THE HERITAGE INSURANCE COMPANY KENYA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

GENERAL INFORMATION

Country of incorporation and domicile	Kenya
Directors	P. N. Gethi - Chairman G. Kioi - Managing Director G. R. May* - Non-Executive M. du Toit** - Non-Executive S. Wenman** - Non-Executive R. Mbai - Non-Executive C. Mitchem - Non-Executive R. Shah - Non-Executive A. Lonmon-Davis** - Non-Executive Appointed 14/11/2019 *British **South African
Registered office	Liberty House Mamlaka Road Nairobi P.O.Box 30390 - 00100
Banker	Stanbic Bank Limited Stanbic Centre, Chiromo Road P.O.Box 72833 - 00200 Nairobi
Auditor	KPMG Kenya Certified Public Accountants Registered Auditors Member firm 8th Floor, ABC Towers Waiyaki Way P.O.Box 40612 - 00100 Nairobi
Secretary	C. Kioni (Ms) P.O.Box 30390 00100 Nairobi
Lawyers	Wamae and Allen Advocates 3rd floor Top plaza Kindaruma Dr P.O.Box 4132-00200 Nairobi

STATEMENT ON CORPORATE GOVERNANCE

Statement on Corporate Governance

The Heritage Insurance Company Kenya Limited is committed to a transparent governance process that provides stakeholders with a high degree of confidence that the company is being managed ethically, within prudent risk parameters and in compliance with international best practice. The Board of Directors considers sound corporate governance as pivotal to delivering responsible and sustainable growth in the interests of all stakeholders.

At The Heritage Insurance Company Kenya Limited we believe that good corporate governance is integral to the structures and processes that the Board has put in place to inform, advise, manage and supervise the activities of the company towards the achievement of its strategic objectives. The Heritage Insurance Company Kenya Limited constantly monitors developments and trends in corporate governance. We are subject to various jurisdictional requirements, and therefore we conduct our operations in accordance with nationally accepted principles of good corporate governance and best practices, ensuring compliance with the highest of each of those standards. The Board prescribes to the Commonwealth Association of Corporate Governance principles and has adopted the 15 recommended guidelines and associated best practice codes.

The Directors exercise stewardship of the Company's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfying other stakeholders in the context of its corporate mission. They are concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging the efficient use of resources, accountability in the use of power and stewardship and, as far as possible, the alignment of interests of individuals, corporations and society as a whole.

The following section of the report includes descriptions of our company's corporate governance structures and procedures, along with an explanation of the work of the various Boards and how they have applied the principles of leadership, effectiveness, accountability and relations with shareholders.

1. Board of Directors

The Board of Directors consists of one executive and eight non-executive Directors who have been chosen for their business acumen and wide range of skills and experience. The Board has an appropriate mix of proficient Directors, approved by the Insurance Regulatory Authority, who are able to add value through independent judgement in the decision making process.

2. Board responsibilities

The Board has ultimate responsibility for the management, general affairs, direction, performance and long term success of our business as a whole. The responsibility of the Directors is collective, taking into account their combined roles as executives and non-executives.

The Board has delegated the operational running of the Company to the Managing Director who although is responsible to the Board, is able to sub-delegate some of his powers at his discretion.

Matters reserved for the Board include structural and constitutional issues, corporate governance, approval of dividends, approval of overall strategy for the Company and approval of significant transactions or arrangements in relation to mergers, acquisitions, joint ventures and disposals, capital expenditure, contracts and financing.

The Board has also established committees whose actions are regularly reported to and monitored by the Board.

3. Board meetings and attendance

The Board meets at least four times during the year to review the financial performance and operations of the company. Other Board meetings are held periodically to discuss topical matters and strategic issues. The Chairman presides over all meetings.

The following table reflects the attendance of Directors at five Board meetings during 2019. A director if unable to attend a Board meeting, has the opportunity beforehand to discuss any agenda item with the Chairman. Attendance is expressed as the number of meetings attended out of the number eligible to attend

STATEMENT ON CORPORATE GOVERNANCE

3) Board meetings and attendance (Continued)

Director	Directorship status	Attendance at meetings
Peter Gethi (Chairman)	Non - Executive Director	5/5
Godfrey Kioi (Managing Director)	Executive Director	5/5
Gayling May	Non - Executive Director	5/5
Michael L du Toit	Non - Executive Director	5/5
Stuart Wenman	Non - Executive Director	5/5
Catherine Mitchem	Non - Executive Director	5/5
Rachel Mbai	Non - Executive Director	4/5
Rajesh Shah	Non - Executive Director	5/5
Andrew Lonmon-Davis (Appointed on 14th November 2019)	Non - Executive Director	-

4. Appointment of directors

Upon consideration and recommendation from the Nominating and Corporate Governance Committee for a candidate to be nominated as an independent Director, suitable candidates are appointed by the Board to fill the casual vacancies.

They are thereafter elected as directors by the shareholders at an AGM. All existing Directors, unless they are retiring, submit themselves for re-election every year, and shareholders vote to re-appoint them by a simple majority vote.

5. Board evaluation

The Board remains focused on the need for continued improvements in its effectiveness and corporate governance performance and regularly conducts self-assessment evaluations along the lines of structure, process and effectiveness.

6. Board Induction, training and support

All newly appointed Directors are taken through an induction programme immediately upon appointment. The Board undertakes an annual Board enhancement training, with sessions covering corporate governance principles, Board enhancements and updates on legislation in relation to the duties of directors amongst others.

Any specific training needs or areas of Board improvement identified from the Board's self-evaluation process are also addressed regularly.

7. Remuneration

The Heritage Insurance Company Kenya Limited has a clear policy on remuneration of Executive and Non-Executive directors at levels that are fair and reasonable in a competitive market for the skill, knowledge, experience, nature and size of the Board.

STATEMENT ON CORPORATE GOVERNANCE

8. Conflict of interests

The Heritage Insurance Company Kenya Limited attaches special importance to avoiding conflict of interest between the company and its Directors. The Board is responsible for ensuring that there are rules in place to avoid conflicts of interest by Board members. Conflicts of interest are understood not to include transactions and other activities between companies in the Heritage Insurance Company Kenya Limited and Liberty as a group.

Authorisation of situational conflicts is given by the Board to the relevant Director. The authorisation includes conditions relating to keeping The Heritage Insurance Company Kenya Limited information confidential and to their exclusion from receiving and discussing relevant information at Board meetings.

Situational conflicts are reviewed annually by the Boards as part of the determination of Director Independence. In between those reviews, Directors have a duty to inform the Boards of any relevant changes to their situation.

A Director may not vote on, or be counted in a quorum in relation to, any resolution of the Board in respect of any contract in which he or she has a material interest. The procedures that Heritage Insurance Company Kenya Limited has put in place to deal with conflicts of interest continue to operate effectively.

9. Role of the Chairman vs the Managing Director

The roles of the Chairman and the Managing Director are clearly defined and are not vested in the same person. The day-to-day executive management of the Company is delegated to the Managing Director whereas the running of the Board is the responsibility of the Chairman. The Managing Director directs the implementation of the Board decisions and instructions on the general management of the Company with the assistance of the Executive Management.

The roles of the Board and those of the Executive Management are separate and except for the office of the Managing Director who acts both as a director and as a member of the Executive Management, the offices are not vested in the same persons. The Board is responsible for the long term strategic direction and profitable growth of the Company, while the Executive Management is responsible for the operational day to day running of the Company.

10. Business ethics

The Board subscribes to the highest levels of professionalism and integrity in conducting The Heritage Insurance Company Kenya Limited business and in dealing with stakeholders. All The Heritage Insurance Company Kenya Limited employees and representatives are expected to act in a manner that inspires trust and confidence from the general public.

All employees within the Company are required to sign the Company's Code of Conduct. The Code sets out the Company's commitment to ethical behavior in the conduct of its business. Appropriate codes of conduct are driven by governance practice (code of ethics, corporate citizenship code etc.), statutory and regulatory requirements, service objectives (service level agreements, business protocols, business excellence models) and the corporate governance framework itself.

Management are required to ensure there is compliance with the code.

11. Strategic drive

The Heritage Insurance Company Kenya Limited Year 2015 to Year 2020 strategy was developed by Staff and Management in liaison with the Board and was approved in Year 2015.

The strategy is reviewed annually and built into the budgeting process for the respective years. At each quarterly Board meeting, the Board is briefed by Management of the progress made to achieve the various checkpoints as detailed in the strategic plan.

The Company is currently reviewing its Year 2020 to Year 2025 strategy which is expected to be launched in quarter two of 2020.

