

Heritage

Insurance Company

A member of  LIBERTY



A legacy
that delivers

ANNUAL REPORT & FINANCIAL STATEMENTS 2018



OUR VISION

We will be the market leading wealth management company in Africa while entering growth markets which allow us to use our points of difference to make a meaningful contribution to the group.

We are a customer-focused organisation with a united, passionate and skilled workforce.

We have the foresight to respond to changing consumer needs through innovative solutions and technologically efficient processes.

OUR VALUES

- Be passionate about our work and utilise our talents to add value
- Take initiative and responsibility
- Respect and appreciate constructive criticism and the opinion of others
- Focus on set goals and deadlines
- Be proud ambassadors of our Company and Group
- Put our customers at the centre of our thinking and serve them with diligence
- Encourage teamwork, respect and trust for one another
- Take ownership of the consequences of our actions
- Perform our duties with care, integrity and honesty
- Deliver beyond expectations
- Constantly improve our skills and knowledge
- Embrace change and seek ways to do things better.

**Fill your life
with Experiences,
Not things. Have
stories to tell,
not stuff to show.**



A legacy of delivery

HERITAGE INSURANCE COMPANY KENYA LIMITED



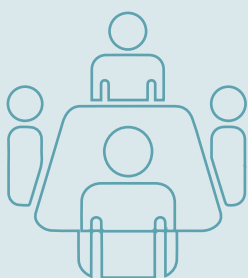
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Corporate information



Directors

P. Gethi	<i>Chairman</i>
G. Kioi	<i>Managing Director</i>
G. May*	<i>Non-Executive</i>
M. du Toit**	<i>Non-Executive</i>
S. Wenman**	<i>Non-Executive</i>
R. Mbai	<i>Non-Executive</i>
C. Mitchem	<i>Non-Executive</i>
R. Shah	<i>Non-Executive</i>

(Appointed 17/05/2018)

* British **South African

Secretary

C. Kioni (Ms)
P. O. Box 30390
00100 Nairobi

Registered Head Office

Liberty House, Mamlaka Road
P.O. Box 30390 - 00100 Nairobi

Auditors

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers Waiyaki Way
P. O. Box 40612 - 00100 Nairobi



Executive Committee

G. Kioi - *Managing Director*
A. Ngunjiri - *Director - Medical*
B. Hiuhu (Mrs) - *Director- Underwriting and Claims*
L. Magambo - *General Manager - Finance & Administration*
M. Kivuitu - *General Manager - Risk & Compliance*
M. Kabangi - *General Manager - Marketing and Communications*
F. Ochieng - *General Manager - Human Resources*
I. Kamau - *Senior Manager - ICT*
S. Chege - *Head of Retail Business*
A. Musunza - *Head of Corporate Business*



Senior Management

G. Kioi, *Managing Director*
A. Ngunjiri, *Director - Medical*
B. Hiuhu (Mrs), *Director - Underwriting & Claims*
L. Magambo, *General Manager - Finance*
F. Ochieng, *General Manager (HR)*
A. Musunza, *Head of Corporate Business*
S. Chege, *Head - Retail Business*
I. Kamau, *Senior Manager Information Technology*
D. Mathenge, *Senior Manager - Finance*
J. Maluki, *Senior Manager - Medical*
B. Maina, *Senior Manager - Underwriting*
B. Irungu, *Senior Manager - Claims*
M. Kivuitu - *General Manager - Risk & Compliance*
M. Kabangi - *General Manager - Marketing & Communications*

Principal Bankers

Stanbic Bank Limited
Stanbic Centre, Chiromo Road
P. O. Box 72833 - 00200 Nairobi

Commercial Bank of Africa Limited
CBA Building, Mara/ Ragati Road
P.O. Box 30437 - 00100 Nairobi

Corporate information *(continued)*

BRANCHES

MOMBASA

Social Security House
P.O. Box 84886 - 00100
Mombasa

ELDORET

Imperial Court
P.O. Box 6120 - 30100
Eldoret

NYALI

Nyali Centre, Links Road
P.O. Box 84886 - 80100
Mombasa

MACHAKOS

Town Plaza, 2nd Floor
P.O. Box 211 - 90100
Machakos

KISII

Royal Towers, 2nd Floor
Hospital Road
P.O. Box 3066 - 40200
Kisii

KISUMU

Tuffoam Mall, 1st Floor
Jomo Kenyatta Highway
P.O. Box 1062 - 40100
Kisumu

NAIVASHA

CfC Heritage House
Moi Road
P.O. Box 1319 - 20117
Naivasha

NAIROBI

Liberty House
P.O. Box 30390 - 00100
Nairobi

NAIROBI (CITY CENTRE)

Lonrho House
Mezzanine 2, Standard Street
P.O. Box 30390 - 00100
Nairobi

NANYUKI

Silver Plaza
P.O. Box 1615 - 10400
Nanyuki

NAKURU

Polo Centre
P.O. Box 4362 - 20100
Nakuru

MERU

Nakumatt
Mwitu Centre Building
P.O. Box 1911 - 60200
Meru

THIKA

Zuri Centre
Kenyatta Highway
P.O. 7048 - 001000
Thika

KITENGELA

Capital Centre
P.O. Box 30390 - 00100
Nairobi

EMBU

Njue Plaza
3rd Floor, Embu - Meru Road
P.O. Box 2607 - 60100
Embu

SUBSIDIARY

The Heritage Insurance Company (T) Ltd
4th Floor, Masaki Ikon
Bains Avenue - Msasani Peninsula
PO Box 7390, Dar es Salaam,
Tanzania.

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2018 which disclose the state of affairs of The Heritage Insurance Company Kenya Limited and its subsidiary, Heritage Insurance Company Tanzania Limited (together the 'Group').

1. PRINCIPAL ACTIVITIES

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

2. COMPANY RESULTS AND DIVIDEND

Profit after tax for the year ended 31 December 2018 of Shs 439 million (2017: Shs 459 million) has been added to retained earnings.

During the year, the Company paid 328 million (2017: NIL) as interim dividend. The directors do not propose payment of a final dividend (2017: nil).

3. DIRECTORS

The directors who held office during the year to the date of this report are as shown on page 1.

4. RELEVANT AUDIT INFORMATION

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

- There is no relevant information of which the company's auditor is unaware; and
- Each director has taken all the steps that he/she ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

5. EMPLOYEES

The number of persons employed by the Company at the end of the year was 178 (2017: 179).

Out of the 178 members of staff employed by Heritage Kenya as at 31 December 2018, 105 are male and 73 are female.

6. AUDITORS

The auditors, KPMG Kenya, continue in office in accordance with section 719 of the Kenyan Companies Act, 2015 and subject to the approval by the Commissioner of Insurance under Section 56(4) of the Insurance Act.

7. BUSINESS OVERVIEW

The group profit before tax was 4% lower than the prior year despite of excellent results from Tanzania operations.

Tanzania business profit after tax increased by 176% percent compared to 2017. During the year the regulator introduced cash and carry for insurance services and prohibited intermediaries from receiving insurance premiums on behalf of Insurance Companies among other changes. The changes brought about a profound positive impact in the business environment.

Kenya business had a more challenging year characterised by the low premium uptake and increasing claims costs. The Investment earnings were negatively impacted by poor performance of listed stocks in the Nairobi Securities Exchange.

Tanzania business profit after tax nearly doubled compared to 2017. During the year the regulator introduced cash and carry for insurance services and prohibited intermediaries from receiving insurance premiums on behalf of Insurance Companies among other changes. The changes brought about a profound positive impact in the business environment.

Claims and underwriting processes were improved in the year leading to better underwriting results in addition, management expenses were kept below prior year.

8. APPROVAL OF FINANCIAL STATEMENTS

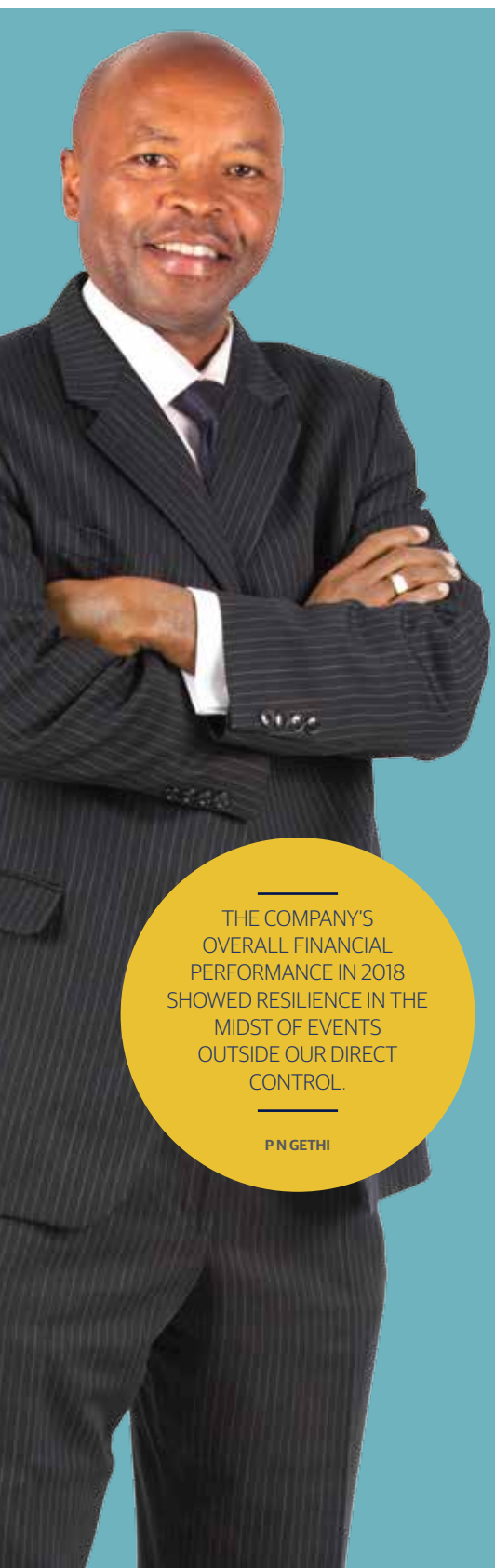
The financial statements set out on pages 25 to 76 were approved and authorized for issue at a meeting of Directors on 14 March 2019

By Order of the Board



Company Secretary
14 March 2019

Chairman's statement



THE COMPANY'S
OVERALL FINANCIAL
PERFORMANCE IN 2018
SHOWED RESILIENCE IN THE
MIDST OF EVENTS
OUTSIDE OUR DIRECT
CONTROL.

P. NGETHI

DEAR SHAREHOLDERS

An Overview:

It is a great pleasure to present to you the Annual Report and Financial Statements for Heritage Insurance Company Kenya Limited for the year ended 31 December 2018.

Financial Performance

Overall, the Group profit after tax were down on prior year by 4% only despite the Kenyan business closing the year 34% lower than 2017. The uplift came from the Tanzania business that had a solid year nearly doubling the earnings.

In Kenya, the gross written premiums dipped by 9%. The Net earned premium grew by 2% despite drop in top line mainly due to releases from the prior year's unearned premium reserves. Claims costs increased especially in first half of the year mostly from the motor class and some flooding related incidences felt throughout the year. Management and commission expenses were contained below prior year though commission earned was lower due to changes in business mix.

In Tanzania, the gross written premiums increased by 20%. The net earned premiums were up 4%. Claims costs however declined by 14% due to improved claims management processes supplemented by good risks selection. The Company recorded a favorable net claims ratio of 39% (2017, 47%). The management expenses also reduced by 20% compared to prior year.

Operating Environment

Major changes in the regulatory environment continued to impact on the insurance sector in 2018, and are expected to continue shaping the insurance landscape going forward.

Top among those was the 2018 Finance Act that introduced changes that are certainly to increase the cost of doing business. These include:

- aa) Withholding tax on demurrage charges and insurance premiums payable to a non-resident person. The withholding tax rates are 20% and 5% for the demurrage charges and insurance premiums respectively. This is expected to increase the cost of reinsuring risks with foreign reinsurance companies due to pricing risks to cover the tax.
- b) Capital gains tax on transfer of property by general insurance companies
- c) Introduction of National Housing Development Fund. Under the new provision, the employer and employee will each contribute 0.5% of the employee's gross monthly earnings subject to a maximum of KShs 5,000 to the NHDF

Insurance Act Miscellaneous amendments

The Finance Bill proposed amendment of the Insurance Act to deter insurance companies from assuming a risk in respect of insurance business unless and until the premium payable thereon is received by insurer. In addition, intermediaries were not to receive any premiums on behalf of an insurer. These proposals are being considered by parliament.

Other proposals include the introduction index based insurance to diversify from the traditional indemnity based insurance. This will encourage growth in the insurance sector as it will enable product diversification by insurance companies to the agricultural sector which is under insured, despite agriculture being the main stay of the economy.

Significantly, insurance fraud, which has been a thorn in the flesh for the industry is now considered a criminal offence. This will now mitigate against the high loss ratios in the affected sectors.

Insurance fraudsters can now be prosecuted under criminal procedure code unlike in the past where prosecution was under the civil procedure code.

In Tanzania the market continued to realign to the regulations introduced in 2017. Some of the regulations that had the greatest impact on the conduct of insurance business in 2018 included; Cash and carry rule for insurance transactions, cessation of insurance intermediaries from receiving insurance premium and limiting of reinsurance of local risk to local underwriters. The limiting of reinsurance of local risk to local underwriters had a great impact on the growth of business for local insurance companies and Heritage Tanzania being one of the major underwriters benefited significantly.

On the regional front, East African Community bloc regional insurance regulators from Kenya, Uganda, Rwanda, Tanzania and Burundi have taken initial steps towards harmonization of laws and policies in a bid to boost penetration and smoothen seamless cross-border operations.

Board Operations:

During the year, Mr. Rajesh Shah joined the Company as a board member and was appointed as member of the Audit and Risk Committee on 10 August 2018 and is awaiting regulatory approval.

Competitive landscape

The Kenyan Insurance sector remained relatively stable and resilient. According to the Insurance Industry Annual Report in 2017, the industry recorded 209 billion in premium (2016: KES 197 billion) translating to

We see 2019 as a promising year for business supported by conducive political environment. The business in Kenya and Tanzania are looking forward to improved service delivery to our clients through automation of various customer touch points.

a nominal growth of 6.3% (-1.6% in real terms). Long term insurance business grew by 12.6% (4.3% in real terms) whilst general insurance business grew by 2.5% (-5.1% in real terms). Despite marginal nominal growth, general insurance business still dominated the industry by premium at 60.4%.

Insurance penetration, which is the ratio of Gross Direct Insurance Premiums to Gross Domestic Product (GDP), remained relatively stable at 2.7% compared to a World average of 6.1% and 3.0% for Africa. The insurance density increased from KES 4,300 in 2016 to KES 4,455 in 2017, which is indicative of increased spending on insurance.

On the flipside the industry still faces penetration hurdles such as existing cultural set-ups, market malpractices and increasing fraud which all add up to increase cost and risk of doing business.

In Tanzania, according to recent reports from African Development Bank (AFDB), real GDP growth in 2018 was estimated to be 6.7% down from 7.1% in 2017. The annual inflation rate eased down to an average of 3.8% from 5.3% in 2017. However, inflation is projected to marginally increase to 5.2% in 2019 and 5.1% in 2020 due to increased government spending.

During 2019, the insurance industry is likely to grow further owing to various initiatives introduced by the regulator which shall open potential avenues for insurance business in the market. The industry is expected to thrive from the upcoming national infrastructural projects, introduction of bancassurance and other opportunities in untapped business sectors. Heritage, being one of the largest players in the market, intends to take the lead in offering various insurance products to the market.

Products and Channels

In 2018, the business continued with its focus on developing customized products. In our effort to develop market relevant customer solutions, the company commissioned a brand audit survey. This was carried out across the country targeting clients, intermediary and potential customers for their feedback. The results of the analysis informed a number of brand positioning initiatives that are currently being rolled out.

Importantly, the business received critical feedback regarding new products that the market would like introduced to meet dynamic opportunities in the sector. In this regard, the business has put in long hours in

developing a new revolutionary motor product that will be launched in the market in 2019.

The Company is keen on growing its product distribution channels through business partnerships with a number of strategic enterprises to grow the franchise model of product distribution in key towns in the country. This is in addition to the already existing broad range of partnerships with Brokers and Agents across the country.

Awards

Heritage Insurance received a number of notable awards during the year 2018 that further highlighted the business commitment to service excellence. The Company was crowned the General Insurer of the Year in the 2018 Think Business Awards. The Company was also the overall winner in the Risk Management Award, and was the 2nd Runners Up in the Medical Underwriter of the Year and Technology and Digital Application categories.

The Company also emerged 1st Runners up during the Champions of Governance (COG) Awards, 2018. The Managing Director, Mr. Godfrey Kioi was awarded the 1st Runners up Chief Executive Officer of the year at the Champions of Governance, while the Company secretary Ms. Carol Kioni was crowned the Company Secretary of the year.

Staff

Our policy is to offer equal opportunity to all potential employees or job applicants without discrimination in any manner. The Group encourages staff development by offering both professional and internal training opportunities.

Our objective is to recruit individuals who are best suited to the particular job on offer based on their relevant abilities, qualifications, experience and skills. Recruitment and selection decisions will always be made on the basis of merit aiming to make our Group the most attractive place to work.

The Group is committed to providing the best possible environment for employees. Safeguarding and promoting their welfare is our highest priority. We aim to recruit staff that share and understand our commitment and to ensure that no job applicant is treated unfairly by reason of a protected characteristic as defined under the Employment Act.

Sustainability

In 2018, the Group solidly continued with its clearly defined Corporate Social Investments (CSI) programme anchored on two main pillars, Education and Health as part of the wider Liberty Group CSI Policy. This is tied to Kenya's national blueprint the Kenya National Development Strategy, The Vision 2030. With regards to education the strategy revolves around creating impact in education within the communities in which we operate through offering full scholarship to bright needy students. In addition, "Adopt a school campaign", is a strategic initiative and a one-of-a-kind holistic mentorship program. These programs have been executed in Kajiado County, with Kajiado Township Primary School and in Nairobi County with Starehe Boys and Girls Schools.

On health, Heritage ran a vigorous Healthy Living Campaign aimed at sensitizing Company staff on the benefits of living a healthy lifestyle with funds directed towards the Kajiado Township Primary School feeding programme. Other initiatives included support for the Cerebral Palsy Society of Kenya and participation in the Association of Kenya Insurers Medical Camp in Githunguri, Kiambu County.

2019 outlook

We see 2019 as a promising year for business supported by conducive political environment. The business in Kenya and Tanzania are looking forward to improved service delivery to our clients through automation of various customer touch points.

In addition, we expect to launch exciting products in the market specially tailored to meet needs expressed through various customer and general public interactions.

Dividend

During the year, the Company paid an interim dividend amounting to KShs. 328 million. No final dividend is proposed.

Appreciation

I would like to take this opportunity to sincerely thank the Board of Directors for its relentless support and guidance throughout the year. Similarly, let me extend my appreciation to our valued business partners, brokers, agents and clients who have remained with us over the years; we thank you and reiterate our committed promise to service.

As I conclude, I wish to thank the management and staff of the Group for their dedication and commitment to serve our clients. Together, we will maintain our strong brand as a trusted leader in the insurance industry.



P.N. Gethi
CHAIRMAN

A photograph of a Black woman sitting in a wheelchair, smiling. A healthcare worker in teal scrubs is kneeling beside her, holding her hands. They are in a bright room with large windows in the background.

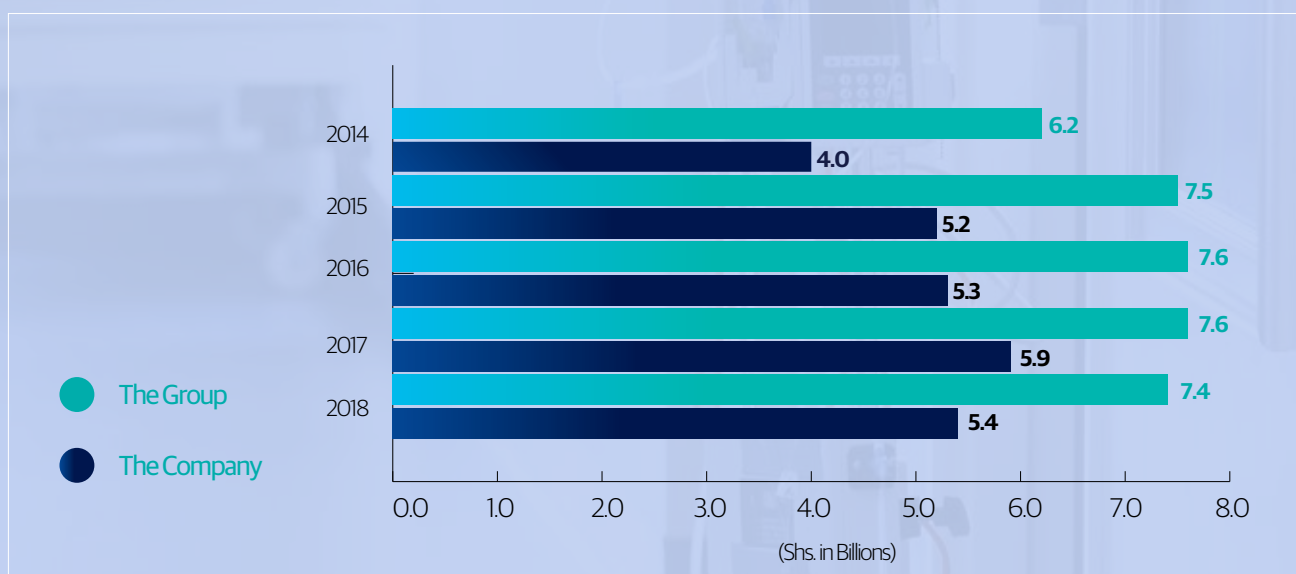
Your medical worry
is our concern.

