,086,803	224,136,086

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

23 Other receivables

	2020 Shs	2019 Shs
Due from related parties (Note 29(d))	9,677,172	196,572,542
Rental deposits	3,549,000	3,623,339
Prepayments	5,795,143	3,220,416
	19,021,315	203,416,297

24 Deferred acquisition costs

At start of year -Gross	47,956,129	42,282,779
Movement in the year	(9,120,451)	5,673,350
At end of year	38,835,678	47,956,129
At start of year -Ceded	22,257,619	26,750,925
Additions	(2,575,946)	(4,493,306)
At end of year	19,681,673	22,257,619
At end of year - Net	19,154,005	25,698,510

Notes (continued)

25 Notes to the statement of cashflows

(a) Cash generated from operations

	2020 Shs	2019 Shs
Loss before income tax	(46,852,243)	(62,914,717)
Adjustments for:		
Depreciation expense (Note 18)	13,589,184	11,719,093
Amortisation of intangible asset (Note 19)	26,233,494	18,755,600
Depreciation of right of use assets (Note 27)	12,552,620	12,552,622
Interest expense on lease liabilities (Note 28)	2,836,199	4,236,312
Changes in working capital items		
- Receivables arising out of direct insurance	18,179,105	103,471,678
- Reinsurers share of insurance liabilities and reserves	2,049,283	(25,089,087)
- Deferred acquisition cost (Note 24)	9,120,451	(5,673,349)
- Other receivables	184,394,982	(197,876,019)
- Insurance contract liabilities	31,859,955	95,953,757
- Provision for unearned premiums	(7,185,952)	61,078,912
- Payables arising out of reinsurance arrangements	(51,420,702)	125,158,346
- Payables arising out of direct insurance arrangements	342,415	9,305,232
- Deferred reinsurance commission	(2,575,947)	(4,493,306)
- Other payables	(22,035,461)	102,009,875
Cash generated from operations	171,087,383	248,194,949

(b) Analysis of cash and cash equivalents

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

	2020 Shs	2019 Shs
Bank balances	365,049,075	146,842,865
Cash in hand	32,900	10,044
	365,081,975	146,852,909
Deposits with financial institutions	172,456,436	268,010,707
Total cash and cash equivalents	537,538,411	414,863,616

Notes (continued)

26 Other payables

	2020 Shs	2019 Shs
Payroll liabilities	3,506,536	3,280,452
Due to related parties (Note 29 (c))	92,934,021	129,688,502
Stamp duty fees on premium	99,108,757	86,640,918
Client service fees to intermediaries	28,036,744	32,389,823
Withholding tax on acquisition costs	15,471,965	8,874,315
Other liabilities	17,034,907	17,254,380
	256,092,930	278,128,390

27 Right of use assets

	2020 Shs	2019 Shs
Cost		
At start and end of year	41,645,950	41,645,950
Accumulated depreciation		
At start of year	12,552,622	-
Charge for the year	12,552,620	12,552,622
At end of year	25,105,242	12,552,622
Net carrying value at end of year	16,540,708	29,093,328

Notes (continued)

28 Lease liabilities

	2020 Shs	2019 Shs
At start of year	30,117,762	41,645,950
Interest expense on lease liabilities	2,836,199	4,236,312
Principal lease payments	(15,084,000)	(15,764,500)
At end of year	17,869,961	30,117,762

Below is a split of the current and non-current portions of the lease liabilities:

	2020 Shs	2019 Shs
Current	14,489,143	12,247,832
Non- current	3,380,818	17,869,930
	17,869,961	30,117,762

Amounts recognised in profit or loss relating to leases:		
Depreciation charge of right-of-use assets	12,552,620	12,552,622
Interest expense	2,836,199	4,236,312

The total cash outflow for leases in 2020 was Shs 15,084,000 (2019: Shs 15,074,500) relating to principal portion of lease payments. Operating lease payments represent rentals payable by the Company for its head office premises and the CEO's residence. The leases are renewable after 3 years.

29 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. Allianz Insurance Company of Kenya Limited is a subsidiary of Allianz Africa Holding GmbH, which is incorporated and domiciled in South Africa. The ultimate parent of the Company is Allianz SE. There are other companies which are related to Allianz Insurance Company of Kenya Limited through common shareholdings or common directorships.

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Company and its employees. The Company considers the Board of directors, executive and non-executive directors, to be key management personnel for the purposes of IAS 24 – *related party disclosures*.

The Company enters into transactions, arrangements and agreements involving related parties, directors, senior management and their related concerns in the ordinary course of business.

Notes (continued)

29 Related parties (continued)

	2020 Shs	2019 Shs
(a) Directors' emoluments		
Executive directors' salaries (included in key management compensation below)	24,263,353	32,255,618
Directors emoluments	4,080,000	2,760,000
	28,343,353	35,015,618
(b) Key management compensation		
Salaries (Including executive directors' salaries)	24,250,393	32,255,618
NSSF contribution	12,960	12,960
	24,263,353	32,268,578
(c) Outstanding balances due to related parties		
Allianz Africa Holdings	80,513,139	103,669,895
Allianz Africa Services	3,402,680	8,238,416
Allianz Africa Financial Services	1,292,833	8,898,860
Allianz SE Branch	3,109,694	-
Allianz Ghana	4,615,675	8,881,331
	92,934,021	129,688,502
(d) Outstanding balances due from related parties		
Allianz Africa Holdings	8,291,970	190,811,370
Allianz SE	300,000	-
Allianz Nigeria	30,438	-
Nextcare	1,054,764	5,761,172
	9,677,172	196,572,542

Notes (continued)

30 Capital Commitments

The company has no capital commitments, whether authorised and contracted or authorised and not contracted.

31 Jubilee - Allianz proposed transaction

The entity's immediate holding company, Allianz Africa Holding GmbH ("Allianz Africa") and Jubilee Holdings Limited ("JHL") entered into a strategic partnership in 2020, which will see the business of Allianz Insurance Company of Kenya Limited ("Allianz Kenya") transferred to a new entity owned by both JHL and Allianz Africa. Below is a summary of the proposed transaction:

- A new entity will be formed with Allianz Africa holding a majority stake of between 51 and 66 percent, and JHL holding a significant minority stake.
- The transaction covers 5 countries where JHL currently has operations; Kenya, Uganda, Tanzania, Burundi and Mauritius.
- JHL will transfer its general insurance business, excluding medical, into the new entity, while Allianz Kenya will transfer its entire business portfolio into the new entity, comprising the insurance liabilities and corresponding assets.
- The consideration payable by Allianz Africa for the 'purchase' of JHL's general insurance business is Shs 10.8 billion.
- The transaction will be subject to approval by regulators in the 5 countries and the Common Market for Eastern and Southern Africa (COMESA). In Kenya, statutory approvals will be required from the Insurance Regulatory Authority, Capital Markets Authority and the Competition Authority of Kenya.
- Post the transaction, Allianz Kenya could cease to conduct insurance business.

At the date of these financial statements, the Directors were awaiting approvals to proceed with the transaction from the various regulatory authorities. Given the uncertainty as to when the transaction will be concluded, the financial statements have been prepared on a going concern basis, on the basis that the business will be transferred as a going concern.

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