STATEMENT ON CORPORATE GOVERNANCE

12. Board committees

The Board has established two Board Committees, the Audit and Risk Committee and the Investment Committee both formally set up by Board resolutions with defined mandates.

These committees are comprised of a balanced mix of non-executive directors, Executive management and Group consultants, with experts and service providers invited to meetings on occasions to provide specific expertise. All Committees are provided with sufficient resources to undertake their duties.

a)Audit and risk committee

The Committee consists of five non-executive Directors. It has an approved mandate and is responsible for the monitoring of risk management, compliance and internal controls as established by the Board and executed by the management of the Company.

It regularly reviews the internal systems controls and effectiveness of financial and operational reporting through the establishment of an internal audit function. It ensures the function is independent, adequately resourced and proficient in its duties. The committee also acts as a liaison with the external auditors approving their scope of work, recommending their remuneration and reviewing their reports.

The Audit and Risk Committee reports to the Board on a quarterly basis and constantly evaluates the ability of the Company to continue as a going concern. The Managing Director, General Manager in charge of Finance and Administration, General Manager in charge of Risk and Compliance and the Senior Audit Manager regularly attend the Committee meetings to respond to issues raised by Committee members. The Company Secretary attends the Committee meetings and acts as Secretary to the Committee.

The attendance of Committee members at the six meetings held in the year 2019 was as follows:

Name	Directorship status	Attendance at meetings
Gayling May (Chairman)	Non - Executive Director	6/6
Michael du Toit	Non - Executive Director	6/6
Stuart Wenman	Non - Executive Director	6/6
Rachel Mbai	Non - Executive Director	5/6
Rajesh Shah	Non - Executive Director	6/6

b) Investment committee

The primary function of the Investment Committee is to monitor performance of the Company's investment portfolio and to ensure that the appointed investment managers comply with the set benchmarks and performance standards. This Committee consists of three non-executive Directors and the Managing Director.

The Committee determines the overall investment strategy for the Company and monitors the performance of the fund managers in achieving the strategy. The company secretary attends the Committee meetings and acts as Secretary to the Committee.

The members of the Committee, and their attendance at the five meetings held in the year 2019 was as follows:

Name	Directorship Status	Attendance at meetings
Michael du Toit (Chairman)	Non-Executive Director	5/5
Godfrey Kioi	Executive Director	5/5
Stuart Wenman	Non - Executive Director	5/5
Catherine Mitchem	Non - Executive Director	5/5

STATEMENT ON CORPORATE GOVERNANCE

13. Management and operational committee

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;

a) 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

The members of ExCo are;

- Managing Director
- Director – Health
- Director – Operations
- 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

b) 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

STATEMENT ON CORPORATE GOVERNANCE

13. Management and operational committee (Continued)

b) The Credit Oversight Committee (Continued)

BNG Hiuhu - Member

A P Ngunjiri - Member

A Musunza - Member

S Chege – Member

c) 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 behaviour.

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.

d) 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 Hiuhu - Member

A Ngunjiri - Member

L Magambo - Member

S Chege - Member

A Musunza - Member

C Were – Member

STATEMENT ON CORPORATE GOVERNANCE

13. Management and operational committee (Continued)

e) 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.

14. Internal control and risk management

The Heritage Insurance Company Kenya Limited is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of products and services. The Heritage Insurance Company Kenya Limited is mindful of achieving this objective in the interests of all stakeholders.

The company continues to explore opportunities to develop and grow its business sustainably, with strategic plans being subject to careful consideration of the trade-off between risk and reward, taking into account the risk appetite limits.

Ultimate responsibility for risk management resides with the Board which ensures that the Business executive is responsible and is held accountable for risk management. The Business executive is supported by risk specialists who instill risk management best practice among all staff.

The Company's governance structures and processes are aligned with enterprise-wide value and risk management principles. In particular these structures and processes provide clarity of accountability for the management of risk.

Governance and the 'three lines of defence' model

The Company has adopted the 'three lines of defense' model for managing risk. This model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues.

The model incorporates the oversight, management and assurance of risk management, essentially giving three independent views of risk in the organisation. The implementation of this model helps ensure that risk management is embedded in the culture of the organisation and provides assurance to the Board and senior management that risk management is effective

Within this structure the Company relies on the Board, its standing committees and the company executive committee to provide oversight of the operation of the Company's enterprise-wide value and risk management.

Roles and resposibilities within the governace model

The roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues have been defined as follows:

a) Oversight

Board of directors and standing committees
The Board of directors and standing committees of the Board provide an oversight function of the company's risk management activities. Their accountabilities, membership and related information are described in the following commentary.

b) Management committees

The Managing Director utilises the company executive committee and key management committees to manage the components of risk.

c) First line of defence - business unit management

Business unit management is accountable for:

- Managing day-to-day risk exposures by applying appropriate procedures, internal controls and company policies;

STATEMENT ON CORPORATE GOVERNANCE

14. Internal control and risk management (Continued)

c) First line of defence - business unit management (Continued)

- The effectiveness of risk management and risk outcomes, and for allocating resources to execute risk management activities;

- Tracking risk events and losses, identifying issues and implementing remedial actions to address these issues; and

- Reporting and escalating material risks and issues to the relevant governance bodies as deemed appropriate.Additional text

d) Second line of defence - Head of risk and compliance, statutory actuaries, company and business unit risk policy and oversight functions

The individuals responsible for these positions are primarily responsible for verification and identification of key risks and provide the day-to-day interface between the Boards's standing committees and management. Their objective is to assist in the effective management of the risks identified within the Company. Various assurances are also provided by these functions and reported to the Board, regulators and other authorised stakeholder representatives.

e) Third line of defence - assurance

This comprises the company's assurance functions that are intended to provide an independent and balanced view of all aspects of risk management (both first and second line of defence) across the company to the various governance bodies within the organisation.

- The company's key risk management objectives are to:

- Grow shareholder value by generating a long-term sustainable return on capital;

- Ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;

- Meet the statutory requirements regulated and monitored by the IRA and other regulators; and

- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis.

The management of risks is currently focused on managing shareholder exposures within strategic limits, whilst ensuring sufficient allocation of capital on both a regulatory and economic capital basis.

The framework is based upon the following principles:

- Identification of risks

- Clarity of accountability and ownership of risks

- Risk appetite needs to be set making use of limits and controls and the risks need to be managed accordingly

- Risk quantification and measurement

- Risk monitoring and reporting

- Assessment of value creation on a risk adjusted basis.

The Company enhances the risk management framework designed to achieve enterprise-wide value optimisation (value creation, value realisation and value protection) through the following six business capabilities:

- Capital funding and risk transfer

- Strategic planning and capital allocation

- Asset-liability and investment management

STATEMENT ON CORPORATE GOVERNANCE

14. Internal control and risk management (Continued)

e) Third line of defence - assurance (Continued)

- Product development and pricing

- Performance management and incentivisation

- External communication and reporting risk management and mitigation

P. Gethi
Chairman

Thursday, 26 March 2020

DIRECTORS' REPORT

The directors submit their report together with the audited annual report and financial statements for the year ended 31 December 2019, which disclose the state of affairs of The Heritage Insurance Company Kenya Limited (the 'Company') and its subsidiary, Heritage Insurance Company Tanzania Limited (together the 'Group').

1. Incorporation

The company was incorporated in Kenya in the year 1975. It is incorporated as a private company limited by shares under the Companies Act, 2015. The address of the registered office is set out on page 2.

2. Principal activities

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

There have been no material changes to the nature of the group's business from the prior year.

3. Company results and Dividend

Profit after tax for the year ended 31 December 2019 of KShs 627 million (2018: KShs 439 million) has been added to retained earnings.

During the year, the Company paid KShs 223 million (2018: KShs 328 million) as an interim dividend. The directors do not propose payment of a final dividend (2018: nil).

4. Share capital

	2019	2018
Authorised	Number of shares	
Ordinary shares	50,000,000	25,000,000

	2019	2018	2019	2018
Issued	KShs '000	KShs '000	Number of shares	
Ordinary shares	1,000,000	500,000	50,000,000	25,000,000

Refer to note 13 of the annual report and financial statements for detail of the movement in authorised and issued share capital.

5. Directors

The directors who held office during the year to the date of this report are as shown on page 2

6. 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

7. Employees

The number of persons employed by the Company at the end of the year was 165 (2018: 178)

Out of the 165 members of staff employed by Heritage Kenya as at 31 December 2019, 97 are male and 68 are female

8. Terms of appointment of the auditors

The auditor, KPMG Kenya, continues 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.