HERITAGE MEDICAL INSURANCE.

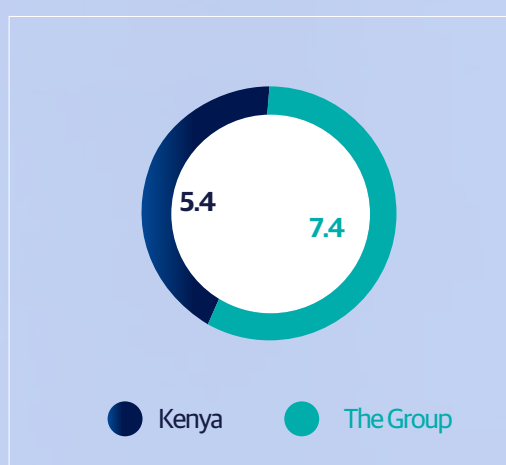
**A legacy
that delivers**

Financial Highlights

GROSS WRITTEN PREMIUMS



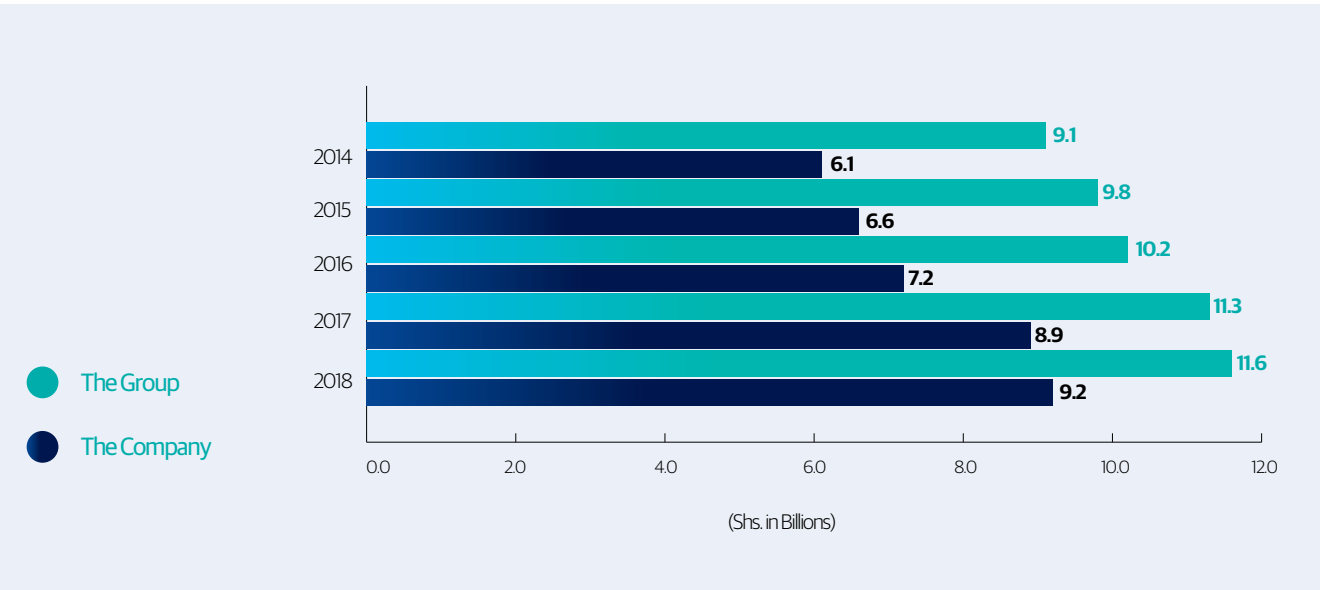
GROSS PREMIUMS



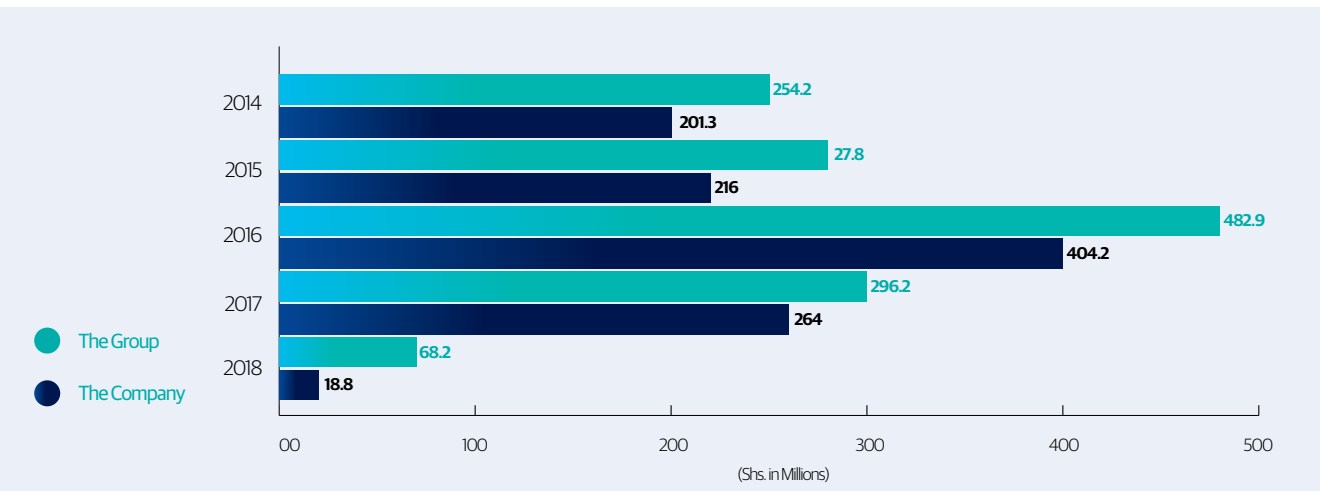
Heritage Insurance Company Kenya Limited is among the top 10 short term insurance underwriters in the industry by premium volumes. The Company has in place rigorous underwriting guidelines to ensure that it continuously returns positive underwriting results from its operations. In addition, management constantly evaluates the Company's processes and procedures to ensure that operations are conducted in the most efficient way and to serve clients in the most helpful manner. Today we rank among the best in our service delivery.

Financial Highlights

TOTAL ASSETS



UNDERWRITING RESULTS





We will make your
travel seamless.

HERITAGE TRAVEL INSURANCE.

**A legacy
that delivers**

Board of Directors



P. Gethi, Chairman



G. Kioi, Managing Director



R. Mbai, Director



G. May, Director



M. Du Toit, Director



C. Mitchem, Director



S. Wenman, Director



R. Shah, Director



C. Kioni, Company Secretary

Management Team



G. Kioi, *Managing Director*



B. Hiuhu (Mrs.)
Director (Underwriting & Claims)



A. Ngunjiri,
Director (Medical)



F. Ochieng,
General Manager (HR)



M. Kivuitu, *General Manager*
(Risk & Compliance)



L. Magambo,
General Manager (Finance)



M. Kabangi, *General Manager*
(Marketing & Communications)



S. Chege,
Head of Retail Business



A. Musunza,
Head of Corporate Business



D. Mathenge,
Senior Manager (Finance)



J. Maluki (Ms.),
Senior Manager (Medical)



B. Irungu,
Senior Manager (Claims)



B. Maina,
Senior Manager (Underwriting)



I. Kamau,
Senior Manager, IT

Corporate Governance Report

1. Introduction

The Heritage Insurance Company Kenya Limited Corporate Governance Framework consists of the Board of Directors, Committees of the Board, Management and Operations Committees, as well as policies, procedures and systems which together provide guidance in the management of the Company. The Company continuously embraces the principles of good corporate governance to ensure that the business remains sustainable, profitable and innovative. The Board of Directors and Management have embraced integrity, accountability and transparency in directing and running the affairs of the company.

The Corporate Governance Framework also guides the relationship between Heritage Insurance Company Kenya Limited, its parent shareholder, Liberty Kenya Holdings Plc, as well as its relations with other member companies of the Liberty Africa Insurance Group.

2. The Board of Directors

The Mandate of the Heritage Insurance Company Board of Directors is to implement principles of good corporate governance, determination of the strategic direction of the company and so ensuring sustainability of the business. The Board of Directors is therefore responsible for implementing the Strategic Plan through leadership, oversight, enhanced shareholder value, Company growth, profitability, financial reporting, accountability and safeguarding of company assets.

In order to achieve this efficiently, the Board has delegated various responsibilities to sub-committees of the Board and to Management Committees, while the mandate to oversee the running of the business has been conferred to the Managing Director. There are three formal committees of the board namely; the Directors Affairs Committee, Audit and Risk Committee and the Investment Committee.

The Board of Directors is constituted by seven non-executive directors and the Managing Director, and holds meetings at least once every quarter.

In the year 2018, the Board of Directors held quarterly meetings as follows

Member	Responsibility	April	May	August	November	December (Special Board)
Peter Gethi	Chairman (Non-Executive)	✓	✓	✓	✓	✓
Godfrey Kioi	Managing	✓	✓	✓	✓	✓
Gayling May	Non-Executive	✓	✓	✓	✓	✓
Stuart Wenman	Non-Executive	✓	✓	✓	✓	x
Mike du Toit	Non-Executive	✓	✓	✓	✓	x
Rachel Mbai	Non-Executive	✓	✓	✓	✓	✓
Catherine Mitchem	Non-Executive	x	✓	✓	✓	✓
Rajesh Shah*	Non-Executive	-	✓	✓	✓	x

*Mr Rajesh Shah was appointed to the Board on 17 May 2018

3. The Audit and Risk Committee (ARC)

The mandate of this committee is to oversee the implementation of effective policies, procedures and internal controls.

The ARC also sets and reviews the company's risk management strategy, while enforcing compliance with internal and regulatory provisions. This committee also reviews the scope of work, skills of the Internal Audit function and provides guidance in the resolution of audit findings. The ARC reinforces best practice in

Corporate Governance through the implementation of its mandate.

The Audit and Risk committee is also charged with approving the company's financial statements, and acts as the liaison with the External Auditors. In this regard, the ARC provides oversight and assurance for financial reporting.

The Audit and Risk Committee is constituted by four non-executive directors, and holds meetings every quarter.

In the year 2018, the Board of Directors held quarterly meetings as follows

Member	Responsibility	April	May	August	November
Gayling May	Chairman (Non-Executive)	✓	✓	✓	✓
Mike du Toit	Non-Executive	✓	✓	✓	✓
Rachel Mbai	Non-Executive	x	✓	✓	✓
Rajesh Shah*	Non-Executive	-	-	-	✓

*Mr Rajesh Shah was appointed to the Board Audit Committee on 10 August 2018

Corporate Governance Report (Continued)

4. The Investment Committee (IC)

The objective of the Investment Committee is to oversee the design of the company's investment strategy and to monitor its implementation. The committee monitors performance of the company's investment portfolio, as administered by professional asset managers in accordance with the Board

Investment Strategy, and reviews compliance of the investment managers with benchmarks and performance standards. The committee is constituted by three non-executive directors, the Managing Director and representatives from the Finance Department and holds quarterly meetings.

Member	Responsibility	April	May	August	November
Mike du Toit	Chairman (Non-Executive)	✓	✓	✓	✓
Godfrey Kioi	Managing (Director)	✓	✓	✓	✓
Stuart Wenman	Non-Executive	✓	✓	✓	✓
Catherine Mitchem	Non-Executive	x	✓	✓	✓

5. The Directors' Affairs Committee

This Committee is established by the directors of Liberty Kenya Holdings Plc. The mandate of this committee is to supervise the management of key human resources of all its subsidiaries. This includes the appointment and management of executives, and review of remuneration policies.

6. Management and Operations Committees

Five Management and Operations Committees have been constituted to facilitate effective implementation of the Strategic Plan, efficient company operations and compliance with regulatory requirements. They include;

6.1 The Executive Committee (ExCo)

The mandate of ExCo is to oversee strategic and operational matters of the Company, as well as all its relations with the Liberty Group. The objective of this committee is to enhance coordination and communication across the business units, and carry out reviews of company performance and implementation of the Strategic Plan. This committee meets weekly, and also holds monthly Mission Status Review (MSR) forums to monitor implementation of the Strategic Plan.

The members of ExCo are;

- Managing Director
- Director – Medical
- Director – Underwriting and Claims
- General Manager – Finance and Administration
- General Manager – Risk and Compliance
- General Manager – Marketing and Communications
- General Manager – Human Resources
- Senior Manager – ICT
- Head of Retail Business
- Head of Corporate Business

6.2 The Credit Oversight Committee

The mandate of the Credit Oversight Committee is to ensure full implementation of the Credit Policy, as well as providing policy guidance and oversight in credit management. It is chaired by the General Manager – Finance and Administration, and is constituted by members whose functions have the

greatest impact on debt management and credit control. Its key objectives are:-

- To ensure compliance with the credit management policy
- To ensure that all money owed to the company is promptly collected in accordance with credit terms
- To take appropriate measures in dealing with defaulters
- To recommend to the Board, through the Managing Director and Audit and Risk Committee, amounts to provide for doubtful debts and write off of uncollectible debts

The Credit Oversight Committee holds weekly meetings for continuous monitoring of the company's debt level. The members of the Credit Management Committee are;

L Magambo - Chairman
L Wachira - Secretary
G M Kioi - Member
BNG Hiuhu - Member
A P Ngunjiri - Member
A Musunza - Member
S Chege - Member

6.3 The Human Resource Committee

The objectives of this committee are as follows:-

- To design and review the organisational structure in response to business needs, skills and skill development, staff appointments, promotions and succession planning
- To develop policies on terms and conditions of service, performance management and staff remuneration in line with best market practice
- To ensure compliance with legislation regarding human capital management
- To develop and review the code of ethics and evaluate cases of unethical behavior

The members of this committee are the Managing Director, General Manager – Finance and Administration, Director – Medical, and the General Manager – Human Resources. The committee meets bi-monthly or as deemed necessary.

Corporate Governance Report (Continued)

6.4 The Operations Committee (OpCo)

The company has implemented an enterprise risk management framework, and upholds internal controls designed to enhance compliance, integrity and reliability of financial data. This framework is also supported by policies, procedures and segregation of duties, which ensure accountability and the safeguarding of company assets. The effectiveness of the risk management and internal control environment is monitored regularly through the internal audit function and the annual review by external auditors.

As part of risk governance, internal control and compliance oversight, the company has established an Operations Committee (OpCo). The objective of this committee is to monitor key risk indicators, and to set the tone in management of operational, market, insurance and compliance risks. This committee holds monthly meetings.

The members of the OpCo are:-

GM Kioi - Chairman
M Kivuitu - Member
BNG Hiuhi - Member
A Ngunjiri - Member
L Magambo - Member
S Chege - Member
A Musunza - Member
J Kinoti - Member
I Kaviti - Member
C Were - Member

***I Kaviti resigned from the organisation in January 2019**

6.5 The Customer Fairness Committee (CFC)

With the introduction of the Treating Customers Fairly (TCF) Guidelines by the Insurance Regulatory Authority (IRA), Heritage Insurance Company

constituted a Customer Fairness Committee (CFC) whose key mandate is to ensure that customers are treated fairly at every level. This is achieved through resolution of escalated complaints, providing guidance on the implementation of the Customer Complaints Policy and TCF Principles across the business. The Customer Fairness Committee comprises members of the Executive Committee.

7. Awards and Recognition

The Heritage Insurance Company received a number of awards during the year and was crowned the General Insurer of the Year in the 2018 Think Business Awards. The company was also the overall winner of the Risk Management Award, and was the 2nd Runner Up in the Medical Underwriter of the Year and Technology and Digital Application categories.

The Company also emerged 1st Runners Up during the Champions of Governance (COG) Awards, 2018. The Managing Director, Mr. Godfrey Kioi was awarded the 1st Runners Up Chief Executive Officer at the Champions of Governance, while the Company Secretary Ms. Carol Kioni was crowned the Company Secretary of the year.

8. Global Credit Rating (GCR)

Heritage Insurance Company AA-(KE) Rating was affirmed by the Global Credit Rating during the year, with a stable outlook on the national claims paying ability. The rating is further supported by strong capital growth and increased profit retention over the last two years. GCR also noted that the business liquidity profile is strong, supported by robust liquidity metrics and moderately strong aggregated counter-party banking strength.

The report went on to state that the Company displays a healthy business profile, underpinned by moderate competitive positioning and fairly well diversified earnings with the core portfolio being represented by Medical, Motor and Fire classes of business.

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A legacy
that delivers







Corporate Social Investment

Impacting society through socially-conscious investments

At Heritage Insurance, our Corporate Social Investments (CSI) are primarily geared towards making a positive impact in the societies that we operate in.

Our areas of focus are in providing educational opportunities and health initiatives that benefit and uplift communities; in addition to an Employee Match Fund through which we support initiatives that staff are involved in. Ad hoc initiatives are also supported from time to time.

CSI initiatives at Heritage Insurance are executed by a committee, whose members are drawn from different departments. The activities enjoy support of the management team and participation of all members of staff. Execution of the initiatives is guided by policies, practices and programmes that are integrated throughout business operations. Key amongst these are the Liberty Africa CSI Guidelines. The CSI activities are selected based on their sustainability, positive impact, resonance with brand values and engagement with all stakeholders.

Education initiatives

Heritage Insurance considers education a key building block in the nation's development, hence the sustained support to the sector through our CSI initiatives.

These initiatives are aimed at offering education opportunities in order to keep needy students in school. The initiatives also target imparting life skills to beneficiaries in order to build a solid foundation for their self-development, build the confidence they need to succeed in life and to make them effective employees in future.

In 2006, Heritage Insurance launched the education initiative with the award of the first ever bursary to a needy, deserving student to join secondary school. Over the years, the sponsorship has increased the number of awards given annually to needy students joining secondary school. At the moment, 10 students are awarded sponsorships every year. Beneficiaries are selected through an elaborate process that involves vetting and physical verification of the level of need. So far, a total of 50 students, drawn from across the country, have benefited from this programme, which covers secondary and tertiary students. Beneficiaries also take part in a mentorship programme held biannually, and an annual life skills training.

During the year, Heritage Insurance reviewed the education CSI sponsorship policy to support beneficiaries holistically.

Alongside sponsorship for individual students, Heritage Insurance also partners with, Kajiado Township Primary School in Kajiado County – to promote and enhance access to quality education. The partnership has had a huge impact, translating into growth in number of students enrolling in the school and birthing a secondary school.

At Kajiado Township Primary School, we have constructed and equipped a library, restored a dysfunctional borehole and installed points for washing hands (that drain into flower beds), and initiated a school feeding programme since July 2018. These investments, jointly implemented with Liberty Life, are meant to provide a conducive learning environment.

Health initiatives

Heritage Insurance supports initiatives that focus on raising awareness and promoting management and prevention of Non-Communicable Diseases; and supporting the physically challenged.

The initiatives are implemented through strategic partnerships. These includes one with the Association of Kenya Insurers' annual medical camp to offer free screening; with Diabetes Management Institute to support diabetic people who cannot afford care and management of the disease; Cerebral Palsy Society of Kenya to provide management care and counselling to care givers; Nyeri Hospice charity walk to support their palliative care initiatives

Heritage Insurance has also been at the forefront in promoting and raising awareness to encourage healthy lifestyles. Ongoing activities include: providing information on healthy lifestyles, in partnership with other players; education campaigns; physical activities across the country, including competitions and challenges. During the year, Heritage Insurance conducted a staff launch for the Healthy Living Campaign through a 'Sharing Fruits Day' that also involved clients visiting the branches; besides giving health tips on its social media channels every Wednesday. The highlight of the year were two editions of the 'Feeding a Child Stairwell Challenge' to raise funds for the feeding programme at Kajiado Township Primary School.

Starehe Boys' Centre Founders' Day

Heritage Insurance once again supported the Annual Starehe Boys' Founders' Day. This event is held by the Starehe Boys' Centre fraternity to commemorate the year the school was founded.

This support comes from the existing relationship that Liberty Group has with the institution through its CSI arm. The Group currently sponsors nine students under the Liberty Life Grand Scholarship Program where five are fully sponsored and four are partially sponsored.

Rhino Charge

Heritage Insurance and Liberty Life sponsored the 30th edition of the Rhino Charge in Narok County. During the event we distributed more than 2,000 reusable water bottles to participants in order to minimize usage of single-use plastic water bottles. The annual event is organised to raise funds to support activities of the Rhino Ark Kenya Charitable Trust, an NGO which works towards the conservation and protection of Kenya's mountain range ecosystems, and water towers. The reusable bottles donated by Heritage Insurance and Liberty Life went a long way in reducing plastic waste from the event. The sponsorship demonstrated the commitment by the group to conduct business with respect for and protection of the environment.

Ad-Hoc Initiatives

Heritage Insurance continues to support environmental and social causes. In 2018, the firm also lent a helping hand in the Solai Dam Tragedy towards which staff donated building materials. We also supported two children's home namely: Heritage of Hope and Faith Centre, Mlolongo and Thika Rescue centre by donating learning stationary.