DIRECTORS' REPORT

9. Business Overview

The group profit before tax grew by 43% in the year mainly driven by growth in Gross Written Premium and lower claims recorded in both entities.

Kenya business profit before tax grew by 61% resulting in good part from reduced claims, which were 31% and 12% below budget and the same period last year. In addition, a release of Outstanding Claims Reserve (OCR) discounting adjustment, totalling KShs.74m credited to the claims reserves as at the end of the year has further contributed to the improved results.

Tanzania business had a more challenging year characterised by high management expenses and lower investment income from a deteriorating value of unlisted equities and lower interest rates on the bank deposits.

The description and analysis of the key risks facing the Group and Company is set out on Note 2 of the financial statements.

10. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

11. Going concern

The directors believe that the group has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual report and financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the group is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the group. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the group.

12. Statement of disclosure to the company's auditor

With respect to each person who is a director on the day that this report is approved:

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

The annual report and financial statements set out on pages 19 to 77, which have been prepared on the going concern basis, were approved by the board of directors on 26 March 2020, and were signed on its behalf by:

By Order of the Board

C Kioni
Company Secretary
Thursday, 26 March 2020

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 19 - 77 which comprise the Group and Company statements of financial position at 31 December 2019, the Group and Company statements of profit or loss, Group and Company other comprehensive income, the Group and Company statements of changes in equity and the 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.

The Directors' responsibilities include: determining that the basis of accounting described in Note 1 is an acceptable basis for preparing and fairly presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Directors are required to prepare financial statements for each financial period which give a true and fair view of the financial position of the Group and Company as at the end of the financial period and of the profit or loss of the Group and Company for that period. It also requires the Directors to ensure the Group and Company keep proper accounting records which disclose with reasonable accuracy the financial position of the Group and Company.

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

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

The Directors have made an assessment of the Group's and 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 12 months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the board of directors on 26 March 2020 and signed on its behalf by:

By Order of the Board

P. N. Gethi	**G. Kioi**
Chairman	**Managing Director**

Thursday, 26 March 2020

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

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 (the 'Group and Company') set out on pages 19 to 77, which comprise the Group and Company statements of financial position as at 31 December 2019, the 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 The Heritage Insurance Company Kenya Limited as at 31 December 2019, and of the consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements*, section of our report. We are independent of the 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 consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion, and we do not provide a separate opinion on these matters.

Insurance Contract Liabilities (Applicable to the consolidated and separate financial statements)

See accounting policy note 1.4 and disclosure note 24 – 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 impact on the valuation of insurance liabilities.	Our audit procedures in this area included, among others; – 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;

Report on the audit of the consolidated and separate financial statements (Continued)

Insurance Contract Liabilities (Continued)

See accounting policy note 1.4 and disclosure note 24 – Insurance Contract Liabilities

The key audit matter	How the matter was addressed
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 impact on the valuation of insurance liabilities may arise. Consequently, we have determined the valuation of insurance contract liabilities to be a key audit matter.	– 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 reviewing the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; and – 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.

Information Technology (IT) systems and controls (Applicable to the consolidated and separate financial statements)

The key audit matter	How the matter was addressed
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.	In this area our audit procedures included, among others: – 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.

Report on the audit of the consolidated and separate financial statements (Continued)

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 consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements

As stated on page 14, the Directors are responsible for the preparation of the consolidated and separate 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 consolidated and separate 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.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.

Report on the audit of the consolidated and separate financial statements (Continued)

Auditor's responsibilities for the audit of the consolidated and separate financial statements (Continued)

- 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 consolidated 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

i. In our opinion, the information given in the report of the Directors on pages 12 - 13 is consistent with the consolidated and separate financial statements; and

ii. Our report on the consolidated and separate financial statements is unqualified.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Alexander Mbai - P/2172

KPMG Kenya

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

30 March 2020

STATEMENT OF PROFIT OR LOSS

		Group		Company	
		2019	2018	2019	2018
	Note(s)	KShs '000	KShs '000	KShs '000	KShs '000
Gross earned premium revenue	3	7,942,948	7,423,310	5,585,912	5,528,256
Outward reinsurance		(3,843,195)	(3,715,425)	(2,179,661)	(2,382,052)
Net insurance premium revenue		**4,099,753**	**3,707,885**	**3,406,251**	**3,146,204**
Commissions earned		757,430	721,608	462,507	524,514
Investment income	4	371,887	383,062	426,509	442,001
Interest income on financial assets held at amortised cost	5	225,281	188,197	139,715	113,170
Fair value gains/(losses) on financial investments	6	5,685	(18,658)	4,232	(33,716)
Other income	7	19,865	42,346	13,508	16,285
		1,380,148	**1,316,555**	**1,046,471**	**1,062,254**
Total income		**5,479,901**	**5,024,440**	**4,452,722**	**4,208,458**
Claims and policyholder benefits	8	(3,355,768)	(3,705,132)	(2,514,838)	(3,130,996)
Amounts recoverable from reinsurers		1,622,237	1,813,684	1,039,263	1,457,311
Net insurance benefits and claims		**(1,733,531)**	**(1,891,448)**	**(1,475,575)**	**(1,673,685)**
Commission expenses		(949,628)	(810,086)	(610,767)	(612,075)
Finance cost	16(b)	(25,849)	-	(23,844)	-
Other operating expenses	9	(1,843,191)	(1,673,543)	(1,488,034)	(1,395,184)
Total expenses and commissions		**(2,818,668)**	**(2,483,629)**	**(2,122,645)**	**(2,007,259)**
Profit before income tax		**927,702**	**649,363**	**854,502**	**527,514**
Income tax expense	12	(300,455)	(209,963)	(245,369)	(146,866)
Profit for the year		**627,247**	**439,400**	**609,133**	**380,648**
Profit attributable to:					
Owners of the parent		588,057	383,585	609,133	380,648
Non-controlling interest	11	39,190	55,815	-	-
		627,247	**439,400**	**609,133**	**380,648**

The accounting policies on pages 26 to 41 and the notes on pages 42 to 77 form an integral part of the financial statements

STATEMENT OF COMPREHENSIVE INCOME

		Group		Company	
		2019	2018	2019	2018
	Note(s)	KShs '000	KShs '000	KShs '000	KShs '000
Profit for the year		**627,247**	**439,400**	**609,133**	**380,648**
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations	11(b)	(5,638)	(29,966)	-	-
Other comprehensive income for the year net of taxation		**(5,638)**	**(29,966)**	**-**	**-**
Total comprehensive income		**621,609**	**409,434**	**609,133**	**380,648**
Total comprehensive income attributable to:					
Owners of the parent		584,862	364,607	609,133	380,648
Non-controlling interest		36,747	44,827	-	-
		621,609	**409,434**	**609,133**	**380,648**

The accounting policies on pages 26 to 41 and the notes on pages 42 to 77 form an integral part of the annual report and financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		Group		Company	
		2019	2018	2019	2018
	Note(s)	KShs '000	KShs '000	KShs '000	KShs '000
Share capital	13	1,000,000	500,000	1,000,000	500,000
Retained income	14	2,569,789	2,717,452	2,471,899	2,585,766
Reserves	14	152,790	143,265	-	-
Equity attributable to equity holders		**3,722,579**	**3,360,717**	**3,471,899**	**3,085,766**
Non-controlling interest	11	264,624	281,045	-	-
Total Equity		**3,987,203**	**3,641,762**	**3,471,899**	**3,085,766**
REPRESENTED BY:					
Assets					
Property and equipment	15	79,108	89,974	61,990	69,858
Right-of-use assets	16(a)	194,673	-	164,737	-
Intangible assets	17	56,585	51,529	34,534	31,850
Investment in subsidiaries	18	-	-	146,557	146,557
Deferred tax	26	230,763	221,492	189,799	174,965
Other receivables	19	276,185	117,013	213,697	128,847
Financial investments	20	4,948,723	4,009,851	4,726,565	3,779,642
Deferred acquisition costs	21	85,285	36,673	69,381	33,284
Current tax receivable		23,441	94,922	-	94,922
Receivable arising out of reinsurance arrangements		320,375	110,318	123,439	8,699
Receivable arising out of direct insurance arrangements		493,267	733,582	493,267	733,582
Reinsurers' share of insurance liabilities	22	2,709,114	2,625,590	1,555,614	1,742,350
Cash and cash equivalents	23	3,067,876	3,542,017	1,651,725	2,255,777
Total Assets		**12,485,395**	**11,632,961**	**9,431,305**	**9,200,333**
Liabilities					
Lease liabilities	16(b)	199,720	-	169,054	-
Insurance contract liabilities	24	3,598,041	3,452,303	2,717,200	2,742,958
Creditors arising from reinsurance arrangements		511,319	626,594	22,883	405,232
Other payables	25	635,116	511,009	183,966	157,609
Unearned premium reserve	27	2,995,655	2,846,218	2,311,574	2,263,150
Current tax payable		65,098	2,693	65,098	-
Creditors arising from direct insurance arrangements		493,243	552,382	489,631	545,618
Total Liabilities		**8,498,192**	**7,991,199**	**5,959,406**	**6,114,567**
Net Assets		**3,987,203**	**3,641,762**	**3,471,899**	**3,085,766**

The annual report and financial statements and the notes on pages 19 to 77, were approved by the board of directors on 26 March 2020 and were signed on its behalf by:

P. N. Gethi **G. R. May**

G Kioi

The accounting policies on pages 26 to 41 and the notes on pages 42 to 77 form an integral part of the annual report and financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital KShs '000	Currency translation reserve KShs '000	Statutory reserve KShs '000	Retained earnings KShs '000	Subtotal owners of the Company KShs '000	Non-controlling interest KShs '000	Total equity KShs '000
Group - 2018							
Balance at 1 January 2018	**500,000**	**(43,788)**	**179,329**	**2,688,569**	**3,324,110**	**291,550**	**3,615,660**
Total comprehensive income							
Profit for the year	-	-	-	383,585	383,585	55,815	439,400
Other comprehensive income							
Foreing currency transalation difference (Note 11 (b))	-	(3,715)	(6,701)	(8,562)	(18,978)	(10,988)	(29,966)
Transfer to statutory reserve	-	-	18,140	(18,140)	-	-	-
Total other comprehensive income	**-**	**(3,715)**	**11,439**	**(26,702)**	**(18,978)**	**(10,988)**	**(29,966)**
Total comprehensive income for the year	**-**	**(3,715)**	**11,439**	**356,883**	**364,607**	**44,827**	**409,434**
Transactions with owners of the company							
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 accounting policies on pages 26 to 41 and the notes on pages 42 to 77 form an integral part of the annual report and financial statements

STATEMENT OF CHANGES IN EQUITY

	Share capital	Currency translation reserve	Statutory reserve	Retained earnings	Subtotal owners of the Company	Non-controlling interest	Total equity
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Group - 2019							
Balance at 1 January 2019	**500,000**	**(47,503)**	**190,768**	**2,717,452**	**3,360,717**	**281,045**	**3,641,762**
Total comprehensive income							
Profit for the year	-	-	-	588,057	588,057	39,190	627,247
Other comprehensive income							
Foreign currency translation difference (Note 11 (b))	-	(703)	(1,394)	(1,098)	(3,195)	(2,443)	(5,638)
Transfer to statutory reserves	-	-	11,622	(11,622)	-	-	-
Total other comprehensive income	**-**	**(703)**	**10,228**	**(12,720)**	**(3,195)**	**(2,443)**	**(5,638)**
Total comprehensive income for the year	**-**	**(703)**	**10,228**	**575,337**	**584,862**	**36,747**	**621,609**
Transactions with owners of the company							
Issue of shares	500,000	-	-	(500,000)	-	-	-
Interim dividend for 2019	-	-	-	(223,000)	(223,000)	(53,168)	(276,168)
Total transactions with owners of the Company	**500,000**	**-**	**-**	**(723,000)**	**(223,000)**	**(53,168)**	**(276,168)**
Balance at 31 December 2019	**1,000,000**	**(48,206)**	**200,996**	**2,569,789**	**3,722,579**	**264,624**	**3,987,203**

The accounting policies on pages 26 to 41 and the notes on pages 42 to 77 form an integral part of the annual report and financial statements

STATEMENT OF CHANGES IN EQUITY

	Share capital KShs '000	Retained earnings KShs '000	Total equity KShs '000
Company - 2018			
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**
Interim dividend	-	(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**
Company - 2019			
Balance at 1 January 2019	**500,000**	**2,585,766**	**3,085,766**
Profit for the year	-	609,133	609,133
Total comprehensive income for the year	**-**	**609,133**	**609,133**
Issue of shares	500,000	(500,000)	-
Interim dividend 2019	-	(223,000)	(223,000)
Total contributions by and distributions to owners of company recognised directly in equity	**500,000**	**(723,000)**	**(223,000)**
Balance at 31 December 2019	**1,000,000**	**2,471,899**	**3,471,899**

The accounting policies on pages 26 to 41 and the notes on pages 42 to 77 form an integral part of the annual report and financial statements.

STATEMENT OF CASH FLOWS

		Group		Company	
		2019	2018	2019	2018
	Note(s)	KShs '000	KShs '000	KShs '000	KShs '000
Cash flows from operating activities					
Cash generated from operations	28	418,589	1,115,260	248,816	1,064,541
Tax paid	12	(175,839)	(292,175)	(100,182)	(258,564)
Interest received		610,100	580,214	501,055	481,051
Interest expensed on lease liabilities	16(d)	(25,849)	-	(23,844)	-
Net cash from operating activities		**827,001**	**1,403,299**	**625,845**	**1,287,028**
Cash flows from investing activities					
Purchase of property and equipment	15	(28,623)	(12,026)	(24,829)	(7,649)
Proceeds from sale of property, equipment and intangibles		3,387	1,147	-	-
Purchase of other intangible assets	17	(23,835)	(28,142)	(13,981)	(7,802)
Purchase of financial assets		(5,373,986)	(2,914,516)	(5,351,000)	(2,887,000)
Purchase of quoted shares		-	(4,907)	-	(4,907)
Proceeds from disposal of shares		286,341	103,937	286,341	6,548
Proceeds from disposal of government securities		4,146,096	3,148,208	4,115,684	3,123,064
Loans advanced		(58,004)	(54,844)	(58,004)	(54,844)
Loans repaid		73,788	75,088	73,788	75,088
Currency translation		(3,776)	(17,665)	-	-
Net cash from /(used in) investing activities		**(978,612)**	**296,280**	**(972,001)**	**242,498**
Cash flows from financing activities					
Payment of lease liabilities	16(d)	(46,362)	-	(34,896)	-
Dividends paid	29	(276,168)	(383,332)	(223,000)	(328,000)
Net cash from /(used in) financing activities		**(322,530)**	**(383,332)**	**(257,896)**	**(328,000)**
Total cash movement for the year		**(474,141)**	**1,316,247**	**(604,052)**	**1,201,526**
Cash at the beginning of the year		3,542,017	2,225,770	2,255,777	1,054,251
Total cash at the end of the year	23	**3,067,876**	**3,542,017**	**1,651,725**	**2,255,777**

The accounting policies on pages 26 to 41 and the notes on pages 42 to 77 form an integral part of the annual report and financial statements.

ACCOUNTING POLICIES

Corporate 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.

1. Summary of significant accounting policies

A. Basis of preparation

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

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 estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are discussed in Note 33.

This is the first set of the Group and Company's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note 1.1.

ACCOUNTING POLICIES

B. New standards, amendments and interpretations

i) New standards, amendments and interpretations effective and adopted during the year ended 31 December 2019

The following new standards are also effective from 1 January 2019.

a) Those that did not have any impact on the financial statements of the Company

Standard	Effective date
Prepayment feature with negative compensation	1 January 2019
Long term interests in associates and joint ventures (Amendments to IAS 28)	1 January 2019
Plan amendment, curtailment or settlement (Amendments to IAS 19)	1 January 2019
Annual improvements to IFRS's 2015 – 2017 cycle. (Amendments to IFRS 3, IFRS 11,IAS 12 and IAS 23	1 January 2019

b) Those that had a significant impact on the financial statements of the Company

- IFRS 16 (See note 1.1 below)

- 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 uncertainities not reflected.

The Group and Company assessed the impact on its financial statements resulting from the application of IFRS 23 and there was no impact of the same on the Group and Company's financial statements.

ACCOUNTING POLICIES

B. New standards, amendments and interpretations (Continued)

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019 and have not been applied in preparing these financial statements. The Group and Company does not plan to adopt these standards early. These are summarised below:-

a) Those not expected to have any impact on the financial statements of the Group and Company

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

All standards and interpretations will be adopted on their effective dates.

b) Those expected to have a significant impact on the financial statements of the Group and Company

- IAS 1 and IAS 8 Definition of Material

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also add 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 Group and Company assessed the potential impact on its financial statements resulting from the application of the refined definition of materiality and there was no impact of the same on the Group and Company's financial statements.