Past social initiatives supported by the firm include: Turkana famine appeal in 2009, during which foodstuff was donated and distributed to affected families in partnership with the Kenya Red Cross Society; and donations to the Kenyans for Kenya campaign kitty in 2011 for people affected by drought.



Heritage Insurance management team and members of the CSI Committee pose for a group photo during the opening of a three day mentorship workshop for high school and university students under the Heritage Education Scholarship Programme.



Heritage Insurance MD Godfrey Kioi (left) leads staff from Heritage in presenting construction materials to Red Cross team to facilitate in homes rebuilding projects for families affected by the collapse of Solai dam in Nakuru.



Heritage staff are joined by Kajiado County Deputy Governor Hon. Martin Moshisho during the launch of a school feeding programme by Heritage Insurance and Liberty Life at Kajiado Township Primary School in July 2018 to mark the International Nelson Mandela Day



Heritage's CSI patron Mr. Albert Ngunjiri who is also the Health Insurance Director chats with some of the new students enrolled in the Heritage Education Scholarship Programme.



University students under the Heritage Education Scholarship Programme go through an employment and financial literacy workshop organised by the CSI committee to empower them make early financial decisions.



Students take part in bonding activities during the 2018 students mentorship programme organised by the CSI committee to empower and inspire the students to pursue their education with commitment.



Heritage Insurance staff led by the Managing Director Godfrey Kioi access the extent of destruction to property and environment following the collapse of the Solai dam that killed and displaced hundreds of people Solai Village in Nakuru County.

Heritage Board of Directors pose with samples of the re-usable water bottles that the company sponsored at the 2018 Rhino Charge motor event as part of the company's programmes in sensitizing communities and general public to shun use of plastic bottles towards long-term protection of the environment.

Statement of Directors' Responsibilities



The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of The Heritage Insurance Company Kenya Limited set out on pages 24 to 76 which comprise the Group and Company statements of financial position as at 31 December 2018, the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the Group and Company for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information.

The Directors responsibilities include: determining that the basis of accounting described in Accounting policy 1.2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and implementation of internal controls necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

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

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements,

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

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 14 March 2019.

P.N. Gethi

G. Kioi
Date: 14 March 2019



Auditors' Report to the Shareholders

Report on the Audit of the Consolidated and separate financial statements

OPINION

We have audited the consolidated and separate financial statements of The Heritage Insurance Company Kenya Limited set out on pages 24 to 76, which comprise the Group and Company statements of financial position as at 31 December 2018, Group and Company statements of profit or loss, Group and Company statements of other comprehensive income, Group and Company statements of changes in equity and Group and Company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Heritage Insurance Company Kenya Limited as at 31 December 2018, and of the consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing

(ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified opinion.

KEY AUDIT MATTERS

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

INSURANCE CONTRACT LIABILITIES

See accounting policy note 1E and disclosure note 23 – Insurance Contract Liabilities.

The key audit matter	How the matter was addressed:
Insurance contract liabilities constitute about 43% of the Group's total liabilities. Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported to the Group. Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities.	Our audit procedures in this area included, among others; <ul style="list-style-type: none"> — Evaluating and testing of key controls around the claims handling and reserve setting processes of the Group; — Checking for any unrecorded liabilities at the end of the period; — Checking samples of claims reserves through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters;
The key assumptions that drive the reserving calculations include graduate development factors, loss ratios, inflation assumptions and claims expense assumptions. The valuation of insurance contract liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise. Consequently, we have determined the valuation of insurance contract liabilities to be a key audit matter	<ul style="list-style-type: none"> — Re-performing reconciliations between the data recorded in the financial systems and the data used in the actuarial reserving calculations; — Re-projecting the incurred but not reported reserve balances using the actuarially-determined reserve percentages per class of business; — Using our actuarial specialists to review the reserving methodology applied and analytically review the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; and — We also considered the validity of management's liability adequacy testing by assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of company and industry experience data and specific product features.



Report to the Shareholders (Continued)

Report on the Audit of the Consolidated & separate Financial Statements

INFORMATION TECHNOLOGY (IT) SYSTEMS AND CONTROLS

The key audit matter	How the matter was addressed:
<p>Many financial reporting controls depend on the correct functioning of operational and financial Information Technology (IT) systems, for example interfaces between the operating systems and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. This is an area requiring particular audit attention in our audit due to the complexity of the IT infrastructure and legacy systems which require manual inputs, relative to more automated processes.</p>	<p>In this area our audit procedures included, among others:</p> <ul style="list-style-type: none">– Testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; With the support of our own IT specialists, we tested these controls through examining the process for approving changes to the systems, and assessing the restrictions placed on access to core systems through testing the permissions and responsibilities of those given that access; and– Where general IT controls were not operating effectively and we were therefore unable to rely on the related automated IT controls, we addressed the increased risk that financial information was affected by extending the scope of our work. This included assessing the operation of controls over changes or transactions being recorded in the systems. We also tested manual compensating controls, such as reconciliations between systems and other information sources, and performed additional substantive testing, such as using extended sample sizes and performing data analysis routines over the full population of transactions.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, but does not include the Group and Company financial statements and our auditor's report thereon.

Our opinion on the Group and Company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group and Company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

As stated on page 18, the Directors are responsible for the preparation of the Group and Company financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control, as the Directors determine is necessary to enable the preparation of the Group and Company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group and Company financial statements, the Directors are responsible for assessing the Group's and Company's abilities 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 Group or Company or to cease operations, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Group and Company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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.



Report to the Shareholders (Continued)

Report on the Audit of the Consolidated & separate Financial Statements

Auditors' responsibilities for the audit of the financial statements - (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment 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 unqualified 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 Group'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 Group's and 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group and Company financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

- (i) In our opinion, the information given in the report of the Directors on page 3 is consistent with the financial statements; and
- (ii) Our report on the financial statement is unqualified.

The signing partner responsible for the audit resulting in this independent auditors' report is CPA Alexander Mbai – P/2172.

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
P O Box 40612
00100 Nairobi GPO

Date: 14 March 2019



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Statement of Profit or Loss

for the Year Ended 31 December 2018

	Note(s)	THE GROUP		THE COMPANY	
		2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Gross earned premiums	2	7,423,310	7,584,902	5,528,256	5,606,220
Less: reinsurance premium ceded		(3,715,425)	(3,933,831)	(2,382,052)	(2,508,219)
Net earned premiums		3,707,885	3,651,071	3,146,204	3,098,001
Commissions earned		721,608	834,634	524,514	648,476
Investment income	3.1	425,408	548,522	458,286	538,463
Interest income on financial assets held at amortised cost	3.2	188,197	22,591	113,170	22,591
Fair value (loss)/gain on revaluation of financial investments	3.3	(18,658)	28,621	(33,716)	15,044
Gain/(loss) on sale of subsidiary	4	-	(10,549)	-	49,615
Net income		5,024,440	5,074,890	4,208,458	4,372,190
Claims and policyholder benefits	5	3,705,132	3,466,013	3,130,996	2,710,775
Less: amounts recoverable from re insurers		(1,813,684)	(1,705,130)	(1,457,311)	(1,209,415)
Net insurance benefits and claims		1,891,448	1,760,883	1,673,685	1,501,360
Operating and other expenses	6	1,673,543	1,790,058	1,395,184	1,425,477
Commissions payable		810,086	844,948	612,075	674,371
Total expenses and commissions		2,483,629	2,635,006	2,007,259	2,099,848
Result of operating activities		649,363	679,001	527,514	770,982
Profit before income tax		649,363	679,001	527,514	770,982
Income tax expenses	8	(209,963)	(220,258)	(146,866)	(193,892)
Profit for the year		439,400	458,743	380,648	577,090
Profit attributable to:					
Owners of the Company		383,585	437,961	380,648	577,090
Non-controlling interests		55,815	20,782	-	-
Total		439,400	458,743	380,648	577,090

The accounting policies on pages 32 to 45 and the notes on pages 46 to 76 form an integral part of the financial statements.

Statement of other Comprehensive Income

	Note(s)	THE GROUP		THE COMPANY	
		2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Profit for the year		439,400	458,743	380,648	577,090
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation differences	12(b)	(29,966)	(17,013)	-	-
Total other comprehensive income		(29,966)	(17,013)	-	-
Total comprehensive income for the year		409,434	441,730	380,648	577,090
Total comprehensive income attributable to:					
Owners of the parent		398,446	426,154	380,648	577,090
Non-controlling interest		10,988	15,576	-	-
Total		409,434	441,730	380,648	577,090

The accounting policies on pages 32 to 45 and the notes on pages 46 to 76 form an integral part of the financial statements.

Statement of Financial Position

as at 31 December 2018

		THE GROUP		THE COMPANY	
	Note(s)	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
CAPITAL EMPLOYED					
Share capital	10	500,000	500,000	500,000	500,000
Retained earnings	11	2,717,452	2,757,219	2,585,766	2,601,768
Reserves	12(a)	190,768	179,329	-	-
Currency translation reserve	12(b)	(47,503)	(43,788)	-	-
Equity attributable to equity holders		3,360,717	3,392,760	3,085,766	3,101,768
Non-controlling interest	14	281,045	291,550	-	-
Total equity		3,641,762	3,684,310	3,085,766	3,101,768
REPRESENTED BY:					
Assets					
Property and equipment	15	89,974	112,330	69,858	87,780
Intangible assets	16	51,529	39,216	31,850	38,155
Investment in subsidiary	13	-	-	146,557	146,557
Equity investments at fair value through profit or loss (quoted)	17 a (i)	285,196	435,738	285,196	334,696
Equity investments at fair value through profit or loss (unquoted)	17 (a (ii)	40,071	27,722	-	-
Government securities at fair value through profit or loss	17 (a (iii)	3,316,193	3,465,744	3,133,240	3,279,797
Corporate bonds and short term notes		105,507	181,881	98,322	175,124
Staff loans	17 (b)	262,884	315,946	262,884	315,946
Deferred acquisition costs	19	36,673	8,999	33,284	12,746
Deferred tax asset	26	221,492	228,171	174,965	165,279
Insurance and reinsurance receivables	20(a)	843,900	1,577,080	742,281	1,303,112
Reinsurers' share of insurance liabilities	18	2,625,590	2,260,519	1,742,350	1,572,664
Other receivables	20(b)	117,013	387,183	128,847	390,365
Current income tax	8	94,922	10,428	94,922	-
Deposits with financial institutions	21	3,120,342	1,864,345	2,028,023	742,381
Cash and bank balances	21	421,675	361,425	227,754	311,870
Total assets		11,632,961	11,276,727	9,200,333	8,876,472
Liabilities					
Insurance contract liabilities	23	3,452,303	2,823,722	2,742,958	2,182,858
Unearned premium	25	2,846,218	2,918,386	2,263,150	2,355,765
Current income tax	8	2,693	36,511	-	36,511
Creditors arising from direct insurance		552,382	585,119	545,618	546,310
Creditors arising from reinsurance arrangements		626,594	755,142	405,232	484,578
Amounts due to related companies	27	4,267	10,429	4,267	10,429
Other payables	27	506,742	463,108	153,342	158,253
Total liabilities		7,991,199	7,592,417	6,114,567	5,774,704
Total net assets		3,641,762	3,684,310	3,085,766	3,101,768

The annual report and financial statements and the notes on pages 25 to 76, were approved and authorised for issue and were signed on its behalf by:



P. N. Gethi



G. R. May



G. Kioi

The accounting policies on pages 32 to 45 and the notes on pages 46 to 76 form an integral part of the financial statements.

Statement of changes in Equity

for the year ended 31 December 2018

	Share capital Shs '000	Currency translation Shs '000	Statutory reserve Shs '000	Retained earnings Shs '000	Subtotal Owners of the Company Shs '000	Non- controlling interest Shs '000	Total equity Shs '000
THE GROUP 2018							
Balance at 1 January 2018							
as previously stated	500,000	(43,788)	179,329	2,757,219	3,392,760	291,550	3,684,310
IFRS 9 transition adjustment (Note 1 (i))				(98,071)	(98,071)	-	(98,071)
Deferred tax on IFRS 9 Transition adjustment				29,421	29,421	-	29,421
Restated balance at 1 January 2018	500,000	(43,788)	179,329	2,688,569	3,324,110	291,550	3,615,660
Profit for the year				383,585	383,585	55,815	439,400
Other comprehensive income							
Foreign currency translation difference		(3,715)	(6,701)	(8,562)	(18,978)	(10,988)	(29,966)
transfer to statutory reserves			18,140	(18,140)	-	-	-
Total comprehensive income for the year	-	(3,715)	11,439	356,883	364,607	44,827	409,434
Transactions with owners of the Company, contributions and distributions							
Issue of shares							
Interim dividend for 2018	-	-	-	(328,000)	(328,000)	(55,332)	(383,332)
Total transactions with owners of the Company	-	-	-	(328,000)	(328,000)	(55,332)	(383,332)
Balance at 31 December 2018	500,000	(47,503)	190,768	2,717,452	3,360,717	281,045	3,641,762
THE GROUP 2017							
Balance at 1 January 2017	500,000	(39,243)	171,812	2,334,037	2,966,606	331,529	3,298,135
Profit for the year	-	-	-	437,961	437,961	20,782	458,743
Other comprehensive income							
Foreign currency translation difference	-	(4,545)	(1,825)	(5,437)	(11,807)	(5,206)	(17,013)
transfer to statutory reserves	-	-	9,342	(9,342)	-	-	-
Total comprehensive income for the year	-	(4,545)	7,517	423,182	426,154	15,576	441,730
Transactions with owners of the Company, contributions and distributions							
Issue of shares	-	-	-	-	-	18,519	18,519
Interim dividend for 2017	-	-	-	-	-	(74,074)	(74,074)
Total transactions with owners of the Company	-	-	-	-	-	(55,555)	(55,555)
Balance at 31 December 2017	500,000	(43,788)	179,329	2,757,219	3,392,760	291,550	3,684,310

Statement of changes in Equity

for the year ended 31 December 2018

	Share Capital Shs'000	Retained earnings Shs'000	Total equity Shs'000
THE COMPANY 2018			
Balance at 1 January 2018	500,000	2,601,768	3,101,768
IFRS 9 Transition adjustment (Note 1 (i))		(98,071)	(98,071)
Deferred tax on IFRS 9 Transition adjustment		29,421	29,421
Restated balance at 1 January 2018	500,000	2,533,118	3,033,118
Profit for the year		380,648	380,648
Total comprehensive income for the year		380,648	380,648
Transactions with the owners of the Company			
Interim Dividend for 2018		(328,000)	(328,000)
Total transactions with owners of the Company		(328,000)	(328,000)
Balance at 31 December 2018	500,000	2,585,766	3,085,766
THE COMPANY 2017			
Balance at 1 January 2017	500,000	2,024,678	2,524,678
Profit for the year		577,090	577,090
Total comprehensive income for the year		577,090	577,090
Balance at 31 December 2017	500,000	2,601,768	3,101,768

The accounting policies on pages 32 to 45 and the notes on pages 46 to 76 form an integral part of the financial statements.

Statement of cash flows

	Note(s)	THE GROUP		THE COMPANY	
		2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Cash flows from operating activities					
Cash generated from operations	30	1,120,826	1,025,549	1,065,135	878,261
Interest received		580,214	541,870	481,051	449,841
Tax paid	8	(292,175)	(290,374)	(258,564)	(251,531)
Net cash from operating activities		1,408,865	1,277,045	1,287,623	1,076,571
Cash flows from investing activities:-					
Purchase of property and equipment	15	(12,026)	(34,214)	(7,649)	(12,131)
Proceeds from disposal of property and equipment	15	1,147	18,943	-	-
Purchase of intangible assets	16	(28,142)	(31,626)	(7,802)	(29,800)
Purchase of quoted shares	17(a)(i)	(4,907)	(211,710)	(4,907)	(211,710)
Purchase of government securities	17 (a)(iii)	(2,914,516)	(4,052,500)	(2,887,000)	(4,052,500)
Proceeds from disposal of government securities	17 (a)(iii)	3,070,811	3,467,328	3,045,667	3,422,175
Proceeds from disposal of shares	17 (a)(i)	99,394	2	6,548	2
Loans advanced	17 (b)	(54,844)	(68,111)	(54,844)	(68,111)
Loans repaid	17 (b)	75,088	63,728	75,088	63,729
Net investment in corporate bonds and short term notes		76,374	14,690	76,802	15,646
Currency translation	12 (b)	(17,665)	(2,155)	-	-
Net cash from investing activities		290,714	(835,625)	241,903	(872,700)
Cash flows from financing activities					
Dividends paid		(383,332)	(74,074)	(328,000)	-
Additional share capital injection in subsidiary	-		-		(25,187)
Net cash outflow from financing activities		(383,332)	(74,074)	(328,000)	(25,187)
Total cash movement for the year		1,316,247	367,346	1,201,526	178,684
Cash at the beginning of the year		2,225,770	1,858,424	1,054,251	875,567
Total cash at end of the year	21	3,542,017	2,225,770	2,255,777	1,054,251

The accounting policies on pages 32 to 45 and the notes on pages 46 to 76 form an integral part of the financial statements

We believe in
protection you and
your loved ones.

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that delivers



Accounting Policies

Presentation of Annual Report and Financial Statements 2018

1. ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

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

Liberty House
Mamlaka Road
P.O. Box 30390 00100 Nairobi.

The Group and Company underwrites all classes of short term (General) insurance risks as defined by the Insurance Act except Micro Insurance.

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) BASIS OF PREPARATION

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention, as modified by the carrying of investment property and available for sale investments at fair value and actuarially determined liabilities at their present value. For Kenyan Companies Act, 2015 reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements are discussed in Note 33.

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

The Company has adopted the following new standards and amendments during the year ended 31 December 2018, including consequential amendments to other standards with the date of initial application by the Company/Group being 1 January 2018.

The nature and effects of the changes are as explained herein.

The nature and effects of the changes are explained below:

New standards or amendments	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)	1 January 2018
Apply IFRS 9 Financial Instruments 1 January 2018 with IFRS 4. Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Transfers of Investment Property (Amendments to IAS 40)	1 January 2018
Annual improvements cycle (2014-2016) – (Amendments to IFRS 1 First time adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures)	1 January 2018

IFRS 9: Financial Instruments (2014)

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

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application.

The impact of application of this standard is shown on page 42.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

Summary of significant Accounting Policies (continued)

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

IFRS 15 Revenue from Contracts with Customers (continued)

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The standard had no impact on the financial statements.

Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

Accounting for cash-settled share-based payment transactions that include a performance condition

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- * On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- * Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. If an entity applies the amendments

retrospectively, it must do so for all of the amendments described above.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 2.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4: -an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

Summary of significant Accounting Policies

(continued)

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration - (continued)

- a) at fair value; or
- b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The adoption of these changes did not have a significant impact on the amounts and disclosures of the financial statements

Transfers of Investment Property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use.

A change in management intention alone does not support a transfer.

The amendments apply for annual periods beginning on or after 1 January 2018. Early adoption is permitted. A company has a choice on transition to apply the prospective approach – i.e. apply the amendments to transfers that occur after the date of initial application – and also reassess the classification of property assets held at that date; or the retrospective approach – i.e. apply the amendments retrospectively, but only if it does not involve the use of hindsight.

The adoption of the standard did not have a significant impact on the financial statements of the Company since it does not have Investment Property.

Annual improvements cycle (2014-2016) – (Amendments to IFRS 1 First time adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures

Standard	Amendments
IFRS 1 First-time Adoption of IFRS	Outdated exemptions for first-time adopters of IFRS are removed effective for annual periods beginning on or after 1 January 2018. The adoption of these changes will not have an impact on the financial statements of the Company since the Company is not a first time adopter of IFRS.
IAS 28 Investments in Associates and Joint Ventures	A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The adoption of these changes is not expected to have an impact on the financial statements.

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018.

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

New standard or amendments	Effective for annual periods beginning on or after
– IFRS 16 Leases	1 January 2019
– IFRIC 23 Uncertainty over income tax treatments	1 January 2019
– IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
– IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
– Annual improvements cycle (2015-2017)	1 January 2019
– IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
– IFRS 3 Definition of a Business	1 January 2020
– Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
– Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
– IFRS 17 Insurance contracts	1 January 2022
– Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

Summary of significant Accounting Policies

(continued)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 - (continued)

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

IFRS 16: Leases

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

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

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

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

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

- (a) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
- (b) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

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

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

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

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

Potential Impact of IFRS 16 to the Company

The Group performed an assessment of contracts and it was concluded that leases of properties were the only material class of underlying assets that will be recognised as right-of-use assets. All other classes of underlying assets will be treated as leases of low value and be expensed on a monthly basis. The Group will also apply the exemption for short-term leases.

The Group will recognise right-of-use assets and lease liabilities for its operating leases of property under IAS 17. Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the lease. The nature of expenses related to those leases will now change from operating lease charges to depreciation charges for right-of-use assets and interest expense on lease liabilities. IFRS 16 will result in the front-loading of expenses as interest expense charges will be higher during the initial years of the lease, and decrease as the lease liability unwinds. The impact of the difference is not expected to be material for the company

Transition

The Group will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Comparatives are not restated under this approach.

Management is yet to quantify the impact of the adoption of this standard on the financial statements of the Group and Company.