- 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 also 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.

ACCOUNTING POLICIES

B. New standards, amendments and interpretations (Continued)

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

b) Those expected to have a significant impact on the financial statements of the Group and Company (Continued)

IFRS 17 Insurance Contracts (Continued)

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 Group and Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Group and 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 Group and Company faces from issuing insurance contracts.

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

The Group and Company expects to incrementally provide more disclosures to facilitate an understanding of the changes and the impact that such changes have on the Group and 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.

The adoption of these changes will significantly affect the amounts and disclosures of the Group and Company's financial statements.

1.1 Leases

The Group and Company initially applied IFRS 16 Leases from 1 January 2019.

The Group and Company applied IFRS 16 using the modified retrospective approach with the right-of-use assets measured at amount equal to lease liabilities adjusted for any prepaid or accrued lease payments before initial application of IFRS 16. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Previously, the Group and Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an arrangement contains a Lease. The Group and Company now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group and Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group and Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

ACCOUNTING POLICIES

1.1 Leases (continued)

As lessee

As a lessee, the Group and Company leases office premises. The Group and Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group and Company. Under IFRS 16, the Group and Company recognises right-of-use assets and lease liabilities for these leases – i.e. these leases are on-balance sheet.

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

Leases classified as operating leases under IAS 17

Previously, the Group and Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group and Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group and Company's incremental borrowing rate at the date of initial application; or

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group and Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group and Company uses its incremental borrowing rate.

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

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the Group and Company under residual value guarantees;
- the exercise price of purchase options, if the Group and Company is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the Group and Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 9).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in the operating expenses (note 9).

The Group and Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the group will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);

ACCOUNTING POLICIES

1.1 Leases (continued)

Lease Liability (Continued)

- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised payments using a revised discount rate.

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

Right-of-use assets

Right-of-use assets are presented as a separate line item on the Statement of Financial Position.

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

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the group incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

Impact on financial statements

Impact on transition

The Group and Company has presented right-of-use assets that do not meet the definition of investment property separately in the statement of financial position.

On transition to IFRS 16, the Group and Company recognised additional right-of-use assets, and additional lease liabilities. The impact on transition is summarised below:

	1 January 2019
Right-of-use assets – property, plant and equipment (note 16)	190,083
Lease liabilities (note 16)	190,083
When measuring lease liabilities for leases that were classified as operating leases, the Group and Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 14% per annum.	
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group and Company's financial statements	202,386
Discounted using the incremental borrowing rate at 1 January 2019 (note 16)	190,083
Lease liabilities recognised at 1 January 2019 (note 16)	190,083

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property and equipment. Refer to the accounting policy for property and equipment for details of useful lives.

ACCOUNTING POLICIES

1.1 Leases (continued)

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

1.2 Consolidation

i) 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 value, 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 recognises 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 recognised amounts of acquiree's identifiable net assets. Any gain on a bargain purchase is recognised 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 amendments. Cost also includes the directly attributable cost of investment. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised 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 de-consolidated from the date that control ceases.

iii) Non-controlling interest (NCI)

NCIs are 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.

iv) Loss of Control

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

ACCOUNTING POLICIES

1.3 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 (KShs), except where 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 recognised 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 hyper-inflationary 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.

1.4 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 hereunder.

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 Group and 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.

ACCOUNTING POLICIES

1.4 Insurance contracts (continued)

Classification (Continued)

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.

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 recognised as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at 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 24 Outstanding claims are not discounted.

iii. Commissions payable and deferred acquisition costs ("DAC")
A proportion of commission's payable is deferred and armortised 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.

ACCOUNTING POLICIES

1.4 Insurance contracts (continued)

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 recognised 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 recognises 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 1.8 (financial assets).

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 recognises that impairment loss in profit or loss. The processes followed by the Group in assessing impairment of these receivables are described in accounting policy 1.8 (financial instruments).

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 recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

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

1.5 Other income recognition

Commissions receivable are recognised 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 recognised as income in the period in which the right to receive payment is established. Rental income is recognised as income in the period in which it is earned.

ACCOUNTING POLICIES

1.6 Property and equipment

All property and equipment is 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 an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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.

1.7 Intangible assets

Intangible assets relate to computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 - 5 years). Costs associated with developing or maintaining computer software programmes are recognised 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 recognised 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 amortised over their estimated useful lives (not exceeding three years). Intangible assets comprise capitalised software costs. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programmes are recognised 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 recognised 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 amortised over their estimated useful lives.

1.8 Financial Instruments

Financial 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:

ACCOUNTING POLICIES

1.8 Financial Instruments (continued)

Financial assets under IFRS 9 (Continued)

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.

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 Group 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).

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.

ACCOUNTING POLICIES

1.8 Financial Instruments (continued)

Financial assets under IFRS 9 (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 ofthe 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:
    - 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:
- balances with banks
- highly liquid short-term funds on deposit; and
- cash in 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 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 or at amortised cost. Amortised cost balances are subject to ECL impairment testing. The Group 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 liabilities

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.

ACCOUNTING POLICIES

1.8 Financial Instruments (continued)

Financial liabilities (Continued)

A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

Financial liabilities are classified as measured as follows.

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	• 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.

De-recognition

The Company de-recognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also de-recognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

ACCOUNTING POLICIES

1.8 Financial Instruments (continued)

Financial liabilities (Continued)

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Company has an enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Fair value of financial assets and liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

1.9 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.

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 recognised as an expense accrual is only reassessed if there is a change in the entity's activities.

1.10 Tax

Current tax assets and liabilities

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 tax assets and liabilities

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. 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 recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax 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.

ACCOUNTING POLICIES

1.11 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.

1.12 Comparatives

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

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. 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:

Ultimate responsibility for risk management resides with the Board which ensures that all business unit executives are responsible and are held accountable for risk management within the subsidiaries. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types.

Risk management objectives

The Company's key risk management objectives are to:

- Grow shareholder value by generating a long-term sustainable return on capital;
- Ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;
- Meet the statutory requirements of the Kenyan Insurance Act, and other regulators; and
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis.

The management of risks is currently focused on managing shareholder exposures within strategic limits whilst ensuring sufficient allocation of capital on both a regulatory and economic capital basis given the limits in place. Heritage Insurance Kenya participates in the broader Liberty Group Enterprise Risk Management framework and aligns risk policy to the group guidelines.

Capital management

Company

The Company's objective in capital management is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, raise loan funding or sell assets to reduce debt.

Capital gearing ratio

	2019 KShs '000	2018 KShs '000
Due from Group companies	6,688	46,764
Due (to) Group companies	(21,318)	(4,267)
Net borrowings	(14,630)	42,497
Less: Cash and cash equivalents	1,651,725	2,255,777
Net cash	**1,637,095**	**2,298,274**
Total equity	**3,471,899**	**3,085,766**

Group

The Board of Directors is responsible for monitoring and ensuring compliance with the regulatory framework as established by the Kenyan and Tanzanian Insurance Regulatory Authorities.

The subsidiaries are regulated by the Kenyan Insurance Act, 2015, the Tanzanian Insurance Act, 2009, Companies Act, 2015, Retirement Benefit Authority and Insurance Regulatory Authority. The objectives when managing capital are to:

- Comply with the capital requirements as set out in the Kenyan Insurance Act, 2015 and Tanzania Insurance Act, 2009;

Group (Continued)

- Comply with regulatory solvency requirements as set out in the Kenyan Insurance Act, 2015 and Tanzania Insurance Act, 2009;

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

- Safeguard the companies' ability to continue as going concerns, so that they can continue to provide returns to shareholders and
- Provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

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

	Kenya Regulatory requirements KShs '000	Heritage Insurance KShs '000
General insurance business	500,000	1,000,000
Long term insurance business	300,000	-

The Kenyan Insurance Act, 2015 requires general insurance companies to hold the minimum level of paid up capital of KShs 500 million and KShs 600 million by 30 June 2018 and 30 June 2020 respectively.

The Kenyan Insurance Regulatory Authority (IRA) has set the minimum required capital adequacy ratio of 200% and above by 30 June 2020.

The Tanzanian Insurance Act, 2009, requires each Insurance Company to hold the minimum level of paid up capital of TSh 2,197 million for the year ended 31 December 2019.

As at year end, the Heritage Insurance Company (T) Limited had a share capital of 80,000 fully paid up shares totalling to Tsh 8 billion. This was well in excess of the minimum requirement.

Solvency margin

The solvency margins of the subsidiaries as at 31 December 2019 and 31 December 2018 are set out below.

The Regulator's model for determining minimum solvency requirments uses the minimum capital requirment projected as at 30 June 2020.

Heritage Insurance Company Kenya Limited

	Short-term business 2019 KShs '000	Short-term business 2018 KShs '000
Risk category		
Credit Risk Capital	620,424	776,791
Market Risk Capital	13,401	89,080
Insurance Risk Capital	370,258	338,065
Operational Risk Capital	216,790	255,551
Risk Based Capital	939,421	1,107,389
Total Capital Available	**2,909,185**	**2,746,386**
Absolute amount Minimum	600,000	600,000
Volume of Business Minimum	629,241	619,600
Risk Based Capital Minimum	939,421	1,107,389
Minimum Required Capital	939,421	1,107,389
Capital Adequacy Ratio	310 %	248 %

2. Management of insurance and financial risk (continued)

Heritage Insurance Company Tanzania Limited

	Short-term business 2019 KShs '000	Short-term business 2018 KShs '000
Total Admitted assets	1,741,991	1,730,890
Total Admitted liabilities	(1,360,551)	(1,015,525)
Net written current period	-	-
Add: the greater of Tshs 1,131 million (Shs 50 million) or 20% of net written premium	(144,253)	(109,670)
Total liabilities and minimum requirement	1,504,805	(1,125,195)
Solvency Margin	237,187	605,695

Credit risk definition

The Group and 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.

With the exception of sovereign risk, the Group and Company has no significant concentrations of credit risk. The Group and Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or Group and Companys 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 at the operating company level.

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 Group and Company's 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 Group and Company's 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 Poor's 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.

All mortgage loans have the property secured as collateral while policy loans have the surrender value of the policy secured as collateral. In the case of car loans, the cars are secured as security. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated. None of the above assets are past due or impaired except for insurance receivables (which are due upon invoicing): Financial assets that are past due or impaired.

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

Maximum exposure to credit risk before collateral held

		Group		Company	
	Credit quality	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Financial investments*		4,896,748	3,684,584	4,715,261	3,494,446
Receivables arising from reinsurance	Group 2	320,375	110,318	123,439	8,699
Receivables arising from direct insurance	See analysis below	493,267	733,582	493,267	733,582
Reinsurers' share of insurance liabilities	Group 2	2,709,114	2,625,590	1,555,614	1,742,350
Other receivables	Group 2	276,185	32,209	213,697	53,347
Cash and Cash equivalents**	Group 2	3,067,877	3,542,017	1,651,725	2,255,777
		11,763,566	**10,728,300**	**8,753,003**	**8,288,201**

* The financial investments comprise of Government securities, Corporate bonds and Staff loans

**Cash and Cash equivalents include cash at bank and deposits held with financial institutions

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Policyholders Insurance contracts				
Outstanding premium receivables within contract boundary-measured at amortised cost	493,267	733,582	493,267	733,582
Receivables arising from reinsurance	320,375	110,318	123,439	8,699
Prepayments and other receivables at fair value through profit or loss (default)				
Other receivables	276,185	32,209	213,697	53,347
Total prepayments, insurance and other receivables	**1,089,827**	**876,109**	**830,403**	**795,628**

Upon adoption of IFRS 9, all insurance, reinsurance and other receivables need to be disclosed per measurement choice. All above balances are current i.e. inflows of economic benefits are expected to occur within one year.

The group applies the simplified approach to providing for expected credit losses on amortised cost measured financial instruments as prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for all trade receivables.

		Group and Company	KShs '000	
	ECL rate %	Gross carrying amount	Impairment allowance	Net carrying amount
Current	- %	493,267	-	493,267
1 - 30 days past due	100 %	5,956	(5,956)	-
31 - 60 days past due	100 %	13,416	(13,416)	-
61 - 90 days past due	100 %	2,500	(2,500)	-
more than 90 days past due	100 %	456,030	(456,030)	-
	34 %	**971,169**	**(477,902)**	**493,267**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

Movement in impairment losses on Insurance receivables

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Insurance contracts	**971,169**	**1,160,482**	**971,169**	**1,160,482**
Opening impairment loss allowance - Under IAS 39	(426,900)	(446,401)	(426,900)	(446,401)
Bad debts written off	-	101,733	-	101,733
Charge to profit or loss	(51,002)	(16,686)	(51,002)	(16,686)
IFRS 9 transition adjustment	-	(65,546)	-	(65,546)
Provision for impairment loss allowance - Closing	**(477,902)**	**(426,900)**	**(477,902)**	**(426,900)**
Receivable arising out of direct insurance arrangements - Net	**493,267**	**733,582**	**493,267**	**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 writeoff of these amounts is dictated by the Kenyan Revenue Authority's minimum requirements for write-off. Conditions for write-off are that;

- 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.
- 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 been realised but the process fail 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.

Operation risk definition

Operational risk is the risk of loss caused by inadequate or failed internal processes, people and systems, or from external events.

Operational risk is therefore pervasive across all financial institutions and all other operational companies.

Operational risk is recognised as a distinct risk category which the Group strives to manage within acceptable levels through sound operational risk management practices. The Group's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organisational maturity and particular business environments.

Executive management defines the operational risk appetite at a Group and subsidiary level. This operational risk appetite supports effective decision-making and is central to embedding effective risk management. The objective in managing operational risk is to increase the efficiency and effectiveness of the Group's resources, minimise losses and utilise opportunities.

Ownership and accountability

Management and staff at every level of the business are accountable for the day-to-day identification and management of operational risks. It is also management's responsibility to report any material operational risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

Risk identification, assessment and measurement

The process of operational risk management starts with the operational risk assessment of identified areas. Consideration is then given to the need for a Group or business unit policy to define the approach to mitigating this risk.

Risk and compliance policies are developed where necessary to:

- ensure compliance with internal principles and with legal and regulatory requirements;
- address associated risks in the business, define roles, responsibilities and expectations at all levels;
- guide staff at all levels on how to conduct Group's business;
- ensure that staff apply consistent processes throughout the Group; and
- help management to develop operating processes.

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

Policies are approved at the appropriate governance level subject to compliance with Group policy principles. Once identified, operational risks are assessed to determine the potential impact to the Group should the risk events occur, and reviewed against the Group's risk appetite. Mitigating actions are developed for any operational risks that fall outside of management's assessment of risk appetite.

Risk management activities in relation to operational risks include but are not limited to:

Information Technology (IT) risk: The Group is highly dependent on and constantly increasing its use of information technology to ensure improved operations and customer service. The Group's IT systems enable it to take its products to markets across the East African Region and so carry out its expansion strategy.

The Group is, therefore, exposed to various IT risks which include the disruption of transaction processing, information loss and/or malicious attacks from third parties.

Maintaining technological advantage requires a strong IT risk management culture and function that allows the Group to identify and manage IT risks effectively. In order to prevent potential risk events and ensure best practice levels of continuous IT service and security, management review and ensure compliance with relevant IT policies and procedures, conduct control and risk self-assessments and are subject to internal and external audits.

Process risk: The Group's approach to process improvement focuses on process efciency and work quality. The processes undergoing improvement incorporate input from risk and compliance specialists, as well as other generic process stakeholders and Group finance.

Regulatory risk: The regulatory environment is monitored closely to ensure that the Group implements new or amended legislation requirements promptly to ensure compliance and avoid unnecessary fines and penalties or the revocation of any business licence.

Compliance risk: The risk of regulatory sanctions, financial loss or damage to reputation as a result of not complying with legislation, regulation or internal policies is managed through the established compliance functions within the Group and a compliance policy. The policy ensures that compliance requirements are identified and implemented through the development of approriate policies and procedures and that regular monitoring and reporting of breaches is carried out within the business and at the center to provide the board with assurance on the status of compliance within the organisation.

Human resources: The Group remains concerned about the high demand of specialist technical skills in East Africa to provide first world financial services. It focuses on recruitment, development and retention through a number of Group-wide initiatives.

Business continuity management (BCM):

BCM is implemented to reduce the risk of not continuing normal business activities should a crisis occur. BCM is an integral component of the Group's risk management framework. The various subsidiaries are regularly exposed to deployment of updated methodologies, testing and training to ensure increased capability to deal with interruptions to business. The Group has established a BCM site at Mlolongo along Mombasa road where critical staff and core services can be relocated in case of disruptions to business at the usual business premises.