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

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

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

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

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

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

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

Summary of significant Accounting Policies

(continued)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (continued)

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

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption permitted.

The adoption of these amendments will not have an impact on the financial statements of the Group and Company.

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

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

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

Amendments to References to the Conceptual Framework in IFRS Standards (continued)

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

Annual improvement cycle (2015 – 2017) – various standards

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The adoption of these amendments is not expected to affect the amounts and disclosures of the Company's financial statements.

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

The amendments clarify that:

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

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

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

Summary of significant Accounting Policies

(continued)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (continued)

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

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

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

IFRS 3 Definition of a Business

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

— Optional concentration test

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

— Substantive process

If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

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

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

Amendments to References to the Conceptual Framework in IFRS Standards

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

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

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

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

IAS 1 and IAS 8 Definition of Material

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

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

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

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

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

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

IFRS 17 Insurance Contracts

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

- (a) insurance contracts, including reinsurance contracts, it issues;
- (b) reinsurance contracts it holds; and

investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

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

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

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts

Summary of significant Accounting Policies (continued)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (continued)

IFRS 17 Insurance Contracts (continued)

are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

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

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

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

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

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

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

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

The Company did not early adopt new or amended standards in the year ended 31 December 2018.

C) CONSOLIDATION

ii) Business Combinations

The Group applies the acquisition method of accounting to account for business combinations, when control is transferred to the group. The consideration transferred for the acquisition of a subsidiary is generally measured at fair values, as are the fair value of assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Any gain on a bargain purchase is recognized in profit or loss immediately. Acquisition related costs are expensed as incurred, except if related to the issue of debt or equity securities.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendment. Cost also includes directly attributable cost of investment. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognized in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have

Summary of significant Accounting Policies

(continued)

C) CONSOLIDATION - CONTINUED

been changed where necessary to ensure consistency with the policies adopted by the Group.

iv) Non controlling interest (NCI)

NCI is measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss in control are accountable for as equity transactions.

v) Loss of Control

When the Group loses control of a subsidiary, it de recognizes the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

D) FUNCTIONAL CURRENCY AND TRANSLATION OF FOREIGN CURRENCIES

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings thousands (Shs), except where otherwise indicated.

ii) Translations of foreign currencies and balances in group entities

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate when the fair value was determined.

iii) Consolidation of group entities

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income

and accumulated in the currency translation reserve except to the extent that the translation is allocated to the non-controlling interests. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

E) INSURANCE CONTRACTS

Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the group defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. See accounting policy for these contracts under:

A number of insurance and investment contracts contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- a) that are likely to be a significant portion of the total contractual benefits;
- b) whose amount or timing is contractually at the discretion of the Group
- c) that are contractually based on:

- The performance of a specified pool of contracts or a specified type of contract;
- Realised and/or unrealised investment returns on a specified pool of assets held by the Group;
- The profit or loss of the Company, fund or other entity that issues the contract.

Short term insurance business. Means insurance business of any class or classes not being long term insurance business.

Classes of Short term Insurance include Aviation insurance, Engineering insurance, Fire insurance Domestic risks Fire insurance Industrial and Commercial risks, Liability insurance, Marine Insurance, Motor insurance private vehicles, Motor insurance commercial vehicles, Personal Accident insurance, Theft insurance, Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

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

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

Summary of significant Accounting Policies (continued)

E) INSURANCE CONTRACTS - CONTINUED

Classification - (continued)

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

Recognition and measurement

i) Premium income

For short term insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium.

Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the financial reporting date, and is computed using the 1/365th method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

ii) Claims

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums).

The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions. Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognized as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts.

For short term insurance business, 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"). The method used in computing IBNR is described in note 25 Outstanding claims are not discounted.

iii. Commissions 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.

iv. Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the 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 initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

v. Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group 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 Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement.

The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 1.2 (i) (financial assets).

Summary of significant Accounting Policies (continued)

vi. Receivables and payables related to insurance contracts and investment contracts

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

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in profit or loss. The processes followed by the Group in assessing impairment of these receivables are described in accounting policy 1.2 (l) (financial assets).

vii. Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group 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 recognized 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 recognized 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) OTHER INCOME RECOGNITION

Commissions receivable are recognized as income in the period in which they are earned. Investment income is stated net of investment expenses takes into account the effective yield on the asset. Dividends are recognized as income in the period in which the right to receive payment is established. Rental income is recognized as income in the period in which it is earned.

G) PROPERTY AND EQUIPMENT

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

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

Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life applicable to the current and prior year

Buildings	25 - 30 years
Equipment and motor vehicles	3 - 10 years
Furniture and fittings	10 years

Asset residual values and their estimated useful lives are reviewed at each

financial reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are included in the income statement.

H) INTANGIBLE ASSETS

Intangible assets relate to computer software.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3 - 5 years). Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding three years). Intangible assets comprise capitalised software costs. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortized over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortized over their estimated useful lives.

I) FINANCIAL ASSETS

Assets under IFRS 9

Financial assets are classified and measured based on the business model and nature of cash flows associated with the instrument as follows:

• Amortised cost

A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):

- Within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.

Subsequent to initial measurement, the financial assets are measured at amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges.

Summary of significant Accounting Policies

(continued)

I) FINANCIAL ASSETS - CONTINUED

Impairment - (continued)

Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate. Interest income is shown as a separate line on the face of the income statement (combined with interest income on financial assets held at fair value through OCI)

Fair value through other comprehensive income (OCI)

Upon adoption of IFRS 9, the company has no equity instruments that have been elected to be measured at fair value through other comprehensive income.

A debt instrument that meets both the following conditions (other than those designated at fair value through profit or loss):

- Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.

Subsequent to initial measurement, the financial assets are measured at fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to fair value adjustments on financial instruments.

Interest income on debt financial assets is recognised in interest income in terms of the effective interest method. Interest income from these assets is shown as a separate line on the face of the statement of profit or loss (combined with interest from financial assets held at amortised cost).

• Held for trading

Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Subsequent to initial measurement, the financial assets are measured at fair value, with gains and losses arising from changes in fair value recognised in fair value adjustments.

• Designated at fair value through profit or loss

Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise.

Subsequent to initial measurement, the financial assets are measured at fair value, with fair value gains and losses (including interest and dividends) on financial assets are recognised in the income statement as part of fair value gains or losses on financial instruments.

• Fair value through profit or loss (default)

Financial assets that are not classified into one of the above mentioned financial asset categories; and/ or where the business model is that performance is assessed on a fair value basis.

Fair value gains and losses on the financial asset are recognised in the income statement as part of fair value gains or losses on financial instruments.

Amounts in Shs'000	Original classification under IAS 39	New classification under IFRS 9	Group / Company	Original carrying amount under IAS 39	New carrying amount under IFRS 9	Difference
Listed equities	Designated FVPL	FVPL	Group Company	435,738 334,696	435,738 334,696	- -
Debt instruments						
Treasury Bonds FV	Designated FVPL	FVPL	Group Company	1,713,159 1,527,212	1,713,159 1,527,212	- -
Treasury bills	Designated FVPL	FVPL	Group Company	1,752,585 1,752,585	1,752,585 1,752,585	- -
Corporate Bonds	Designated FVPL	FVPL	Group Company	181,881 175,124	181,881 175,124	- -
Loans and receivables						
Staff loans	Loans and receivables	Amortised cost	Group Company	51,200 51,200	47,099 47,099	(4,101) (4,101)
Mortgage loans	Loans and receivables	Amortised cost	Group Company	264,746 264,746	236,323 236,323	(28,423) (28,423)
Prepayments and other receivables						
Prepayments and other receivables	Other receivables	Amortised cost	Group Company	387,183 390,365	387,183 390,365	- -
Insurance and reinsurance receivables	Insurance and reinsurance receivables	Amortised cost	Group Company	1,577,080 1,572,664	1,511,533 1,507,117	(65,547) (65,547)
Cash and cash equivalents						
Cash at bank and on hand	Cash at bank and on hand	Amortised cost	Group Company	361,425 311,870	361,425 311,870	- -
Short-term cash deposits	Short-term cash deposits	Amortised cost	Group Company	1,864,345 742,381	1,864,345 742,381	- -
Financial Liabilities						
Other payables (excluding insurance payables)	Other liabilities	Amortised cost	Group Company	463,104 158,253	463,104 158,253	- -
Total			Group Company			(98,071) (98,071)

Summary of significant Accounting Policies

(continued)

I) FINANCIAL ASSETS - CONTINUED

Impairment

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI and financial guarantee contracts that are not designated at fair value through profit or loss.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. A significant change in credit risk (SICR) is when there is a material change in the probability of default, since origination. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: <ul style="list-style-type: none"> • Default: A financial asset is considered to be in default when there is objective evidence of impairment. Exposures which are overdue for more than 90 days are also considered to be in default. • Significant financial difficulty of borrower and/or modification. • Probability of bankruptcy or financial reorganisation. • Disappearance of an active market due to financial difficulties.

ECLs are recognised as a deduction from the gross carrying amount of the asset. Therefore assets subject to ECLs are disclosed on a net basis, in the statement of financial position. The gross ECLs are disclosed in the note.

Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

Cash and cash equivalents

Cash and cash equivalents comprise:

- balance with banks
- highly liquid short-term funds on deposit; and
- cash on hand

Instruments included in this category are those with an initial term of three months or less from the acquisition date. It does not include money market securities held for investment. Cash and cash equivalents are classified according to the business model assessment, either at fair value through profit or loss default, or at amortised cost. Due to the short-term nature of cash and cash equivalents, the amortised cost approximates fair value.

Prepayments and other receivables

Prepayments and other receivables are initially measured at fair value through profit or loss, with subsequent measurement at fair value through profit or loss (default) or at amortised cost. Those balances at amortised cost are subject to ECL impairment testing. The company has elected to apply the simplified approach for trade receivables that do not contain a significant financing component, contract assets and lease receivables. This means that the entity assesses lifetime losses on day one, and does not have to do the three stage testing as per the general ECL calculation

Financial assets under IAS 39

Under IAS 39, financial assets within the company were classified either as:

- Fair value through profit or loss being financial assets held-for- trading, financial assets held for hedging and designated at fair value through profit or loss at inception; or
- Loans and receivables, measured at amortised cost.

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss;

Loans, advances and receivables; cash and cash equivalent and held-to-maturity financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

In general, financial assets within the company were designated on initial recognition as at fair value through profit or loss, in line with the group's strategy to manage financial investments acquired to match its insurance and investment contract liabilities. In addition, shareholders' equity is invested under a formal capital management strategy that actively measures performance on a fair value basis. Interest income and dividends received on financial assets at fair value through profit or loss were recognised separately as investment income. Financial assets carried at amortised cost were subjected to IAS 39's incurred loss impairment model.

Reclassification (IFRS 9 and IAS 39)

Reclassifications of financial assets under IFRS 9 are permitted when, and only when, the company changes its business model for managing financial assets, in which case all affected financial assets are reclassified. Under IAS 39, financial assets could only be reclassified in rare circumstances.

Derecognition (IFRS 9 and IAS 39)

Financial assets are derecognised when the contractual rights to receive cash flows from the investments have expired or on trade date when they have been transferred and the company has also transferred substantially all risks and rewards of ownership. Non- cash financial assets pledged, where the counterparty has the right to sell or repledge the assets to a third party, are classified as repurchase agreements, scrip and collateral assets.

ii) Financial liabilities under IFRS 9

Financial liabilities include financial liabilities under investment contracts, third-party financial liabilities arising on consolidation of mutual funds, financial liabilities, liabilities held for trading and for hedging, repurchase agreements liabilities and collateral deposits payable and other payables.

Summary of significant Accounting Policies (continued)

I) FINANCIAL ASSETS - CONTINUED

Derecognition (IFRS 9 and IAS 39) - (continued)

Financial liabilities are classified and measured as follows:

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value if in doing so it would eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis.
Amortised cost	All other financial liabilities not included in the above categories
Held-for-trading	Fair value, with gains and losses arising from changes in fair value recognised in fair value adjustments on financial instruments..
Designated at fair value through profit or loss	<ul style="list-style-type: none"> Fair value, with gains and losses arising from changes in fair value (including finance costs but excluding fair value gains and losses attributable to own credit risk) recognised in the fair value adjustments on financial instruments. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within profit or loss.
Amortised cost	Amortised cost using the effective interest method recognised in interest Expense

Other payables

Other payables are initially measured at fair value through profit or loss, with subsequent measurement either at fair value through profit or loss (default) or at amortised cost, depending on the business model assessment.

Financial liabilities under IAS 39

Financial liabilities under IAS 39 were either held for trading liabilities at fair value through profit or loss, financial liabilities designated at fair value through profit or loss, or classified at amortised cost. Under IAS 39, finance costs for financial liabilities designated at fair value through profit or loss were separated from the fair value movement.

Reclassification – a financial liability may not be reclassified.

Derecognition (IFRS 9 and IAS 39) – financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Inter-company loans (IFRS 9 and IAS 39)

Based on an assessment of the business model and contractual cash flows under IFRS 9, in the company financial statements, inter-company loans (being financial instruments) are classified at amortised cost. Under IAS 39, they were designated on initial recognition at fair value through profit or loss. Inter-company balances are callable on demand.

iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the company (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- The amount determined in accordance with the expected credit loss model in IFRS 9; and
- The amount initially recognised (fair value) less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

J) CASH AND CASH EQUIVALENTS

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

K) LEASES

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 income on a straight line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total term of the lease.

L) EMPLOYEE BENEFITS

(i) Retirement benefit obligations

The Group operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the Group companies pay fixed contributions into a separate entity.

Summary of significant Accounting Policies

(continued)

L) EMPLOYEE BENEFITS - CONTINUED

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Group and all its employees also contribute to the appropriate national Social Security Fund, which are defined contribution schemes.

The Group's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

(ii) Other 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 date of financial reporting.

The estimated monetary liability for employees' accrued annual leave entitlement at the financial reporting date is recognized as an expense accrual is only reassessed if there is a change in the entity's activities.

M) TAXATION

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the relevant tax legislation.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of financial assets and financial liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the financial reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

N) DIVIDENDS

Dividends payable to the Group's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

O) COMPARATIVES

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

Notes to the financial statements

2. Gross earned premiums

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

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Class of business:				
Accident	2,222,488	2,163,690	1,533,282	1,458,659
Fire	1,471,088	1,564,863	636,794	687,617
Marine	195,662	172,513	103,450	102,813
Medical	1,766,749	1,906,988	1,766,749	1,906,988
Motor	1,767,323	1,776,848	1,487,981	1,450,143
Total	7,423,310	7,584,902	5,528,256	5,606,220

	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
3.1 Investment income				
Financial assets at fair value through profit or loss (default)	403,654	-	462,593	-
Interest income	392,017	-	367,881	-
Profit from equities	11,637	-	94,712	-
Dividends from listed equities	15,860	-	94,712	-
Dividends from unlisted equities	357	-	-	-
Loss on sale of equities	(4,580)	-	-	-
Financial assets designated at fair value through profit or loss	-	532,079	-	535,533
Interest income	-	519,534	-	427,249
Profit from equities	-	12,545	-	108,284
Dividends from listed equities	-	12,545	-	108,284
Non-financial assets at fair value through profit or loss				
Investment properties	-	9,384	-	-
Rental income from investment properties	-	9,384	-	-
Sundry income	42,346	32,173	16,285	15,056
Investment expenses	(20,592)	(14,565)	(20,592)	(12,126)
Total investment income	425,408	548,522	458,286	538,463
3.2 Interest income on financial assets held at amortised cost				
Loans and receivables	23,634	22,591	23,634	22,591
Interest income on cash and cash equivalents	164,563	-	89,536	-
Total interest income on financial assets held at amortised cost	188,197	22,591	113,170	22,591
3.3 Fair value (loss)/gain on revaluation of financial investments	(18,658)	28,621	(33,716)	15,044

Notes to the financial statements (continued)

4. Gain/(Loss) on sale of subsidiary

In 2017 the group disposed off the entire investment in Azali Limited.

The gain/(loss) on disposal is shown below:-

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Profit/(Loss) on disposal of subsidiary	-	95,000	-	95,000
Receivable from disposal of Azali	-	(39,736)	-	(39,736)
Inter-company account	-	(5,649)	-	(5,649)
Investment in Azali	-	(60,164)	-	-
Cumulative retained earnings	-	(10,549)	-	49,615
Total	-	(10,549)	-	49,615
5. Claims and policyholder benefits payable				
Accident	872,817	616,244	597,172	390,963
Fire	349,516	518,993	182,716	123,288
Marine	99,189	56,370	64,280	50,683
Medical	1,285,745	1,272,618	1,285,745	1,272,617
Motor	1,097,865	1,001,788	1,001,083	873,224
Total claims and policyholder benefits	3,705,132	3,466,013	3,130,996	2,710,775
6. Operating and other expenses				
Employee benefits expenses (Note 7)	827,031	867,294	659,845	675,375
Severance pay (Note 7)	-	(94,560)	-	(94,560)
Directors' fees	15,997	17,254	8,344	8,955
Audit fees	11,721	9,760	7,737	5,258
Depreciation (Note 15)	32,348	31,145	25,571	27,799
Amortisation of intangible assets (Note 16)	15,790	8,351	14,107	7,586
Impairment for doubtful receivables	5,503	282,341	16,979	206,568
Operating lease rentals land and buildings	91,351	98,599	75,890	72,859
Repairs and maintenance expenditure	67,089	58,349	65,749	57,013
Other	606,713	511,525	520,962	458,624
Total	1,673,543	1,790,058	1,395,184	1,425,477
7. Employee benefit expenses				
Employee benefit expenses includes the following:				
Salaries and wages	615,628	609,133	464,275	442,431
Social security benefit costs	45,374	52,199	42,331	40,785
Other	166,029	205,962	153,239	192,157
Employee benefit expenses	827,031	867,294	659,845	675,373
Severance pay	-	(94,560)	-	(94,560)
Total	827,031	772,734	659,845	580,813

During the year, the average number of persons employed by the Group was 230 (2017: 228). This comprised an average of 99 female and 131 male employees (2017: Female 97, Male 131). The Group also had an average of 25 employees in management and 205 in non-management (2017: management 25, non-management 203)

During the year, the average number of persons employed by the Company was 178 (2017: 177). This comprised an average of 73 female and 105 male employees (2017: Female 73, Male 104). The Company also had an average of 23 employees in management and 155 in non-management (2017: management 22, non-management 155)

Notes to the financial statements (continued)

8. Income tax expenses

Reconciliation of the tax expenses.

The Group's and Company's current tax charge is computed in accordance with income tax rules applicable to short term insurance companies. A reconciliation of the tax charge is shown below:

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Profit before income tax	649,363	679,001	527,514	770,982
Tax calculated at a rate of 30% (2017: 30%)	194,809	203,700	158,254	231,295
Tax effect of:				
Income not subject to tax	941	(40,586)	(22,608)	(86,169)
Tax effect of interest income	(1,293)	33,312	(1,293)	33,312
Expenses not deductible for tax purposes	15,506	50,374	12,513	22,781
Over provision of deferred tax in prior years	-	(25,814)	-	(6,599)
Capital gains tax @ 5%	-	(728)	-	(728)
Income tax charge	209,963	220,258	146,866	193,892
There was no tax charge relating to components of other comprehensive income				
Income tax expense				
Current tax	173,863	318,973	127,131	268,817
Deferred tax (Note 26)	36,100	(98,715)	19,735	(74,925)
Total	209,963	220,258	146,866	193,892
Tax recoverable /(payable) movement				
As at 1 January	(26,083)	2,516	(36,511)	(19,225)
Current tax charge for the year	(173,863)	(318,973)	(127,131)	(268,817)
Paid in the year	292,175	290,374	258,564	251,531
As at 31 December	92,229	(26,083)	94,922	(36,511)
Comprising				
Tax recoverable	94,922	10,428	94,922	-
Tax payable	(2,693)	(36,511)	-	36,511
Total	92,229	(26,083)	94,922	(36,511)

9. Dividend payable

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. The Directors proposed an interim dividend of Shs 13.12 per share, Shs 328 Million (2017:Nil) and do not recommend payment of a final dividend (2017 :Nil).

10. Share capital

The total authorised number of ordinary shares is Shs 25 Million with a par value of Shs 20 per share. At 31 December 2018, 25 Million ordinary shares were in issue (2017: 25 Million ordinary shares). All issued shares are fully paid.