Internal and external fraud: The Group adopts a 'zero-tolerance' approach to fraud. The Group internal audit function supports management in meeting their objective of minimising fraud risk. In terms of the Group's anti-fraud policy, line management is responsible for ensuring that controls at all stages of a business process are adequate for the prevention and detection of fraud. Prevention and detection measures are periodically rolled out by forensic services to support management.

Liquidity risk definition

Liquidity risk is the risk that the Group, although solvent, is not able to settle its obligations as they fall due because of insufficient access to cash in the Group.

This might arise in circumstances where the Group's assets are not marketable, or can only be realised at excessive cost. The principal risk relating to liquidity comprises the Group's exposure to policyholder behaviour.

Ownership and accountability

The ownership and accountability for liquidity risk is the same as for market risk. Liquidity requirements are reviewed on an ongoing basis as part of the Group's normal operating activities at the subsidiary level.

Liquidity profile of assets

2. Management of insurance and financial risk (continued)

The Group's assets are liquid, however, given the quantum of investments held relative to the volumes of trading, asubstantial short-term liquidation may result in current values not being realised due to demand-supply principles. It is considered highly unlikely, however, that a short-term realisation of that magnitude would occur.

Liquidity risks arising out of obligations to policyholders

On unit-linked business, liquidity risk and asset-liability matching risk arising as a result of changes in lapse and withdrawal experience is limited through policy terms and conditions that restrict claims to the value at which assets are realised. Similarly the liquidity and asset liability matching risk arising from a change in withdrawal experience on business with DPF is limited through policy terms and conditions that permit withdrawal benefits to be altered in the event of falling asset prices.

The table below presents the cash flows receivable and payable by the Group and Company under financial assets and liabilities by remaining expected maturities at the reporting date.

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

As at 31 December 2019

Group **Liabilities**	**1 - 3 months** **KShs '000**	**3 - 12 months** **KShs '000**	**1 - 5 years** **KShs '000**	**Over 5 years** **KShs '000**	**Total** **KShs '000**
Insurance contract liabilities	1,132,933	1,007,840	1,065,699	391,569	3,598,041
Creditors arising from reinsurance	-	511,319	-	-	511,319
Creditors arising from direct insurance	3,612	489,631	-	-	493,243
Lease liabilities	1,655	49,080	126,954	22,031	199,720
Other payables (includes due to related parties)	635,115	-	-	-	635,115
Total financial liabilities	**1,773,315**	**2,057,870**	**1,192,653**	**413,600**	**5,437,438**
Assets					
Other receivables	276,185	-	-	-	276,185
Reinsurers' share of insurance liabilities	2,709,114	-	-	-	2,709,114
Receivables arising from reinsurance	320,375	-	-	-	320,375
Financial investment	49,578	1,607,561	3,228,294	63,290	4,948,723
Receivable arising from direct insurance	-	493,267	-	-	493,267
Cash and cash equivalents	3,067,877	-	-	-	3,067,877
Total financial assets	**6,423,129**	**2,100,828**	**3,228,294**	**63,290**	**11,815,541**
Net liquidity position	**4,649,814**	**42,958**	**2,035,641**	**(350,310)**	**6,378,103**

Company **Liabilities**	**1 - 3 months** **KShs '000**	**3 - 12 months** **KShs '000**	**1 - 5 years** **KShs '000**	**Over 5 years** **KShs '000**	**Total** **KShs '000**
Insurance contract liabilities	692,512	567,420	1,065,699	391,569	2,717,200
Creditors arising from reinsurance	-	22,883	-	-	22,883
Creditors arising from direct insurance	-	489,631	-	-	489,631
Lease Liabilities	1,655	18,414	126,954	22,031	169,054
Other payables (includes due to related parties)	183,965	-	-	-	183,965
Total financial liabilities	**878,132**	**1,098,348**	**1,192,653**	**413,600**	**3,582,733**
Assets					
Other receivables (includes due from related parties)	191,248	22,449	-	-	213,697
Reinsurers' share of insurance liabilities	1,555,614	-	-	-	1,555,614
Receivables arising from reinsurance	123,439	-	-	-	123,439
Financial investment	54,324	1,607,561	3,053,376	11,304	4,726,565
Receivable arising from direct insurance	-	493,267	-	-	493,267
Cash and cash equivalents	1,651,725	-	-	-	1,651,725
Total financial assets	**3,576,350**	**2,123,277**	**3,053,376**	**11,304**	**8,764,307**
Net liquidity position	**2,698,218**	**1,024,929**	**1,860,723**	**(402,296)**	**5,181,574**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

As at 31 December 2018

Group **Liabilities**	**1 - 3 months** **KShs '000**	**3 - 12 months** **KShs '000**	**1 - 5 years** **KShs '000**	**Over 5 years** **KShs '000**	**Total** **KShs '000**
Insurance contract liabilities	1,232,416	669,899	1,503,894	46,094	3,452,303
Creditors arising from reinsurance	626,594	-	-	-	626,594
Creditors arising from direct insurance	-	552,382	-	-	552,382
Other payables (includes due to related parties)	-	511,009	-	-	511,009
Total financial liabilities	**1,859,010**	**1,733,290**	**1,503,894**	**46,094**	**5,142,288**
Assets					
Other receivables	117,013	-	-	-	117,013
Reinsurers' share of insurance liabilities	2,625,590	-	-	-	2,625,590
Receivables arising from reinsurance	110,318	-	-	-	110,318
Financial investment	704,069	2,368,735	611,780	325,267	4,009,851
Receivable arising from direct insurance	-	733,582	-	-	733,582
Cash and cash equivalents	3,542,017	-	-	-	3,542,017
Total financial assets	**7,099,007**	**3,102,317**	**611,780**	**325,267**	**11,138,371**
Net liquidity position	**5,239,997**	**1,369,027**	**(892,114)**	**279,173**	**5,996,083**

Company **Liabilities**	**1 - 3 months** **KShs '000**	**3 - 12 months** **KShs '000**	**1 - 5 years** **KShs '000**	**Over 5 years** **KShs '000**	**Total** **KShs '000**
Insurance contract liabilities	979,191	532,255	1,194,889	36,623	2,742,958
Creditors arising from reinsurance	-	405,232	-	-	405,232
Creditors arising from direct insurance	-	545,618	-	-	545,618
Other payables (includes due to related parties)	-	157,609	-	-	157,609
Total financial liabilities	**979,191**	**1,640,714**	**1,194,889**	**36,623**	**3,851,417**
Assets					
Other receivables	128,847	-	-	-	128,847
Reinsurers' share of insurance liabilities	1,742,350	-	-	-	1,742,350
Receivables arising from reinsurance	8,699	-	-	-	8,699
Financial investment	704,069	2,368,735	421,642	285,196	3,779,642
Receivable arising from direct insurance	-	733,582	-	-	733,582
Cash and cash equivalents	2,255,777	-	-	-	2,255,777
Total financial assets	**4,839,742**	**3,102,317**	**421,642**	**285,196**	**8,648,897**
Net liquidity position	**3,860,551**	**1,461,603**	**(773,247)**	**248,573**	**4,797,480**

Policyholder insurance contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. Prudent liquidity risk management includes maintaining sufcient cash balances to cover anticipated surrenders before the contractual maturity dates. In addition, the Group invests only a limited proportion of its assets in investments that are not actively traded. The Group's listed securities are considered readily realisable, as they are actively traded on the Nairobi Securities Exchange.

Liquidity risk - Company

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

Liquidity risk - Company (Continued)

The Company manages liquidity risk by continuous monitoring of banking facilities, cash flow forecasts and actual cash flows.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows:

	Less than 1 year	Over 1 year	Total
As at 31 December 2019	**KShs '000**	**KShs '000**	**KShs '000**
Due to group companies (note 25)	21,318	-	21,318
	21,318	**-**	**21,318**

	Less than 1 year	Over 1 year	Total
As at 31 December 2018	**KShs '000**	**KShs '000**	**KShs '000**
Due to group companies (note 25)	4,267	-	4,267
	4,267	**-**	**4,267**

Capital requirements

The Group and Company's view is that liquidity risk has to be managed by means other than capital. If assets and liabilities are not well matched by term, even a large amount of capital may provide only a small buffer in an extreme liquidity event.

Liquidity risk is most likely to arise due to a sharp increase in benefit withdrawals or risk-related claims. The liquidity risk arising from withdrawals is largely managed by policy terms and conditions in the contract that enable the Group to reduce withdrawal benefits in the event that asset prices fall. The liquidity risk arising from risk-related claims is managed by having reinsurance arrangements in place for catastrophic events. Liquidity risks arising on maturity benefits are managed by closely monitoring the expected future maturities and realising assets in advance if large outflows are expected.