Notes to the financial statements (continued)

10. Share capital - (continued)

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
25 Million ordinary shares with a par value of Shs 20 per share	500,000	500,000	500,000	500,000

All ordinary shares rank equally with regard to the Company's residual assets, are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

11. Retained earnings

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the Company

12. Other reserves

a) Statutory reserves

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Contingency reserve Tanzania	190,768	179,329	-	-

Movements in the statutory reserve are shown in the statement of changes in equity on pages 27 to 28. The contingency reserve is maintained by the Tanzania subsidiary as required by the Tanzania Insurance Act. The reserve is calculated annually as the greater of 3% of net written premium or 20% of the net profit. This reserve shall accumulate until it reaches the minimum paid up share capital or 50% of the net premiums, whichever is greater.

b) Currency translation reserve

The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

13. Investment in subsidiary

	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the parent (%)	Proportion of ordinary shares directly held by the group (%)	Proportion of ordinary shares directly held by non controlling interest (%)
The Heritage Insurance Company	Tanzania	Insurance	60%	60%	40%
Azali Limited (Disposed of on 31 August 2017)	Kenya	Property	100%	100%	0%

	2018	2017
Investment in The Heritage Insurance Company Tanzania Limited (60%)	146,557	146,557
Investment in Azali Limited (100%)	-	-
Movements during the year	146,557	146,557
The following was the movements during the year:		
Opening balance	146,557	121,370
Additional capital in Heritage Tanzania	-	30,836
Disposal of Azali	-	(5,649)

Total	146,557	146,557
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14. Non -controlling Interests (NCI)

	2018	2017
NCI percentage	40%	40%
Non-current assets	133,660	122,982
Current assets	2,556,789	2,498,503
Non-current liabilities	-	-
Current liabilities	(1,987,839)	(1,892,611)
Net Assets	702,610	728,874
Net assets attributable to NCI	281,045	291,550
Revenue	1,895,055	1,978,682
Profit	139,534	51,956
OCI	-	-
Total comprehensive income	139,534	51,956

Notes to the financial statements (continued)

14. Non -controlling Interests (NCI) - (continued)

	THE GROUP	
	2018 Shs '000	2017 Shs '000
Profit allocated to NCI	55,814	20,782
OCI allocated to NCI	10,989	(5,206)
Cash flows from operating activities	90,936	112,207
Cash flow from investing activities	67,320	(37,728)
Cash flow from financing activities	(55,332)	(55,556)
Net increase (decrease) in cash and cash equivalents	102,924	18,923

15. Property and equipment

	THE GROUP					
	2018			2017		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Buildings on leasehold land	-	-	-	18,523	(18,523)	-
Furniture and equipment	485,303	(397,051)	88,252	515,356	(407,948)	107,408
Motor vehicles	21,962	(20,240)	1,722	28,605	(23,683)	4,922
Total	507,265	(417,291)	89,974	562,484	(450,154)	112,330

	THE COMPANY					
	2018			2017		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Furniture and equipment	440,722	(372,531)	68,191	433,074	(349,134)	83,940
Motor vehicles	11,638	(9,971)	1,667	11,638	(7,798)	3,840
Total	452,360	(382,502)	69,858	444,712	(356,932)	87,780

	THE GROUP					
	Opening balance	Additions	Disposals	Currency translation	Depreciation	Total
Buildings	-	-	-	-	-	-
Fittings and equipment	107,408	12,026	(1,147)	(848)	(29,188)	88,251
Motor vehicles	4,922	-	-	(39)	(3,160)	1,723
Total	112,330	12,026	(1,147)	(887)	(32,348)	89,974

Reconciliation of property and equipment 2017

	Opening balance	Additions	Disposals	Currency translation	Depreciation	Total
Buildings	18,523	-	(18,523)	-	-	-
Fittings and equipment	100,493	34,163	(322)	1,000	(27,926)	107,408
Motor vehicles	8,147	51	(98)	41	(3,219)	4,922
Total	127,163	34,214	(18,943)	1,041	(31,145)	112,330

Notes to the financial statements (continued)

15. Property and equipment - continued

Reconciliation of property and equipment 2018

	Opening balance	THE COMPANY		
		Additions	Depreciation	Total
Fittings and equipment	83,940	7,649	(23,397)	68,192
Motor vehicles	3,840	-	(2,174)	1,666
Total	87,780	7,649	(25,571)	69,858

Reconciliation of property and equipment 2017

	Opening balance	Additions	Depreciation	Total
Fittings and equipment	97,422	12,131	(25,613)	83,940
Motor vehicles	6,026	-	(2,174)	3,840
Total	103,448	12,131	(27,799)	87,780

Equipment with a cost of Shs 285,881,738 (2017 Shs 222,228,089) was fully depreciated as at 31 December 2018. The notional depreciation charge in respect of this equipment amounts to Shs 37,068,322 (2017 Shs 31,831,139).

16. Intangible assets

	THE GROUP					
	2018			2017		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated amortisation	Carrying value
Intangible assets	159,941	(108,412)	51,529	62,491	(23,275)	39,216

	THE COMPANY					
	2018			2017		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated amortisation	Carrying value
Intangible assets	102,031	(70,181)	31,850	60,369	(22,214)	38,155

	THE GROUP				
	Opening balance	Additions	Currency Translation	Amortisation	Total
Reconciliation of intangible assets 2018					
Intangible assets	39,216	28,142	(39)	(15,790)	51,529
Reconciliation of intangible assets 2017					
Intangible assets	15,941	31,626		(8,351)	39,216

Notes to the financial statements (continued)

16. Intangible assets - continued

Reconciliation of intangible assets 2018	Opening balance	THE COMPANY		
		Additions	Amortisation	Total
Intangible assets	38,155	7,802	(14,107)	31,850
Reconciliation of intangible assets 2017	Opening balance	Additions	Amortisation	Total
Intangible assets	15,941	29,800	(7,586)	38,155

Intangible assets with a cost of Shs 33,923,895 (2017 Shs 30,334,000) were fully amortised as at 31 December 2018. The notional amortisation charge in respect of these assets amounts to Shs 6,214,106 (2017 Shs 5,935,000).

17. Financial instruments

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
At fair value through profit or loss default				
Quoted shares	-	100,482	-	-
At fair value through profit or loss held for trading	-			
Treasury bills	-	186,462	-	-
Fair value through profit or loss				
Listed shares	285,196	335,256	285,196	334,696
Unquoted shares	40,071	27,722	-	-
Government securities	3,316,193	3,279,282	3,133,240	3,279,797
Corporate bonds	105,507	181,881	98,322	175,124
Total	3,746,967	4,111,085	3,516,758	3,789,617
Amortised cost				
Mortgage loans	225,142	264,746	225,142	264,746
Other loans and deposits maturing after 90 days	-		-	
Staff loans	37,742	51,200	37,742	51,200
Total	262,884	315,946	262,884	315,946
Quoted shares	285,196	435,738	285,196	334,696
Unquoted shares	40,071	27,722	-	-
Government securities	3,316,193	3,465,744	3,133,240	3,279,797
Corporate bonds and short term notes	105,507	181,881	98,322	175,124
Loans and receivables	262,884	315,946	262,884	315,946
Total	4,009,851	4,427,031	3,779,642	4,105,563

Notes to the financial statements (continued)

17. Financial instruments - (continued)

a) Equity investments at fair value through profit or loss

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
i) Quoted shares				
At start of year	435,738	200,261	334,696	97,826
Additions	4,907	211,710	4,907	211,710
Disposals	(99,394)	(2)	(6,548)	(2)
Fair value (loss) / gain	(52,402)	25,760	(47,859)	25,162
Currency translation	(3,653)	(1,991)	-	-
At end of year	285,196	435,738	285,196	334,696
ii) Unquoted shares				
At start of year	27,722	45,793	-	-
Currency translation	(1,002)	(890)	-	-
Fair value gains / (loss)	13,351	(17,181)	-	-
At end of year	40,071	27,722	-	-
iii) Government securities				
At start of the year	3,465,744	2,868,612	3,279,797	2,662,602
Additions	2,914,516	4,052,500	2,887,000	4,052,500
Maturities	(3,070,811)	(3,467,328)	(3,045,667)	(3,422,175)
Fair value gain/(loss)	13,465	15,965	12,110	(13,130)
Currency translation	(6,721)	(4,005)	-	-
At end of year	3,316,193	3,465,744	3,133,240	3,279,797

Instruments held under lien with Insurance Regulatory Authority as at 31 December 2018 were valued at Shs 550 Million (2017 : Shs 450 Million).

b.) Amortised cost

Mortgage loans				
At start of the year	264,746	267,145	264,746	267,145
Loans advanced	35,019	37,217	35,019	37,217
Loan repayments	(45,906)	(39,616)	(45,906)	(39,616)
Impairment	(28,716)	-	(28,716)	-
At end of year	225,143	264,746	225,143	264,746

Notes to the financial statements (continued)

17. Financial instruments - (continued)

b) Loans and receivables (continued)

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Maturity profile of mortgage loans				
Loans maturing:				
Within 1 year	388	-	388	-
In 1 - 5 years	39,547	23,008	39,547	23,008
In over 5 years	213,923	241,738	213,923	241,738
Impairment	(28,716)	-	(28,716)	-
At end of year	225,142	264,746	225,142	264,746
Other loans				
At start of the year	51,200	44,418	51,200	44,418
Loans advanced	19,825	30,894	19,825	30,894
Loan repayments	(29,182)	(24,112)	(29,182)	(24,112)
Impairment	(4,101)	-	(4,101)	-
At end of year	37,742	51,200	37,742	51,200
Maturity profile of other loans				
Loans maturing				
Within 1 year	789	1,678	789	1,678
In 1-5 years	36,953	49,522	36,953	49,522
At end of year	37,742	51,200	37,742	51,200
Book of amount				
Mortgage loans	225,142	264,746	225,142	264,746
Other loans	37,742	51,200	37,742	51,200
Total loans and receivables at year end	262,884	315,946	262,884	315,946

There is no concentration of the credit risk with respect to mortgage and other loans..

The mortgage loans is a facility availed to staff members of Heritage Kenya. The Loans are collateralised and the Company has the first right of recovery of deduction from the staff income. The Group applied IFRS 9 at 1 January 2018 and comparatives have been restated under IFRS 9. Loss allowances for loan receivables are measured under general expected credit loss impairment model.

The risk of default occurring over the expected life of the financials instruments has not increased significantly during the year. For the year ended 31 December 2018, any expected impairment losses would therefore be recognised under 12 months expected credit loss. The mortgage loans are assessed to have a low expected credit loss impairment as they have a low risk of default. The borrower has a high probability of meeting cash flow obligations due to the loans being recovered directly from staff salaries. The expected credit impairment loss was immaterial as at 31 December 2018.

Notes to the financial statements (continued)

18. Reinsurers' share of insurance liabilities

Reinsurers' share of:	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Unearned premium (Note 25)	1,389,164	1,455,851	957,188	1,091,387
Notified claims outstanding (Note 24)	1,066,657	652,487	690,604	377,619
Claims incurred but not reported (Note 24)	169,769	152,181	94,558	103,658
At end of year	2,625,590	2,260,519	1,742,350	1,572,664

Amounts due from reinsurers in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Reinsurers' share of insurance liabilities are classified as current assets. Movements in the above reinsurance assets are shown in Note 24.

19. Deferred acquisition costs

Assets

At start of year	68,593	95,041	12,746	19,728
Additions	341,024	191,301	108,099	21,114
Amortisation charge	(283,983)	(216,284)	(87,561)	(28,096)
Currency translation	(2,019)	(1,465)	-	-
At end of year	123,615	68,593	33,284	12,746

Liabilities

At start of year	(59,594)	(87,318)	-	-
Additions	(224,722)	(180,497)	-	-
Amortisation charge	195,220	206,522	-	-
Currency translation	2,154	1,699	-	-
At end of year	(86,942)	(59,594)	-	-
Net	36,673	8,999	33,284	12,746

Deferred acquisition costs are amounts incurred on acquiring short term insurance contracts which are amortised to income over the contract period.

Notes to the financial statements (continued)

20. (a) Insurance and reinsurance receivables

	THE GROUP		THE COMPANY	
	2018 KShs '000	2017 KShs '000	2018 KShs '000	2017 KShs '000
Insurance contracts - IFRS 4	843,900	1,577,080	742,281	1,303,112
Outstanding premium receivables within contract boundary	733,582	859,611	733,582	859,611
Reinsurance recoveries within contract boundary	110,318	717,469	8,699	443,501

Upon adoption of IFRS 9, all insurance reinsurance and other receivables need to be disclosed by measurement choice.

All above balances are current, inflows of economic benefits are expected to occur within one year.

The group applies the simplified approach to providing for expected credit losses (ECL) prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for all trade receivables.

	GROUP & COMPANY			
Movement in impairment losses on insurance receivables	ECL rate %	Gross carrying amount	Impairment allowance	Net carrying amount
	0%	733,582	-	733,582
- 1-30 days past due	100%	23,470	(23,470)	-
- 31-60 days past due	100%	10,029	(10,029)	-
- 61-90 days past due	100%	5,800	(5,800)	-
- more than 90 days past due	100%	387,602	(387,602)	-
Total	37%	1,160,483	(426,901)	733,582

Write off policy for premium receivables

Balances due from agents and brokers and direct clients are written off when there is no reasonable expectation of recovery. The write-off of these amounts is dictated by the Kenyan Revenue Authority's minimum requirements for write-off. Conditions for write-off are that

- 1) A debt shall be considered to have become bad if it is proved to the satisfaction of the Commissioner to have become uncollectable after all reasonable steps have been taken to collect it.
- 2) A debt shall only be consider uncollectable where the creditor loses the contractual right through a court order, no form of security or collateral is realisable whether partially or in full, the securities or collateral have been realised but the process fails to cover the entire debt, the debtor is adjudged insolvent or bankrupt by a court of law and the cost of recovering the debt exceeds the debt itself.

Notes to the financial statements (continued)

20. (b) Other receivables

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Due from related parties (Note 31 (v))	22,521	67,093	46,764	82,361
Prepayments	84,804	288,740	75,500	300,720
Operating lease receivables	-	17,046	-	-
Other receivables	9,688	14,304	6,583	7,284
Total	117,013	387,183	128,847	390,365

21. Cash and cash equivalents

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Cash and cash equivalents consist of				
Deposits with financial institutions	3,120,342	1,864,345	2,028,023	742,381
Cash and bank balances	421,675	361,425	227,754	311,870
Total	3,542,017	2,225,770	2,255,777	1,054,251
The following table summarises the maturity of deposits with Financial Institutions.				
Maturing within 90 days	3,120,342	1,368,928	2,028,023	742,381
Maturing within 90-360 days	-	495,417	-	-
Total	3,120,342	1,864,345	2,028,023	742,381

22. Weighted average effective interest rates

The following table summarises the weighted average effective interest rates at the year end on the principal interest bearing investments:

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Loans Receivable	%	%	%	%
Government securities	8	8	8	8
Deposits with financial institutions	11	10	12	10
Corporate bonds	8	12	8	12
	13	13	13	13

Deposits with financial institutions have an average maturity of 3 to 4 months (2017: 3 to 4 months), while corporate bonds have an average maturity of 1 to 6 years (2017: 1 to 6 years).

Notes to the financial statements (continued)

23. Insurance contract liabilities

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Short term non-life insurance contracts				
Claims reported and claims handling expenses	2,797,727	2,238,853	2,206,606	1,695,142
Claims incurred but not reported	654,576	584,869	536,352	487,716
At end of year	3,452,303	2,823,722	2,742,958	2,182,858

Movements in insurance liabilities and reinsurance assets are shown in note 24.

The Company uses the Bornehuetter Fergusson (BF) technique to estimate the ultimate cost of claims for the Incurred But Not Reported (IBNR) provision. The BF method recognises the occasional limitation of the chain ladder in using the actual claims paid or reported only but also takes into account the loss ratios of the business classes to provide an additional indication of the expected ultimate claims. During the year the company fully adopted the actuarial reserving basis of IBNR.

As the data is still sparse and not fully matured for all classes of business. The basic chain ladder will be somewhat volatile, BF was therefore recommended to provide a more stable statistical estimate of the liabilities for the IBNR provisions.

Estimate of ultimate claims costs:	THE GROUP							Total
	2012 Shs '000	2013 Shs '000	2014 Shs '000	2015 Shs '000	2016 Shs '000	2017 Shs '000	2018 Shs '000	
At end of accident year	1,623,945	5,828,579	2,273,029	2,463,166	2,132,356	2,385,798	2,766,250	19,473,123
One year later	1,319,366	4,698,076	2,045,829	1,689,170	1,784,938	2,439,809	-	13,977,188
Two years later	1,302,839	4,768,065	1,714,325	1,807,849	2,750,600	-	-	12,343,678
Three years later	1,308,475	1,198,137	1,726,494	2,276,340	-	-	-	6,509,446
Four years later	1,036,404	1,178,225	1,554,076	-	-	-	-	3,768,705
Five years later	1,018,560	1,740,907	-	-	-	-	-	2,759,467
Six years later	1,430,391	-	-	-	-	-	-	1430391
Current estimate of cumulative claims	1,430,391	1,740,907	1,554,076	2,276,340	2,750,600	2,439,809	2,766,250	14,958,373
Less: cumulative payments to date	(1,391,472)	(1,585,377)	(1,459,688)	(2,097,707)	(2,412,741)	(1,783,496)	(1,510,279)	(12,240,760)
Liability in the statement of financial position	38,919	155,530	94,388	178,633	337,859	656,313	1,255,971	2,717,613
Liability in respect of prior	-	-	-	-	-	-	-	198,338
Incurred but not reported claims	-	-	-	-	-	-	-	536,352
Total gross claims liability included in the statement of financial position	38,919	155,530	94,388	178,633	337,859	656,313	1,255,971	3,452,303

Notes to the financial statements (continued)

Estimate of ultimate claims costs:	THE COMPANY							Total
	2012 Shs '000	2013 Shs '000	2014 Shs '000	2015 Shs '000	2016 Shs '000	2017 Shs '000	2018 Shs '000	
At end of accident year	967,010	1,142,028	1,568,825	1,439,584	1,405,054	1,654,247	2,117,275	10,294,023
One year later	921,726	1,078,406	1,509,430	1,345,393	1,107,198	2,221,683	-	8,183,836
Two years later	1,014,168	1,127,469	1,635,486	1,450,935	2,671,462	-	-	7,899,520
Three years later	1,018,832	1,154,658	1,638,374	2,223,175	-	-	-	6,035,039
Four years later	1,021,656	1,128,497	1,514,840	-	-	-	-	3,664,993
Five years later	1,008,268	1,734,475	-	-	-	-	-	2,742,743
Six years later	1,427,013	-	-	-	-	-	-	1,427,013
Current estimate of cumulative claims	1,427,013	1,734,475	1,514,840	2,223,175	2,671,462	2,221,683	2,117,275	13,909,923
Less: cumulative payments to date	(1,390,390)	(1,585,013)	(1,445,438)	(2,067,935)	(2,399,967)	(1,673,193)	(1,319,926)	(11,881,862)
Liability in the statement of financial position	36,623	149,462	69,402	155,240	272,295	548,490	797,349	2,028,861
Liability in respect of prior Incurred but not reported claims	-	-	-	-	-	-	-	177,745
	-	-	-	-	-	-	-	536,352
Total gross claims liability included in the statement of financial position	36,623	149,462	69,402	155,240	271,495	548,490	797,350	2,742,958

24. Movements in insurance liabilities and reinsurance assets

	THE GROUP					
	Gross Shs '000	2018 Reinsurance Shs '000	Net Shs '000	Gross Shs '000	2017 Reinsurance Shs '000	Net Shs '000
Notified claims	2,219,201	143,770	2,075,431	2,116,912	570,485	1,546,427
Incurred but not reported	581,357	56,888	524,469	535,812	107,528	428,284
Total at the beginning of year	2,800,558	200,658	2,599,900	2,652,724	678,013	1,974,711
Cash paid for claims settled in year	(3,048,775)	(1,336,290)	(1,712,485)	(3,285,225)	(1,579,712)	(1,705,513)
Increase in liabilities:						
Arising from current year claims	3,389,370	1,327,050	2,062,320	2,989,044	1,621,749	1,367,295
Arising from prior year claims	450,972	(321,004)	771,976	467,179	84,619	382,560
Total at end of year	3,592,125	(129,586)	3,721,711	2,823,722	804,669	2,019,053
Notified claims	2,797,727	1,066,657	1,731,070	2,238,853	652,487	1,586,375
Incurred but not reported	654,576	169,769	484,807	584,869	152,182	432,687
Total at end of year	3,452,303	1,236,426	2,215,877	2,823,722	804,669	2,019,062

Notes to the financial statements (continued)

24. Movements in insurance liabilities and reinsurance assets - continued

	THE COMPANY					
	Gross Shs '000	2018 Reinsurance Shs '000	Net Shs '000	Gross Shs '000	2017 Reinsurance Shs '000	Net Shs '000
Notified claims	1,695,142	377,619	1,317,523	1,600,628	391,715	1,208,913
Incurred but not reported	487,716	103,658	384,058	448,001	71,774	376,227
Total at the beginning of year	2,182,858	481,277	1,701,581	2,048,629	463,489	1,585,140
Cash paid for claims settled in year	(2,570,896)	(1,153,425)	(1,417,471)	(2,576,405)	(1,191,488)	(1,384,917)
Increase in liabilities:						
Arising from current year claims	3,130,996	1,457,310	1,673,686	2,200,692	1,146,283	1,054,409
Arising from prior year claims	-	-	-	509,942	62,993	446,949
Total at end of year	2,742,958	785,162	1,957,796	2,182,858	481,277	1,701,581
Notified claims	2,206,606	690,604	1,516,002	1,695,142	377,619	1,317,523
Incurred but not reported	536,352	94,558	441,794	487,716	103,658	384,058
Total at end of year	2,742,958	785,162	1,957,796	2,182,858	481,277	1,701,581

25. Unearned premium

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

	THE GROUP					
	Gross Shs '000	2018 Reinsurance Shs '000	Net Shs '000	Gross Shs '000	2017 Reinsurance Shs '000	Net Shs '000
At the beginning of year	2,918,386	1,455,851	1,462,535	2,926,838	1,516,632	1,410,206
Increase in the year (net)	(51,832)	(53,514)	1,682	9,203	(79,305)	88,508
Currency translation	(20,336)	(13,173)	(7,163)	(17,655)	18,524	(36,179)
At end of year	2,846,218	1,389,164	1,457,054	2,918,386	1,455,851	1,462,535

	THE COMPANY					
	Gross Shs '000	2018 Reinsurance Shs '000	Net Shs '000	Gross Shs '000	2017 Reinsurance Shs '000	Net Shs '000
At the beginning of year	2,355,765	1,091,387	1,264,378	2,018,889	810,769	1,208,120
Increase in the year (net)	(92,615)	(134,199)	41,584	336,876	280,618	56,258
At end of year	2,263,150	957,188	1,305,962	2,355,765	1,091,387	1,264,378

Notes to the financial statements (continued)

26. Deferred income tax

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Deferred tax asset	221,492	228,171	174,965	165,279
Net deferred tax asset	221,492	228,171	174,965	165,279

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2017 :30%). The movement on the deferred income tax account is as follows:

	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
At start of year	228,171	129,456	165,279	90,354
Profit or loss credit (Note 8)	(36,100)	98,715	(19,735)	74,925
Provision through equity(IFRS 9)	29,421	-	29,421	-
At end of year	221,492	228,171	174,965	165,279

Deferred tax assets and liabilities, deferred tax charge/ (credit) in the statement of profit or loss account are attributable to the following items

	THE GROUP						
	1.1.2018 Shs '000	Charged/ credited to P&L Shs '000	Charged to equity Shs '000	31.12.2018 Shs '000	1.1.2017 Shs '000	Charged/ credited to P&L Shs '000	31.12.2017 Shs '000
Property and equipment:							
On historical cost basis	(18,091)	(1,817)	-	(19,908)	(18,959)	868	(18,091)
Investment property fair value gains	9,260	-	-	9,260	9,260	-	9,260
Provisions	(216,990)	35,644	-	(181,346)	(118,227)	(98,763)	(216,990)
Deferred tax effect on fair value gains on government securities	3,658	-	-	3,658	3,658	-	3,658
IFRS 9 transition adjustment	-	-	(29,421)	(29,421)	-	-	-
Currency translation	(6,008)	2,273	-	(3,735)	(5,188)	(820)	(6,008)
Total	(228,171)	36,100	(29,421)	(221,492)	(129,456)	(98,715)	(228,171)

	THE COMPANY						
	1.1.2018 Shs '000	Charged/ credited to P&L Shs '000	Charged to equity Shs '000	31.12.2018 Shs '000	1.1.2017 Shs '000	Charged/ credited to P&L Shs '000	31.12.2017 Shs '000
Property and equipment:							
On historical cost basis	(5,575)	(1,817)	-	(7,392)	(5,357)	(218)	(5,575)
Provisions	(159,704)	21,552	-	(138,152)	(84,997)	(74,707)	(159,704)
IFRS 9 transition adjustment	-	-	(29,421)	(29,421)	-	-	-
Total	(165,279)	19,735	(29,421)	(174,965)	(90,354)	(74,925)	(165,279)

Notes to the financial statements (continued)

27. Other payables

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Other liabilities	91,079	332,789	91,886	76,628
Accrued expenses	415,663	130,319	61,456	81,625
Other payables	506,742	463,108	153,342	158,253
Amounts due to related companies (Note 31(v))	4,267	10,429	4,267	10,429
Total	511,009	473,537	157,609	168,682

Other payables are classified as current liabilities

28. Contingent Liabilities

In common with the insurance industry in general, the Group companies are subject to litigation arising in the normal course of insurance business. The directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the Group and Company with the exception of our Tanzania subsidiary which has tax disputes with Tanzania Revenue Authority with respect to Value Added Tax (VAT), corporation tax, withholding tax and Pay As You Earn (PAYE) tax from year 2003 to 2005 totaling Tshs 270 million. The Company has paid one third of amount in dispute as per the provisions of Tanzania Income Tax Act. In the opinion of the Directors, no additional material liability is expected to arise from the disputed assessments.

29. Capital commitments

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Computers, Furniture and Fittings	110,913	111,829	86,196	111,829
Operating leases as lessee (expense) minimum lease payments due				
Within one year	9,860	13,605	-	
In second to fifth year inclusive	159,958	148,063	116,190	99,310
Total	280,731	273,497	202,386	211,139

Operating lease payments represent rentals payable by the group for some of its office properties. Leases are negotiated for an average term of six years and rentals are fixed for an average of two years. No contingent rent is payable.

Notes to the financial statements (continued)

30. Cash generated from operations

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Profit before taxation	649,363	679,001	527,514	770,982
Adjustments for:				
Interest income (Note 3)	(580,214)	(541,870)	(481,051)	(449,840)
Depreciation (Note 15)	32,348	31,145	25,571	27,799
Amortisation of intangibles (Note 16)	15,790	8,351	14,107	7,586
Revaluation reserve of bonds and shares (Note 17(a))	25,586	(24,544)	35,749	2,531
Loss on disposal of subsidiary (Note 4)	-	10,549	-	-
IFRS 9 Transition adjustment	(98,071)	-	(98,071)	-
Staff loan impairment (Note 17(b))	32,817	-	32,817	-
Changes in working capital:				
Receivables arising out of reinsurance arrangements	733,180	(227,393)	560,831	(307,139)
Insurance contract liabilities	628,581	170,998	560,100	134,229
Provision for unearned premium reserve	(72,168)	(8,452)	(92,615)	336,876
Deferred acquisition costs	(27,674)	(1,276)	(20,538)	6,982
Reinsurers' share of insurance liabilities	(365,071)	(65,874)	(169,686)	(298,406)
Other payables	(123,811)	610,424	(91,111)	806,323
Other receivables	270,170	384,490	261,518	(159,662)
Total	1,120,826	1,025,549	1,066,135	878,261

31. Related party transactions

The Company is controlled by Liberty Kenya Holdings Limited, incorporated in Kenya, which owns 100% of the Company's shares. The ultimate parent company is The Standard Bank of South Africa Limited. These are other companies which are related to the Heritage Insurance Company Kenya Limited through common shareholdings or common directorships. The following transactions were carried out with these related parties:

i) Gross premiums written

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Stanbic Bank Limited	339,049	347,625	339,049	347,625
Stanlib Kenya Limited	14,469	12,240	14,469	12,240
Liberty Life Assurance Company Kenya Limited	80,776	81,886	80,776	81,886
Total	434,294	441,751	434,294	441,751
ii) Claims incurred				
Stanbic Bank Limited	92,921	175,524	92,921	175,524
iii) Rental expense/(income) Rent paid to:				
Liberty Life Assurance Company Kenya Limited	52,769	48,976	52,769	48,976
Total	145,690	224,500	145,690	224,500

Health Insurance

Travel Insurance

Life Insurance

Car Insurance

Insurance

Home Insurance

A close-up photograph of a hand placing a smooth, light-colored stone on top of a stack of five similar stones. The stack is on a pebbly beach with the ocean in the background. The image is used as a background for an advertisement.

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HERITAGE LIFE INSURANCE.

A legacy
that **delivers**

Notes to the financial statements (continued)

31. Related party transactions (continued)

	THE GROUP		THE COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
iii) Rental expense/(income) rent paid to :				
Liberty Life Assurance Company Kenya Limited	53,922	39,878	53,922	39,878
Rent received from Stanbic Bank Limited	-	(9,384)	-	-
	53,922	30,494	53,922	39,878
iv) Interest earned on related party balances	14,730	7,945	14,730	7,945
Interest on bank deposits with Stanbic Bank Limited	14,730	7,945	14,730	7,945
v) Outstanding balances with related parties				
Due from Heritage Insurance Company Tanzania Limited	-	-	24,243	15,301
Due from Liberty Kenya Holdings Limited	12,871	43,091	12,871	43,091
Due from Liberty Life Assurance Company Kenya Limited	9,650	24,002	9,650	23,970
Due from Azali Limited	-	-	-	-
	22,521	67,093	46,764	82,362
Due to Stanbic Bank Limited	359	342	359	342
Due to Liberty Holdings (South Africa) Limited	1,285	2,309	1,285	2,309
Due to Stanlib Kenya Limited	2,623	7,778	2,623	7,778
	4,267	10,429	4,267	10,429
Balances due from related parties are interest free and have no specific repayment period.				
vi) Investments in related parties				
Stanbic Bank Limited deposits and bank balances	319,851	331,480	319,851	331,480
	319,851	331,480	319,851	331,480
vi) Advances to related parties				
Stanbic Bank Limited deposits and bank balances	554,487	331,480	554,487	331,480
	554,487	331,480	554,487	331,480
vii) Advances to related parties				
Staff mortgages	225,142	264,746	225,142	264,746
Other Loans	37,742	51,200	37,742	51,200
	262,884	315,946	262,884	315,946
viii) Loans to directors of the Company				
At start of the year	24,104	26,969	24,104	26,969
Additions	-	-	-	-
Loan repayments received	(2,873)	(2,865)	(2,873)	(2,865)
At end of year	21,231	24,104	21,231	24,104
ix) Directors' remuneration				
Directors' fees	15,935	12,311	8,344	8,955
x) Key management personnel remuneration (excluding directors).				
Post-employment and other short term benefits	80,474	77,171	25,565	23,990
Total	80,474	77,171	25,565	23,990

Notes to the financial statements (continued)

32. Critical accounting estimates and judgements in applying accounting

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

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

- **Insurance contract liabilities**

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

The determination of the liabilities under general insurance contracts is dependent on estimates made by the Group and Company. Estimates are made as to the expected amounts of claims to be paid in future. Judgement is also applied in the estimation of future contractual cash flows in relation to reported judgement is also applied in the estimation of future contractual cash flows in relation to reported losses and losses incurred but not reported. There are several sources of uncertainty that need to be considered in the estimate of the ability that the Group and Company will ultimately pay for such claims. Case estimates are computed based on the historical claims development statistics and evaluation of the current, past and future assumptions. Using the BF model, the Company has developed estimates of expected claims outstanding.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The carrying amounts of insurance liabilities as at the end of the year period and as at 31 December 2018 are set out in note 23.

- **Impairment of receivables**

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

- **Fair value measurement and valuation process**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group and Company uses their judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting date. The Group has used a discounted cash flow analysis for various financial assets that are not traded in active markets.

- **Useful lives of vehicles and equipment**

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

- **Income taxes**

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

33. Management of insurance and financial risk

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

The following tables disclose the concentration of insurance liabilities 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:

Notes to the financial statements (continued)

33. Management of insurance and financial risk (continued)

a) Insurance risk

Year ended 31 December 2018.

Class of business		THE GROUP			
		Maximum insured loss (Shs' 000)			
Short term insurance business		Shs 0 -15M	15-250M	Over Shs 250M	Total
Motor	Gross	41,595,907	23,459,110	376,930	65,431,947
	Net	35,145,653	22,082,271	171,397	57,399,321
Fire	Gross	27,271,566	96,155,200	632,774,218	756,200,984
	Net	26,983,208	79,239,445	32,466,335	138,688,988
Personal accident	Gross	1,257,474	21,028,517	9,058,062	31,344,053
	Net	1,105,756	18,684,151	7,621,662	27,411,569
Other	Gross	28,374,464	167,584,491	592,950,266	788,909,221
	Net	23,622,387	69,677,542	197,886,995	291,186,924
Total	Gross	98,499,411	308,227,318	1,235,159,476	1,641,886,205
	Net	86,857,004	189,683,409	238,146,389	514,686,802

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

Year ended 31 December 2018

Class of business		THE COMPANY			
		Maximum insured loss (Shs' 000)			
Short term insurance business		Shs 0 -15M	15-250M	Over Shs 250M	Total
Motor	Gross	41,380,780	22,945,768	-	64,326,548
	Net	34,934,408	21,919,576	-	56,853,984
Fire	Gross	26,912,931	90,852,210	275,923,616	393,688,757
	Net	25,550,990	73,001,025	27,126,844	125,678,859
Personal accident	Gross	1,257,474	21,028,517	9,058,062	31,344,053
	Net	1,105,756	18,684,151	7,621,662	27,411,569
Other	Gross	27,106,459	155,215,459	428,258,566	610,580,484
	Net	22,269,643	22,269,644	33,439,293	77,978,580
Total	Gross	96,657,644	290,041,954	713,240,244	1,099,939,842
	Net	83,860,797	135,874,396	68,187,799	287,922,992

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

Notes to the financial statements (continued)

33. Management of insurance and financial risk (continued)

Year ended 31 December 2017.

Class of business		THE GROUP			
		Maximum insured loss (Shs' 000)			
Short term insurance business		Shs 0 -15M	15-250M	Over Shs 250M	Total
Motor	Gross	26,757,422	16,541,822	488,841	43,788,085
	Net	26,194,420	14,822,850	216,857	41,234,127
Fire	Gross	1,347,065	95,546,520	769,960,473	878,978,058
	Net	12,210,822	72,153,176	31,235,323	115,599,321
Personal accident	Gross	532,707	13,431,303	7,565,382	21,529,392
	Net	478,026	10,811,403	6,685,382	17,974,811
Other	Gross	26,311,168	146,042,438	328,385,285	500,738,891
	Net	30,395,694	136,049,000	150,724,108	317,168,802
Total	Gross	67,072,362	271,562,083	1,106,399,981	1,445,034,426
	Net	69,278,962	233,836,429	188,861,670	491,977,061

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

Year ended 31 December 2017

Class of business		THE COMPANY			
		Maximum insured loss (Shs' 000)			
Short term insurance business		Shs 0 -15M	15-250M	Over Shs 250M	Total
Motor	Gross	26,478,456	15,876,107	-	42,354,563
	Net	25,927,171	14,616,989	-	40,544,160
Fire	Gross	13,095,246	89,989,079	395,988,267	499,072,592
	Net	10,972,540	66,759,558	26,618,906	104,351,004
Personal accident	Gross	532,707	13,431,303	7,565,382	21,529,392
	Net	478,026	10,811,403	6,685,382	17,974,811
Other	Gross	25,058,245	133,820,662	165,654,182	324,533,089
	Net	20,293,292	100,663,623	27,979,854	148,936,769
Total	Gross	65,164,654	253,117,151	569,207,831	887,489,636
	Net	57,671,029	192,851,573	61,284,142	311,806,744

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

B) Financial Risk

The Group is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important types of risk are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk, equity price risk and other price risks.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Group manages these positions through an Investment Committee and investment policy that has been developed to achieve long term investment return in excess of its obligations under insurance and investment contracts. The principal technique of the company is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

Notes to the financial statements (continued)

33. Management of insurance and financial risk (continued)

Funds are applied to investments that fit the criteria developed as being acceptable and optimise the return on investment and the Asset Liability Matching (ALM) Balance Sheet of the Company as at 31 December 2018

Year ended 31 December 2018	THE COMPANY			
	Maximum insured loss (Shs' 000)			
	Policy Holders 2018 Shs '000	%	Share Holder 2017 Shs '000	%
Asset class				
Investible assets	3,461,002	37%	2,083,779	72%
Non-investible	1,978,803	42%	512,018	18%
Inadmissible assets	849,843	21%	285,466	10%
Total	6,289,648	-	2,881,263	-
Liabilities	6,110,299	100%	4,267	100%
Excess	179,349		2,876,996	
Asset class	Policy Holders 2018 Shs '000	%	Share Holder 2017 Shs '000	%
Investible assets	2,061,116	37%	2,470,882	75%
Non-investible	2,328,035	42%	496,322	15%
Inadmissible assets	1,180,360	21%	336,011	10%
Total	5,569,511	-	3,303,215	-
Liabilities	5,569,511	100%	205,193	100%
Excess	-	-	3,098,022	-

C) credit risk

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

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

Other areas where credit risk arises include cash and cash equivalents, corporate bonds, commercial papers, loans receivable, government securities and deposits with banks and other receivables.

The Group has no significant concentrations of credit risk. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single

Notes to the financial statements (continued)

33. Management of insurance and financial risk (continued)

C) credit risk - continued

counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

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

Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the company risk department.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the external credit ratings if available or historical information about counterparty default rate. None of the Company's credit counterparties has an external credit rating other than the government of Kenya which has a Standard and Poors' rating of B+. For credit risk counterparties without an external credit rating, the group classifies them as follows.

- Group 1 New customers/related parties
- Group 2 Existing customers/related parties with no defaults in the past
- Group 3 Existing customer/related parties with some defaults in the past.

All defaults were fully recovered maximum exposure to credit risk before collateral held

		THE GROUP		THE COMPANY	
	Credit quality	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Receivables arising out of reinsurance arrangements	Group 2	110,318	717,469	8,699	443,501
Receivables arising out of direct insurance arrangements	See analysis below	733,582	859,611	733,582	859,611
Other receivables (excluding prepayments)	Group 2	32,209	98,443	53,347	89,645
Reinsurers' share of insurance liabilities	Group 2	2,625,590	2,260,519	1,742,350	1,572,664
Government securities	B+	3,316,193	3,465,744	3,133,240	3,279,797
Corporate bond and short -term notes	Group 2	105,507	181,881	98,322	175,124
Loans receivable	Group 2	262,884	315,946	262,884	315,946
Deposits with financial institutions	Group 2	3,120,342	1,864,345	2,028,023	742,381
Cash and bank balances	Group 2	421,675	361,425	227,754	311,870
Total		10,728,300	10,125,383	8,288,201	7,790,539

Collateral is held for mortgage, car and development loans above Shs 100,000; all other assets are collateral free. Some receivables that are past due but not impaired are not within their approved credit limits, and have had their terms renegotiated.

None of the above assets are past due or impaired except for the receivables arising out of direct insurance arrangements (which are due within 60 days of the end of the month in which they are invoiced except those related to Motor and Fire Insurance policies which are due on inception of insurance cover):

Notes to the financial statements (continued)

D) MARKET RISK - CONTINUED

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar. Foreign exchange risk arises from our reinsurance dealings with foreign reinsurance brokers. This risk is significant, particularly in respect of the subsidiary in Tanzania, and has in the past been mitigated through the use of a dollar denominated account.

In the year ended 31 December 2018, we had an equivalent of Shs 12.9M (2017: Shs 11.1M) in reinsurance balances denominated in foreign currency and foreign currency deposit accounts. The impact of normal exchange fluctuations in the Kenya and Tanzania shilling against the US dollar would not have a material effect on Group's results. The average rate was Shs 102.50 (2017 Shs 102.5) to the dollar, whereas the closing rate was Shs 101.85 (2017 Shs 103) to the dollar.

ii) Price risk

The Group is exposed to equity securities price risk because of investments in quoted and unquoted shares classified at fair value through the profit and loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group in the Investment Policy. All quoted shares held by the Group are traded on the Stock Exchange.

At 31 December 2018, if the market prices of equity had increased/decreased by 5% all other variables held constant, the fair value of equities held by the Company would have changed by Shs 14,260,000 (31 December 2017: Shs 16,735,000). This would result in a change in profit for the year.

At 31 December 2018, if the market prices of equity had increased/decreased by 5% all other variables held constant, the fair value of equities held by the Group would have changed by Shs 14,260,000 (31 December 2017: Shs 21,781,000). This would result in a change in profit for the year.

iii.) Cash flow and fair value interest rate risk

Fixed interest rate financial instruments expose the Group to fair value interest rate risk. Variable interest rate financial instruments expose the Group to cash flow interest rate risk. The Group's fixed interest rate financial instruments are government securities, deposits with financial institutions and corporate bonds.

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

At 31 December 2018, if the interest rate of the fixed interest bearing instruments increased/decreased by 1%, all other variables held constant, the profit of the Company would have changed by Shs 55,000,000 (31 December 2017: Shs. 45,516,000). At 31 December 2018, if the interest rate of the fixed interest bearing instruments increased/decreased by 1%, all other variables held constant, the profit of the Group would have changed by Shs 68,000,000 (31 December 2017: Shs. 45,849,000).

E) LIQUIDITY RISK

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

The Group is exposed to daily calls on its available cash for claims settlement and other administration expenses. The Group does not maintain cash resources to meet all of these needs but maintains a balanced portfolio of short term and long term investments to suit the Company's settlement cycle. Experience shows that reinvestment of maturing funds can be predicted with a high level of certainty and therefore can be matched to maturing liabilities.

Large unexpected payments are met out of call deposits conveniently placed with various financial institutions at competitive interest rates. Prompt premium collection ensures that the day to day liquidity requirements of the Group are adequately met. The table below presents the cash flows payable and receivable by the Group under liabilities and assets respectively by remaining contractual maturities at the balance sheet date. All figures are in thousands of Kenya Shillings.

Notes to the financial statements (continued)

33. Management of insurance and financial risk (continued)

As at 31 December 2018 - Liabilities	THE GROUP					Total
	Up to 1 month Shs '000	1-3 months Shs '000	3-12 months Shs '000	1-5 years Shs '000	Over 5 years Shs '000	
Insurance contract liabilities	643,310	589,106	669,899	1,503,894	46,094	3,452,303
Other payables	-	-	505,342	-	-	505,342
Creditors arising from reinsurance arrangements	-	635,320	-	-	-	635,320
Due to related parties	-	-	4,267	-	-	4,267
Creditors arising from direct insurance arrangements	-	-	552,382	-	-	552,382
Total financial liabilities (expected maturity dates)	643,310	1,224,426	1,731,890	1,503,894	46,094	5,149,614

As at 31 December 2018 Liabilities	THE COMPANY					
Insurance contract liabilities	511,129	468,062	532,255	1,194,889	36,623	2,742,958
Creditors arising from reinsurance arrangements	-	405,232	-	-	-	405,232
Other payables	-	-	153,341	-	-	153,341
Creditors arising from direct insurance arrangements	-	-	545,618	-	-	545,618
Due to related parties	-	-	4,267	-	-	4,267
Total financial liabilities (expected maturity dates)	511,129	873,294	1,235,481	1,194,889	36,623	3,851,416

As at 31 December 2017 - Liabilities	THE GROUP					
Insurance contract liabilities	666,970	496,161	350,940	1,018,010	291,641	2,823,722
Creditors arising from reinsurance arrangements	-	-	585,119	-	-	585,119
Other payables	74,106	-	388,998	-	-	463,104
Creditors arising from direct insurance arrangements	-	755,146	-	-	-	755,146
Due to related parties	-	-	10,429	-	-	10,429
Total financial liabilities (expected maturity dates)	741,076	1,251,307	1,335,486	1,018,010	291,641	4,637,520

Notes to the financial statements (continued)

33. Management of insurance and financial risk (continued)

As at 31 December 2017 - Liabilities	THE COMPANY					Total
	Up to 1 month Shs '000	1 - 3 months Shs '000	3 - 12 months Shs '000	1 - 5 years Shs '000	Over 5 years Shs '000	
Insurance contract liabilities	515,596	383,554	271,292	786,965	225,451	2,182,858
Creditors arising from reinsurance arrangements	-	484,578	-	-	-	484,578
Other payables	74,106	-	84,147	-	-	158,253
Creditors arising from direct insurance arrangements	-	-	546,310	-	-	546,310
Due to related parties	-	-	10,429	-	-	10,429
Total financial liabilities (expected maturity dates)	589,702	868,132	912,178	786,965	225,451	3,382,428

F) CAPITAL MANAGEMENT

The Group's capital comprises the paid up share capital and the solvency margin required to meet the requirements of the insurance regulator. The Group's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- To comply with the capital requirements as set out in the Kenyan Insurance Act, 2015.
- To comply with regulatory solvency requirements as set out in the Insurance Act, 2015. This is consistently carried out to ensure the Company's ability to meet all its obligations as they fall due is not compromised;
- 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 stakeholders; and

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

The Kenyan Insurance Act, 2015 requires general insurance companies to hold a minimum level of paid up capital of Shs 500 million and Shs 600 million by 30 June 2020.

The Company had a share capital of 25 million fully paid up ordinary shares (Shs 20 par value each) totalling Shs 500 million. This is in line with the above guidelines.

The Group's paid up capital at the end of 2018 and 2017 is presented in Note 10. The table below summarises the capital requirements of the company and its subsidiary in the various jurisdictions that the Company operates in.

	Kenya Short term division Shs '000	Tanzania Short term division Shs '000
Regulatory requirement	500,000	300,000
Amount of capital held by the company	500,000	500,000

Solvency

Short term insurance businesses are required to maintain a minimum capital requirement of Shs 600 million by June 2020 and 20% of the previous years net earned premium and risk based capital as determined from time to time.

The Kenyan Insurance Regulatory Authority (IRA) has set the minimum required capital adequacy ratio of 180% from 30 June 2017 and 200% and above by 30 June 2020. During the period the Group and Company held the minimum paid up capital required. The Company has met the required solvency margin as at 31 December 2018. The following table sets out an analysis of the capital adequacy ratio as at 31 December 2018 for the Company.

:

Notes to the financial statements (continued)

33. Management of insurance and financial risk (continued)

Solvency - continued	Kenya Short-term division 2018 Shs '000	Kenya Short-term division 2017 Shs '000
Capital adequacy ratio computation		
Credit Risk Capital	776,791	859,429
Market Risk Capital	89,080	116,783
Insurance Risk Capital	338,065	341,233
Operational Risk capital	255,551	276,749
Risk-Based Capital	1,107,389	1,199,245
Total Capital available	2,746,386	2,797,808
Absolute amount minimum	600,000	600,000
Volume of Business Minimum	619,600	612,485
Risk-Based Capital Minimum	1,107,389	1,199,245
Minimum Required Capital	1,107,389	1,199,245
Capital Adequacy Ratio	248%	233%

G) FAIR VALUE ESTIMATION

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured at fair value:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs) (level 3). The following table presents the Group's assets that are measured at fair value at 31 December 2018.

	THE GROUP			
	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Total Shs '000
As at 31 December 2018 - Assets				
Financial assets				
Quoted shares	285,196	-	-	285,196
Unquoted shares	-	-	40,071	40,071
Bonds	-	3,316,193	-	3,316,193
Total assets	285,196	3,316,193	40,071	3,641,460
	THE COMPANY			
As at 31 December 2018	Level 1	Level 2	Level 3	Total Assets
Financial assets				
Quoted shares	285,196	-	-	285,196
Bonds	-	3,133,240	-	3,133,240
Total assets	285,196	3,133,240	-	3,418,436

Notes to the financial statements (continued)

33. Management of insurance and financial risk (continued)

Fair value estimation - (continued)

As at 31 December 2017 - Assets	THE GROUP			
	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Total Shs '000
Financial assets				
Quoted shares	435,738	-	-	435,738
Unquoted shares	-	-	27,722	27,722
Bonds	-	3,465,744	-	3,465,744
Total assets	435,738	3,465,744	27,722	3,929,204

As at 31 December 2017 - Assets

As at 31 December 2017 - Assets	THE COMPANY			
	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Total Shs '000
Financial assets				
Quoted shares	334,696	-	-	334,696
Bonds	-	3,279,797	-	3,279,797
Total assets	334,696	3,279,797	-	3,614,493

The fair value of other classes of financial assets and liabilities that are not traded in an active market (for example, unquoted equity investments) is determined by using valuation techniques.

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value government security is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in level 2 or 3. There were no transfers into or out of level 3 during the year.

34. Subsequent events

There were no events after 31 December 2018 that would have a material effect, adjusting or non-adjusting, on the financial statements.

Supplementary information

Consolidated short term insurance business revenue account - 2018

	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Aviation	Motor Private	Motor Commer	Personal Accident	Medical	Theft	WCA	Misce	2018
Gross premiums written	397,599	169,899	1,383,840	442,348	201,481	66,057	1,006,987	755,128	289,104	1,707,963	122,362	330,804	498,236	7,371,808
Change in gross UPR	39,848	(6,884)	(73,247)	13,295	(5,819)	5,755	31,178	(25,970)	22,364	58,786	(304)	(9,464)	1,964	51,502
Less: reinsurance payable	375,075	26,479	1,134,104	253,354	112,652	70,995	56,653	36,841	66,175	1,284,301	7,765	26,939	264,091	3,715,424
Net earned premiums	62,372	136,536	176,489	202,289	83,010	817	981,512	692,317	245,293	482,448	114,293	294,401	236,109	3,707,886
Gross claims paid	60,077	39,638	164,310	33,623	49,292	4,210	646,123	337,020	48,850	1,282,409	38,186	52,290	296,616	3,052,644
Change in gross o/s claims	283,349	450	145,118	37,654	49,897	168	67,466	47,255	130,107	3,336	18,816	11,436	(142,565)	652,487
Less: Reinsurance recoverable	295,889	(18)	285,436	29,369	53,901	4,309	16,372	31,157	92,354	957,788	3,861	90	43,174	1,813,682
Net claims incurred	47,537	40,106	23,992	41,908	45,288	69	697,217	353,118	86,603	327,957	53,141	63,636	110,877	1,891,449
Commissions receivable	(65,756)	(2,943)	(222,140)	(38,048)	(16,533)	(9,960)	(6,423)	(3,437)	(16,900)	(299,573)	(586)	(4,317)	(34,992)	(721,608)
Commissions payable	47,772	24,237	199,159	49,637	25,565	5,421	97,122	64,764	50,395	129,991	18,088	62,560	35,377	810,088
Expenses of management	53,195	59,948	142,732	96,551	37,107	10,929	356,786	238,071	135,889	300,039	39,653	83,645	100,270	1,654,815
Total expenses and commissions	35,211	81,242	119,751	108,140	46,139	6,390	447,485	299,398	169,384	130,457	57,155	141,888	100,655	1,743,295
Underwriting profit/ (loss) transferred to P & L account - 2018	(20,376)	15,188	32,746	52,241	(8,417)	(5,642)	(163,190)	39,801	(10,694)	24,034	3,997	88,877	24,577	73,142
Key ratios:														
Loss ratio (net claims incurred / net earned premium)	76	29	14	21	55	8	71	51	35	68	46	22	47	51
Commissions ratio (commissions payable / gross premium written)	12	14	14	11	13	8	10	9	17	8	15	19	7	11
Expense ratio (management expenses / gross written premium)	13	35	10	22	18	17	35	32	47	18	32	25	20	22

Consolidated short term insurance business revenue account - 2017

	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Aviation	Motor Private	Motor Commer	Personal Accident	Medical	Theft	WCA	Misce	2017
Gross premiums written	585,035	161,957	1,139,134	436,885	180,120	72,414	1,036,054	710,014	282,018	1,992,457	156,075	331,222	511,626	7,595,011
Change in gross UPR	(219,361)	(1,980)	265,752	4,424	(7,607)	(13,517)	(8,865)	39,644	9,489	(85,468)	1,081	9,812	(3,514)	(10,110)
Less: reinsurance payable	311,777	25,836	1,250,131	284,560	94,523	57,651	59,857	38,821	54,307	1,451,088	10,862	24,019	270,398	3,933,830
Net earned premiums	53,897	134,141	154,755	156,749	77,990	1,246	967,332	710,837	237,200	455,901	146,294	317,015	237,714	3,651,071
Gross claims paid	70,845	42,490	509,726	14,717	56,036	-	609,207	318,775	102,029	1,250,053	61,238	77,944	170,203	3,283,263
Change in gross o/s claims	567	(15,714)	(17,508)	23,254	334	2,506	55,165	18,641	(20,941)	22,564	4,616	30,478	78,787	182,749
Less: Reinsurance recoverable	18,695	(47)	440,642	20,665	45,123	2,561	11,039	25,547	24,933	966,778	17,048	2,285	129,860	1,705,129
Net claims incurred	52,717	26,823	51,576	17,306	11,247	(55)	653,333	311,869	56,155	305,839	48,806	106,137	119,130	1,760,883
Commissions receivable	(102,510)	(8,507)	(234,045)	(39,153)	(18,855)	(11,118)	(7,164)	904	(11,393)	(370,799)	16	(4,510)	(27,500)	(834,634)
Commissions payable	81,589	27,396	179,189	45,528	23,291	8,853	96,140	71,691	50,562	157,606	18,889	62,992	21,222	844,948
Expenses of management	49,041	53,170	134,200	101,941	26,664	5,681	325,931	228,909	161,253	276,180	46,828	83,506	90,405	1,583,709
Total expenses and commissions	28,120	72,059	79,344	108,316	31,100	3,416	414,907	301,504	200,422	62,987	65,733	141,988	84,127	1,594,023
Underwriting profit/ (loss) transferred to P & L account - 2017	(26,940)	35,259	23,835	31,127	35,643	(2,115)	(100,908)	97,464	(19,377)	87,075	31,755	68,890	34,457	296,165
Key ratios:														
Loss ratio (net claims incurred / net earned premium)	98	20	33	11	14	(4)	68	44	24	67	33	33	50	41
Commissions ratio (commissions payable / gross premium written)	14	17	16	10	13	12	9	10	18	8	12	19	4	11
Expense ratio (management expenses / gross written premium)	8	33	12	23	15	8	31	32	57	14	30	25	18	21

Supplementary information

Company Short-term insurance business revenue account – 2018

	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Aviation	Motor Private	Motor Commer	Personal Accident	Medical	Theft	WCA	Misce	2018
Gross premiums written	222,071	169,899	485,150	227,680	114,299	66,057	827,594	651,696	233,902	1,707,963	110,481	327,274	291,576	5,435,642
Change in gross UPR	43,450	(6,884)	(11,371)	4,885	(10,848)	5,755	28,554	(19,862)	(3,777)	58,786	(2,540)	(9,618)	16,085	92,615
Less: reinsurance payable	218,202	26,479	356,420	77,727	30,035	70,995	27,786	23,449	42,974	1,284,301	2,307	26,267	195,111	2,382,053
Net earned premiums	47,319	136,536	117,359	154,838	73,416	817	828,362	608,385	187,151	482,448	105,634	291,389	112,550	3,146,204
Gross claims paid	31,602	39,638	71,539	26,872	37,746	4,210	556,671	312,066	34,547	1,282,409	34,397	52,286	86,912	2,570,895
Change in gross o/s claims	142,814	450	71,089	37,517	26,533	168	74,731	57,615	127,041	3,336	20,575	9,354	(11,123)	560,100
Less: Reinsurance recoverable	135,787	(18)	126,239	20,421	30,321	4,309	8,256	23,009	91,803	957,788	3,842	(168)	55,721	1,457,310
Net claims incurred	38,629	40,106	16,389	43,968	33,958	69	623,146	346,672	69,785	327,957	51,130	61,808	20,068	1,673,685
Commissions receivable	(35,311)	(2,943)	(104,158)	(19,162)	(3,910)	(9,960)	(3,513)	(2,200)	(12,915)	(299,573)	(7)	(4,198)	(26,664)	(524,514)
Commissions payable	27,195	24,237	100,054	34,995	16,749	5,421	80,367	55,288	40,700	129,991	15,844	61,970	19,265	612,076
Expenses of management	42,070	59,948	104,166	60,388	30,699	10,929	262,948	183,947	126,281	300,039	37,543	83,020	64,222	1,366,200
Total expenses and commissions	33,954	81,242	100,062	76,221	43,538	6,390	339,802	237,035	154,066	130,457	53,380	140,792	56,823	1,453,762
Underwriting profit/ (loss)														
Transferred to P & L account	(25,264)	15,188	908	34,649	(4,080)	(5,642)	(134,586)	24,678	(36,700)	24,034	1,124	88,789	35,659	18,757
Key ratios:														
Loss ratio (net claims incurred / net earned premium)	82	29	14	28	46	8	75	57	37	68	48	21	18	53
Commissions ratio (commissions payable / gross premium written)	12	14	21	15	15	8	10	8	17	8	14	19	7	11
Expense ratio (management expenses/ gross written premium)	19	35	21	27	27	17	32	28	54	18	34	25	22	25

Company short term insurance business revenue account - 2017

	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Aviation	Motor Private	Motor Commer	Personal Accident	Medical	Theft	WCA	Misce	2017
Gross premiums written	427,536	161,957	484,889	206,658	117,208	72,414	860,130	602,697	220,684	1,992,457	141,691	326,458	328,318	5,943,097
Change in gross UPR	(227,977)	(1,980)	42,750	(7,532)	(14,395)	(13,517)	(31,421)	18,737	9,881	(85,468)	197	4,579	(30,728)	(336,874)
Less: reinsurance payable	156,945	25,836	405,763	80,113	32,577	57,651	28,697	19,756	46,204	1,451,088	2,718	22,943	177,931	2,508,222
Net earned premiums	42,614	134,141	121,876	119,013	70,236	1,246	800,012	601,678	184,361	455,901	139,170	308,094	119,659	3,098,001
Gross claims paid	56,197	42,490	112,061	6,222	49,200	-	495,194	280,344	77,070	1,250,053	52,646	75,762	79,165	2,576,404
Change in gross o/s claims	340	(15,714)	(15,549)	23,275	1,483	2,506	77,944	19,742	(22,914)	22,564	9,814	23,644	7,235	134,370
Less: Reinsurance recoverable	6,263	(47)	71,801	13,646	42,875	2,561	1,987	21,303	9,213	966,778	12,269	241	60,524	1,209,414
Net claims incurred	50,274	26,823	24,711	15,851	7,808	(55)	571,151	278,783	44,943	305,839	50,191	99,165	25,876	1,501,360
Commissions receivable	(78,124)	(8,507)	(101,340)	(16,887)	(5,467)	(11,118)	(3,344)	(1,708)	(13,460)	(370,799)	576	(4,341)	(33,957)	(648,476)
Commissions payable	64,267	27,396	87,817	31,129	16,455	8,853	77,046	60,284	40,562	157,606	17,124	61,410	24,422	674,371
Expenses of management	40,955	53,170	112,816	58,556	22,982	5,681	233,637	172,573	148,922	276,180	44,045	82,559	54,675	1,306,751
Total expenses and commissions	27,098	72,059	99,293	72,798	33,970	3,416	307,339	231,149	176,024	62,987	61,745	139,628	45,140	1,332,646
Underwriting profit/ (loss)														
Transferred to P & L account	(34,758)	35,259	(2,128)	30,364	28,458	(2,115)	(78,478)	91,746	(36,606)	87,075	27,234	69,301	48,643	263,995
Key ratios:														
Loss ratio (net claims incurred / net earned premium)	118	20	20	13	11	(4)	71	46	24	67	36	32	22	48
Commissions ratio (commissions payable / gross premium written)	15	17	18	15	14	12	9	10	18	8	12	19	7	11
Expense ratio (management expenses/ gross written premium)	10	33	23	28	20	8	27	29	67	14	31	25	17	22

Supplementary information

The Heritage Insurance Company Kenya Limited - financial record - the company for the ten years ended 31 December 2018

	2018 Shs '000	2017 Shs '000	2016 Shs '000	2015 Shs '000	2014 Shs '000	2013 Shs '000	2012 Shs '000	2011 Shs '000	2010 Shs '000	2009 Shs '000
Gross Written Premium	5,435,641	5,943,097	5,340,182	5,224,669	4,026,551	3,549,062	3,406,711	3,382,895	2,649,262	2,062,094
Net Written Premium	3,187,789	3,434,877	3,196,515	3,058,115	2,315,231	1,962,880	1,927,950	2,371,460	2,257,204	1,731,328
Premium earned	3,146,204	3,098,001	3,062,425	2,909,357	2,087,014	1,936,410	2,103,172	2,463,819	1,936,874	1,647,516
Claims incurred	1,673,685	1,501,360	1,355,302	1,337,683	831,500	710,430	839,663	1,193,557	1,053,624	946,524
Net commission	87,562	25,895	63,702	65,916	(25,022)	(2,504)	100,878	188,792	225,457	200,051
Expenses	1,366,200	1,306,751	1,239,267	1,289,767	1,079,262	918,076	982,838	882,751	631,643	499,923
PROFIT AND LOSS										
Underwriting profit/(loss)	18,757	263,995	404,154	215,991	201,274	310,408	179,793	198,719	26,150	1,018
Policyholder bonuses & Interest - DA schemes (Long-term Business)	-	-	-	-	-	-	(178,715)	(94,416)	(140,977)	(73,010)
Investment and other income	537,740	625,713	483,850	381,277	515,182	419,257	726,343	565,205	402,437	212,132
Expenses not charged to revenue account	(28,984)	(118,726)	(182,927)	(76,204)	(14,466)	(18,539)	(63,324)	(22,589)	(9,074)	(11,029)
Tax	(146,866)	(193,892)	(206,885)	(134,166)	(187,852)	(174,215)	(118,388)	(103,021)	(81,376)	(85,936)
Operating profit attributed to shareholder	380,647	577,090	498,192	386,898	514,138	536,911	545,709	543,898	197,160	43,175
Dividends	328,000	-	60,000	370,000	230,000	200,000	400,000	280,000	435,000	-
SHARE HOLDERS' FUNDS										
Share capital	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Retained profit and reserves	2,556,344	2,601,768	2,024,678	1,586,486	1,569,588	1,285,450	1,384,078	1,071,201	1,235,860	1,032,915
	3,056,344	3,101,768	3,024,678	2,086,486	2,069,588	1,785,450	1,884,078	1,571,201	1,735,860	1,532,915
Insurance funds including claims and provisions	3,263,758	2,965,959	2,793,260	2,641,046	2,115,386	1,752,521	1,815,417	3,562,956	3,645,473	2,979,447
Total	6,320,102	6,067,727	5,817,938	4,727,532	4,184,974	3,537,971	3,699,495	5,134,157	5,381,333	4,512,362
SHARE INFORMATION										
Earning per share Shs	15	23	20	15	206	21	22	22	8	2
Dividend per share Shs	13.12	0	2	14.8	9.2	8	16	11	17	0

Note: Effective 1 January 2013, long term Business was transferred to Liberty Life Assurance Kenya Ltd through a business re-organization process, the figures for 2013, 2014, 2015 2016, 2017 & 2018 show only short term Business. The figures were restated to show the combined position for short-term and long-term business from 2008 to 2012. The earnings per share are based on an issued capital of 25,000,000 ordinary shares.





The Heritage
Insurance Company
Tanzania Limited

Abridged Annual Report
& Financial Statements
for the year ended 31 December 2018



The directors of the Company at the date of this report, all of whom have served since 1 January 2018, are shown on page 84

Company Secretary

Gemma Moshy
P.O.Box 78196
Dar es Salaam

Independent Auditors

KPMG
11th Floor, PPF Tower, Ohio Street Garden Avenue
P.O. Box 1160, Dar es Salaam

Registered Office

4th Floor Masaki Ikon
Bains Avenue - Msasani Peninsula
P.O. Box 7390, Dar es Salaam
Tanzania

Senior Management

N. Shanmugarajan - *Chief Executive Officer*
Puneet Jain (ACA, ACS) - *Chief Financial Officer*
(Resigned on 30th June 2017)
Thecla Magashi (CPA (T), MBA) - *Chief Financial Officer* (Joined on 1st May 2017)
Gilliard Mardai (AD) - Joined 1st October 2017

Tanzania

The Exim Bank Tanzania Limited
Exim Tower 1404/45 Ghana Avenue
P.O. Box 1431, Dar es Salaam
Tanzania

Stanbic Bank

Plot no. 99A, Cnr Kinondoni Road &
Ali Hassan Mwinyi Road
P.O. Box 72647, Dar es Salaam, Tanzania

Principal Bankers

Citibank Tanzania Limited
36 Upanga Road
P.O. Box 71625, Dar es Salaam, Tanzania

Chairman's Statement

It is my pleasure to report to you the results of The Heritage Insurance Company Tanzania Limited for the financial year ended 31 December 2018. Over the past 20 years, our focus has been on delivering exceptional client service. The good news to report for the year 2018 is a growth in the company's underwriting which is supported by historical healthy underwriting profitability and sound investment income and we remain the insurer of choice. Our claims paying ability has always been among the highest in the market, with a rating of AA-(TZ) affirmed by the Global Credit Rating Co (GCR).

OVERVIEW

According to recent reports from African Development Bank (AFDB), real GDP growth in 2018 was estimated to be 6.7% down from 7.1% in 2017. Growth is projected at 6.6% in both 2019 and 2020. On the other hand, the average GDP growth of East Africa region is 5.7%. The annual inflation rate eased up to an average of 3.8% from 5.3% in 2017. However, inflation is projected to marginally increase to 5.2% in 2019 and 5.1% in 2020 due to increased government spending.

The year 2018 has witnessed a growth in the general insurance market as against a negative growth of 5% in 2017, the previous year's negative growth was mainly attributed to the revision in the Insurance regulation by introducing Cash before Cover. The market was able to realign itself with the new regulations inclusive of the statutory requirement that provided for all insurances for locally based risk to be placed with Tanzanian Insurers, which assisted in the growth in 2018.

During 2019, the insurance industry is likely to grow further owing to various initiatives by the regulator which shall open potential avenues for insurance business in the market. The industry is expected to thrive from the upcoming national infrastructural projects, introduction of bancassurance and other opportunities in untapped business sectors. Heritage, being one of the largest players in the market, will be the leader in offering various insurance products to the market.

COMPANY PERFORMANCE REVIEW

Gross Written Premium (GWP) of Tshs 43 billion increased by 20% over the previous year. This was primarily due to our high retention ratio which was over 85%. There was also a growth in new business of almost Tshs 12 billion which was enabled by the continued excellent relationship with various intermediaries, channel partners and customers.

During the year the Company had recorded a

favorable net claims ratio of 39% compared to the previous year loss of 47%. This was possible due to prudent underwriting. Operating expenses remained slightly higher at 12% of GWP while the ideal rate would have been 10% of GWP. The Company continues to focus on prudently reducing the cost base and on improving the operational cost ratios.

Interest & dividend incomes at Tshs 2.2 billion were 8% higher than the previous year. Fair value gain on investment was Tshs 334.7 million compared to Tshs 293.2 million in 2017.

The underwriting profit increased by 74% to Tshs 1.2 billion in 2018 from Tshs 696.8 million in 2017. Profit before tax at Tshs 4.5 billion was 169% higher compared with profit before tax of Tshs 1.67 billion in 2017.

The company believes in delivering shareholder value while exercising appropriate administration over its resources. During the year the company paid an interim dividend of Tshs 3.1 billion.

With total assets of Tshs 60.3 billion and a strong relationship with reputable Reinsurers the Company remains both strong and dynamic.

FUTURE OUTLOOK

The company has invested in a new Insurance software to provide efficient service and prompt claims settlement. In 2019, we have planned to revamp the Customer Service Point (CSP) located in Arusha by relocating to a more spacious and convenient building. The plan is to have two more CSP offices in other regions within Tanzania; this will ensure that the company provides efficient service to its clients and intermediaries outside Dar es Salaam.

The Company's medium term strategy includes enhancing business with its core market segment of large corporate clients and continuing focusing on small and medium businesses as well as personal lines. This will be enabled by the strong relationship we have with brokers and agents at all levels. We look to all our stakeholders to extend us their continuous support as we leverage on all opportunities and build our company and the national at large.

On behalf of the Board of Directors, I would like to express my heartfelt appreciation to all stakeholders who had given the company their utmost support. We appreciate efforts being done by the Regulator - Commissioner of Insurance and the team by ensuring that the industry operates in a more professional and sustainable manner.



Our deepest gratitude is to our valued clients for their continued faith and confidence in us all these years. My sincere thanks also to our agents, business partners, ceding companies and intermediaries, for their steadfast support and cooperation.

Last but not least, my sincere gratitude goes to my fellow Directors for their guidance and leadership, to our loyal management team and employees for their unrelenting commitment and dedication to the company.

YOGESH M. MANEK
CHAIRMAN

DATE

Director's Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of The Heritage Insurance Company Tanzania Limited ("the Company").

1 INCORPORATION

The Company is incorporated in Tanzania under the Companies Act of 2002 as a limited liability company.

2 VISION

Our vision is to be the obvious and preferred choice of risk partner for buyers, intermediaries and reinsurers, and the point of reference for the Tanzania insurance industry.

3 MISSION

Our mission is to maintain a viable and sustainable risk transfer enterprise that maximizes returns for key stakeholder groups – our shareholders, business partners and staff.

4 PRINCIPAL ACTIVITIES

The Company is registered for general insurance business, which is its principal activity.

5 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Company at the date of this report and who have served since 1 January 2018, except where otherwise stated, are:-

Name	Position	Nationality	Age
Yogesh M Manek	Chairman	Tanzanian	64
MAC Group Limited	Company Director	Tanzanian	N/A
Michael L du Toit	Director	South African	57
Juma V Mwapachu	Director	Tanzanian	76
Peter N Gethi	Director	Kenyan	53
Godfrey Kioi	Director	Kenyan	54
Ravi Singh	Director	South African	42

6 COMPANY SECRETARY

The Company's Secretary as at the date of the report was Mrs. Gemma Moshy.

7 CORPORATE GOVERNANCE

The Board of Directors consists of 7 directors. None of the directors hold executive positions in the Company. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Chief Executive Officer assisted by the Management Team. The Management Team is invited to attend board meetings and facilitate the effective control of the Company's

operational activities, acting as a medium of communication and coordination between the various departments.

The Company is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year the Board had the following sub-committees to ensure a high standard of corporate governance throughout the Company.

BOARD AUDIT AND RISK COMMITTEE

No.	Name	Position
1	Ravi Singh	Chairman
2	MAC Group Limited (Represented by Geetha Sivakumar)	Member
3	Michael L du Toit	Member
4	Peter N Gethi	Member

BOARD INVESTMENT COMMITTEE

No.	Name	Position
1	Michael L du Toit	Chairman
2	MAC Group Limited (Represented by Geetha Sivakumar)	Member
3	Yogesh M. Manek	Member

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

No.	Name	Position
1	Juma V. Mwapachu	Chairman
2	Yogesh M. Manek	Member
3	Godfrey Kioi	Member

During the year the Board of Directors held 5 meetings. The Board sub-committees held the following number of meetings: Audit and Risk Committee 4; Investment Committee 4; and Human Resources and Remuneration Committee 3 meetings.

8 RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Company. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

Director's Report (continued)

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance with such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2018 and is of the opinion that they met accepted criteria.

The Board performs risk and internal control assessment through the Board Audit and Risk Committee.

9 CAPITAL STRUCTURE

The Company's capital structure for the year is shown in Note 12 to the financial statements.

10 MANAGEMENT TEAM

The management of the Company is under the Chief Executive Officer, assisted by the following:-

- Chief Financial Officer,
- General Manager.

11 SHAREHOLDERS OF THE COMPANY

The total number of shareholders during the year 2018 is 2 (2017: 2 shareholders). One director, Mr. Yogesh M. Manek has an indirect interest of 37.44% in the shares of the Company through his shareholding in MAC Group Limited. No other director holds shares of the Company.

The shares of the Company are held as follows:

Name of the Shareholder	Number of Shares held in 2018	Number of Shares held in 2017
Heritage Insurance		
Company Kenya Limited	48,000	48,000
MAC Group Limited	32,000	32,000
	80,000	80,000

12 FUTURE DEVELOPMENT PLANS

The Company will continue to improve its profitability through provision of efficiency and prompt services while carefully managing both costs and risks. The Company will also continue to focus on improving productivity while expanding to other Geographical areas and tapping into other market segments such as Bancassurance.

Based on gross premium written in the current year, the Company is one of the leading private insurance Companies in Tanzania. After deducting reinsurance premium, the Company registered net earned premium of Tshs 12.5 billion (2017: Tshs 12.0 billion).

The directors believe that the Company is well placed to consolidate its position as a leading Company in the market during the next two to three years.



13 PERFORMANCE FOR THE YEAR

During the year the Company recorded a net profit after tax for the year of TShs 3,101 million (2017: TShs 1,125 million).

14 TRANSFERS TO RESERVE

An amount of TShs 620 million (2017: TShs 336 million), has been transferred from the retained earnings to a contingency reserve, in accordance with Regulation 27(2)(b) of the Insurance Act 2009.

15 DIVIDEND

The Board of Directors approved payment of an interim dividend of TShs 3.1 billion (2017: TShs 4 billion). No final Dividend is being proposed. In making the proposal the directors have taken into account the Dividend Policy which considers the financial position of the company and the need for future investment capital.

16 RESOURCES

Employees with appropriate skills and experience in running the business are a key resource available to the Company and they assist in pursuing the Company's business objectives.

17 PRINCIPAL RISKS AND UNCERTAINTIES

The principal financial risks that may significantly affect the Company's strategies and development are mainly insurance risk, credit risk, debt and equity market price, foreign currency exchange rate and interest rate risk. More details of the risks facing the Company are provided in Note 3 to the financial statements.

18 SERIOUS PREJUDICIAL MATTERS

In the opinion of the directors, there are no serious prejudicial matters that can affect the Company.

19 SOLVENCY

The Board of directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Director's Report

20 EMPLOYEES' WELFARE

Management and employees' relationship

There was continued good relation between employees and management for the year 2018. There were no unresolved complaints received by Management from the employees during the year. A healthy relationship continues to exist between management and staff.

The Company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind.

Training facilities

During the year the Company spent TShs 17 million (2017: TShs 20 million) for staff training in order to improve employees technical skills and hence effectiveness. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development.

Medical assistance

All members of staff and their spouses up to a maximum of four beneficiaries (dependents) for each employee were availed medical services by the Company through medical insurance.

Persons with disabilities

Applications for employment by disabled persons are always considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the Company that training, career development and promotion of persons with disabilities should, as far as possible, be identical to that of other employees.

The Company pays contributions to publicly administered pension plan on mandatory basis which qualifies to be a defined contribution plan. The number of employees during the year was 52 (2017: 51).

21 GENDER PARITY

The Company had 52 employees, out of which 25 were female and 27 were male (2017: female 23, male 28).

22 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 33 to these financial statements.

23 POLITICAL AND CHARITABLE DONATIONS

The Company did not make any political donations during the year (2017: Nil). Donations made to charitable and other organizations during the year amounted to TShs 1.2 million (2017: TShs 3.2 million).

24 RELATIONSHIP WITH STAKEHOLDERS

The Company continued to maintain a good relationship with all stakeholders and the regulators.

25 CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company encourages its employees' initiatives on participating in the CSR activities. Various activities were carried out during the year.

26 APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 89 to 90 were approved at a meeting of Directors on 19 March 2019.

27 AUDITORS

KPMG have expressed their willingness to continue in office and are eligible for re- appointment. A resolution proposing the re-appointment of KPMG as auditors of the Company will be put to the annual general meeting.

BY ORDER OF THE BOARD

YOGESH M. MANEK
CHAIRMAN



GODFREY KIOI
DIRECTOR
DATE

Statement of Directors' Responsibilities



The Company's directors are responsible for the preparation of financial statements that give a true and fair view of The Heritage Insurance Company Tanzania Limited comprising the statement of financial position as at 31 December 2018, and 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 and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Company to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements:

The financial statements of The Heritage Insurance Company Tanzania Limited, as identified in the first paragraph, were approved by the board of directors and signed by

Yogesh M. Manek
CHAIRMAN

Godfrey Kioi
DIRECTOR

DATE:

We ensure the
safety of your cargo.

HERITAGE MARINE INSURANCE.

A legacy
that delivers



Statement of Profit or Loss

For the year ended 31 December 2018

	2018 TShs'000	2017 TShs'000
Insurance premium revenue	42,127,064	42,858,245
Insurance premium ceded to reinsurers	(29,640,882)	(30,878,756)
Net insurance premium revenue	12,486,182	11,979,489
Investment income	2,153,494	2,089,714
Commission earned	4,381,406	4,032,174
Fair value gain	334,746	293,270
Other income	579,344	393,901
Net income	19,935,172	18,788,548
Insurance claims	(12,763,043)	(16,358,446)
Insurance claims recovered from reinsurers	7,922,164	10,737,194
Net insurance claims	(4,840,879)	(5,621,252)
Operating expenses	(6,187,929)	(7,795,058)
Commission expense	(4,401,824)	(3,694,687)
Profit from operations	4,504,540	1,677,551
Profit before income tax	4,504,540	1,677,551
Income tax expense	(1,402,640)	(552,177)
Profit for the year	3,101,900	1,125,374
Other comprehensive income	-	-
Total comprehensive income for the year	3,101,900	1,125,374

Statement of financial

Position as at 31 December 2018

	2018 TShs'000	2017 TShs'000
Assets		
Motor vehicle and equipment	450,767	530,250
Intangible assets	441,015	22,907
Equity investment at fair value through profit or loss (quoted)	-	2,182,498
Equity investment at fair value through profit or loss (unquoted)	897,999	598,805
Receivables arising out of reinsurance arrangements	2,277,291	5,917,722
Reinsurers' share of insurance liabilities	19,793,392	14,857,680
Deferred acquisition cost	2,024,321	1,206,301
Deferred tax asset	1,042,698	1,358,490
Income tax recoverable	-	225,234
Other receivables	278,042	256,936
Government securities at fair value through profit or loss	4,099,978	4,016,447
Corporate bonds at fair value through profit or loss	161,013	145,956
Deposits with financial institutions	24,478,876	24,234,414
Cash and bank balances	4,345,769	1,070,394
Total assets	60,291,161	56,624,034
LIABILITIES		
Insurance contract liabilities	15,896,425	13,842,659
Unearned premiums	13,066,561	12,152,613
Creditors arising from direct insurance	151,592	838,282
Payables arising from reinsurance arrangements	4,959,315	5,844,269
Deferred acquisition income	1,948,359	1,287,236
Other payables	8,462,941	6,915,280
Income tax payable	60,373	-
Total liabilities	44,545,566	40,880,339
EQUITY		
Share capital	8,000,000	8,000,000
Contingency reserve	6,791,332	6,170,952
Retained earnings	954,263	1,572,743
Total equity	15,745,595	15,743,695
Total equity and liabilities	60,291,161	56,624,034

The financial statements on pages 89 to 90 were approved for issue by the board of directors on and were signed on its behalf by:

		
YOGESH M. MANEK CHAIRMAN	GODFREY KIOI DIRECTOR	NATARAJAN SHANMUGARAJAN CHIEF EXECUTIVE OFFICER

Supplementary information (Tanzania)

General Insurance Business Revenue account 2018

	Engineering	Fire Industrial	Liability	Marine	Motor Commer	Private	Personal Accident	Theft	Workmen's Compensn	Misc	2018 Total	2017 Total
Gross premium written	3,901,995	19,977,885	4,772,072	1,938,075	2,299,285	3,987,912	1,227,134	264,116	78,475	4,594,063	43,041,012	35,780,499
Change in gross UPR	(80,069)	(1,375,496)	186,951	111,793	(135,765)	58,340	581,106	49,703	3,410	(313,920)	(913,947)	7,077,746
Gross earned premiums	3,821,926	18,602,389	4,959,023	2,049,869	2,163,520	4,046,252	1,808,240	313,819	81,885	4,280,143	42,127,065	42,858,245
Less: reinsurance payable	3,487,285	17,287,897	3,904,186	1,836,579	297,706	641,703	515,764	121,350	14,936	1,533,477	29,640,883	30,878,756
Net earned premiums	334,641	1,314,492	1,054,837	213,289	1,865,814	3,404,549	1,292,476	192,469	66,949	2,746,666	12,486,182	11,979,489
Gross claims paid	633,011	2,062,301	150,077	256,652	554,731	1,988,516	317,965	84,235	79	4,661,709	10,709,277	15,310,521
Change in gross o/s claims	3,124,080	1,645,669	3,042	519,378	(230,300)	(161,485)	68,146	(39,112)	46,287	(2,921,940)	2,053,766	1,047,926
Less: Reinsurance recoverable	3,559,063	3,538,956	198,922	524,195	181,137	180,420	12,237	443	5,748	(278,957)	7,922,164	10,737,194
Net claims incurred	198,028	169,014	(45,803)	251,835	143,294	1,646,611	373,874	44,680	40,618	2,018,726	4,840,879	5,621,253
Commission receivable	(676,793)	(2,622,746)	(419,823)	(280,624)	(27,484)	(64,693)	(88,579)	(12,880)	(2,649)	(185,134)	(4,381,406)	(4,403,621)
Commission payable	457,427	2,203,102	325,483	195,994	210,665	372,457	215,529	49,876	13,121	358,169	4,401,825	4,066,135
Expenses of management	247,294	857,330	803,906	142,451	1,203,172	2,086,027	213,589	46,903	13,880	801,348	6,415,899	5,998,951
Total expenses and commissions	27,928	437,686	709,566	57,821	1,386,353	2,393,791	340,539	83,899	24,352	974,383	6,436,317	5,661,465
Underwriting profit/(loss)	108,683	707,792	391,073	(96,366)	336,168	(635,854)	578,062	63,891	1,980	(246,442)	1,208,986	696,771
Key ratios:												
Loss ratio	59%	13%	-4%	118%	8%	48%	29%	23%	61%	73%	39%	50%
Commission ratio	12%	11%	7%	10%	9%	9%	18%	19%	17%	8%	10%	11%
Expense ratio	6%	4%	17%	7%	52%	52%	17%	18%	18%	17%	15%	17%

Supplementary information (Tanzania)

General Insurance Business Revenue account 2017

	Engineering	Fire Industrial	Liability	Marine	Motor Commer	Private	Personal Accident	Theft	Workmen's Compensn	Misc	2017 Total	2016 Total
Gross premium written	3,411,427	14,170,938	4,986,708	1,362,672	2,324,484	3,810,514	1,328,512	311,558	103,192	3,970,493	35,780,499	48,648,228
Change in gross UPR	186,619	4,830,212	258,973	147,040	452,861	488,565	(8,499)	19,157	113,360	589,458	7,077,746	669,904
Gross earned premiums	3,598,046	19,001,150	5,245,681	1,509,712	2,777,346	4,299,079	1,320,013	330,715	216,552	4,559,951	42,858,245	49,318,132
Less: reinsurance payable	3,353,657	18,289,024	4,428,304	1,341,743	412,945	674,915	175,525	176,396	23,317	2,002,930	30,878,756	34,504,827
Net earned premiums	244,389	712,126	817,377	167,969	2,364,400	3,624,165	1,144,488	154,319	193,235	2,557,021	11,979,489	14,813,305
Gross claims paid	317,272	8,613,408	184,003	148,073	832,421	2,469,511	540,612	186,101	47,273	1,971,848	15,310,521	17,241,922
Change in gross o/s claims	4,929	(42,428)	(449)	(24,883)	(23,846)	(493,384)	42,728	(112,585)	148,025	1,549,819	1,047,926	(1,393,892)
Less: Reinsurance recoverable	269,275	7,989,094	152,035	48,681	91,927	196,061	340,491	103,512	44,279	1,501,837	10,737,194	9,099,907
Net claims incurred	52,926	581,886	31,519	74,509	716,648	1,780,066	242,849	(29,996)	151,019	2,019,830	5,621,253	6,748,123
Commission receivable	(528,194)	(2,874,402)	(482,279)	(289,980)	56,589	(82,742)	44,765	(12,122)	(3,676)	(231,580)	(4,403,621)	(4,404,896)
Commission payable	375,179	1,979,119	311,886	148,077	247,061	413,576	216,603	38,219	34,264	302,151	4,066,135	4,894,097
Expenses of management	175,136	463,182	939,729	79,748	1,220,227	1,999,104	267,104	60,276	20,518	773,928	5,998,951	5,897,289
Total expenses and commissions	22,121	(432,101)	769,336	62,155	1,523,877	2,329,938	528,472	86,373	51,106	844,499	5,661,465	6,386,490
Underwriting profit/(loss)	169,343	562,342	16,522	155,615	123,877	(485,838)	373,168	97,942	(8,889)	(307,309)	696,772	1,678,692
Key ratios: Loss ratio	22%	82%	4%	44%	30%	49%	21%	-19%	78%	79%	47%	46%
Commission ratio	11%	14%	6%	11%	11%	11%	16%	12%	33%	8%	11%	10%
Expense ratio	5%	3%	19%	6%	52%	52%	20%	19%	20%	19%	17%	12%

Heritage

Insurance Company

A member of  LIBERTY

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