Liquidity risk is also managed by matching liabilities with backing assets that are of similar maturity, duration and risk nature. The liquidity profile of the total financial position is reviewed on a regular basis to ensure that the cash flow profile of liabilities can be met as they fall due.

As a result of the liquidity risk mitigation measures in place, the Group's exposure to liquidity risk is expected to be small and no allowance is currently made for liquidity risk.

Market risk definition

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in equity prices, interest rates and foreign currency exchange rates (as well as their associated volatilities). In addition, in light of the Group's investment in investment properties, there is exposure to fluctuation in property values.

The Group's shareholders are exposed to market risk arising from policyholder asset-liability mismatch risk. This is where the Group's property and financial assets do not move in the same direction and magnitude as the obligations arising under its insurance and investment contracts.

The key components of market risk are as follows:

- Price risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of securities price and/ or dividend changes;
- Interest rate risk: is the risk arising from a change in the value and/ or future cash flows of an asset or liability, as a result of interest rate changes;

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

Market risk definition (Continued)

- Currency risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability as a result of changes in exchange rates. This can either be in the form of a mismatch between currencies of assets and liabilities, or on assets supporting capital, or the functional currency of the local entity being different to the reporting currency of the Group; and
- Property market risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of changes in property market prices and/or rental income.

Risk identification, assessment and measurement

In the case of market risks which arise from shareholder funds, the risk can be identified, assessed and measured by considering the market risks that apply to the assets in which these funds have been invested.

In the case of asset-liability mismatches, risks both to the assets and corresponding liabilities need to be assessed together.

The Group is exposed to market risk to the extent that these exposures may result in a loss due to the assets increasing by less than the liabilities or the assets falling by more than the liabilities.

The Group assesses its asset-liability mismatch exposures with respect to the key components of market risk at subsidiary level.

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 income statement.

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 2019, 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 KShs 525,000 (2018: KShs 14,260,000). This would result in a change in profit for the year.

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. The Group manages its cash flow interest rate risk by diversification of its portfolio mix.

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

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rate will cause a change to the amount of the liability. Investment contracts with fixed and guaranteed terms, government securities and deposits with financial institutions are accounted for at fair value and their carrying amounts are sensitive to changes in the level of interest rates.

Foreign exchange risk

The Group operates regionally and is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the Tanzania Shilling and US dollar.

Foreign exchange risk arises from reinsurance transactions with foreign reinsurance brokers. This risk is not significant and is mitigated through the use of dollar-denominated accounts. In the year ending 31 December 2019, the Group had an equivalent of KShs 52.6 Million (2018: KShs 11.1Million) in reinsurance balances denominated in foreign currency and foreign currency deposit accounts.

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

Foreign exchange risk (Continued)

The impact of normal exchange fluctuations in the Kenya and Tanzania shilling against the US dollar would not have a material effect on Groups results. The Group has a subsidiary in Tanzania whose functional currency is Tanzania Shilling .

Insurance risk definition

Insurance risk from management's perspective is the risk that future claims (in relation to death, disability, ill health and withdrawal) and expenses will exceed the allowance for expected claims and expenses in the measurement of policyholder liabilities and in product pricing. In addition to these insurance risks, the Group assumes further risks in relation to policyholder behaviour (including lapses and converting recurring premium policies to paid up) and tax which could have adverse impacts on the Group's earnings and capital if different from that assumed in the measurement of policyholder liabilities. From a risk management perspective, Management groups these risks under insurance risk.

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 Group 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.

Ownership and accountability

The management and staff in all subsidiaries taking on insurance risk are responsible for the day-to-day identification, management and monitoring of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through certain pre-defined escalation procedures. The statutory actuaries and the heads of risk in the subsidiaries provide independent oversight of the compliance with the Group's risk management policies and procedures and the effectiveness of the Group's insurance risk management processes.

Risk identification, assessment and measurement

Insurance risks arise due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, withdrawal and expenses about which assumptions are made in the measurement of policyholder liabilities and in product pricing. Deviations from assumptions will result in actual cash flows being different from those expected. As such, each assumption represents a source of uncertainty.

Experience investigations are conducted at least annually on all insurance risks to ascertain the reasons for deviations from assumptions and their financial impacts. If the investigations indicate that these deviations are likely to persist in future, the assumptions will be adjusted accordingly in the subsequent measurement of policyholder liabilities.

Insurance risks are assessed and reviewed against the risk appetite. Mitigating actions are developed for any risks that fall outside of management's assessment of risk appetite in order to reduce the level of risk to within the approved tolerance limits.

Risk management

The management of insurance risk is effectively the management of deviations of actual experience from the assumed best estimate of future experience. On the published reporting basis, earnings are expected as a result of the release of margins that have been added to the best estimate assumptions. The risk is that these earnings are less than expected due to adverse actual experience.

The statutory actuaries provide oversight of the insurance risks undertaken by the Group in that they are required to:

- report at least annually on the financial soundness of the life companies within the Group; approve policy for assumptions used to provide best estimates plus compulsory and discretionary margins
- oversee the setting of these assumptions; and
- report on the actuarial soundness of premium rates in use for new business, and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

The Group makes use of reinsurance to reduce its exposures to most insurance risks.

Expense risk

Expense risk is the risk of loss arising due to expenses incurred in the administration of business being higher than expected.

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)
Expense risk (Continued)

The group and company manages the expense risk by:

- regularly monitoring actual expenses against the budgeted expenses;
- regularly monitoring new business;
- regularly monitoring withdrawal rates including lapses; and
- implementing cost control measures in the event of expenses exceeding budget or of significant unplanned reductions in inforce policies.

Tax risk

Tax risk is the risk of loss arising due to the actual tax assessed being more than the tax expected.

Allowance for tax is made in the measurement of policyholder liabilities at the rates applicable at the financial reporting date. Adjustments may be made for known future changes in the tax regime.

Concentration risk

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:

Group **Year ended 31 December 2019**		0m to 15m KShs '000	15m to 250m KShs '000	250m to 1,000m KShs '000	Total KShs '000
General insurance business					
Personal accident	Gross	2,229,460	34,679,335	28,778,062	65,686,857
	Net	2,195,160	29,026,569	21,070,062	52,291,791
Motor	Gross	53,641,672	25,504,148	584,789	79,730,609
	Net	41,976,080	23,644,935	253,094	65,874,109
Fire	Gross	34,267,851	123,594,919	749,717,242	907,580,012
	Net	34,597,663	107,599,451	39,301,279	181,498,393
Other	Gross	42,522,995	214,688,665	747,282,169	1,004,493,829
	Net	41,591,951	184,109,151	144,857,246	370,558,348
	Gross	**132,661,978**	**398,467,067**	**1,526,362,262**	**2,057,491,307**
	Net	**120,360,854**	**344,380,106**	**205,481,681**	**670,222,641**

Company **Year ended 31 December 2019**		0m to 15m KShs '000	15m to 250m KShs '000	250m to 1,000m KShs '000	Total KShs '000
General insurance business					
Personal accident	Gross	2,229,460	34,679,335	28,778,062	65,686,857
	Net	2,195,160	29,026,569	21,070,062	52,291,791
Motor	Gross	53,307,952	24,707,768	-	78,015,720
	Net	41,664,173	23,404,675	-	65,068,848
Fire	Gross	33,904,550	118,222,600	388,202,240	540,329,390
	Net	33,610,110	103,297,939	35,619,600	172,527,649
Other	Gross	41,381,018	203,549,126	598,960,890	843,891,034
	Net	34,636,392	159,746,126	60,347,156	254,729,674
	Gross	**130,822,980**	**381,158,829**	**1,015,941,192**	**1,527,923,001**
	Net	**112,105,835**	**315,475,309**	**117,036,818**	**544,617,962**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

Concentration risk (Continued)

Year ended 31 December 2018		0m to 15m KShs '000	15m to 250m KShs '000	250m to 1,000m KShs '000	Total KShs '000
General insurance business					
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
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
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
	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**

Year ended 31 December 2018		0m to 15m KShs '000	15m to 250m KShs '000	250m to 1,000m KShs '000	Total KShs '000
General insurance business					
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
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
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
	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**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

2. Management of insurance and financial risk (continued)

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. IFRS 7 and IFRS 13 requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

- Level 1 – Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Nairobi Securities Exchange, Dar es Salaam securities exchange, or an international stock or bond exchange.

- Level 2 – Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the balance sheet date. The valuation techniques or models are periodically reviewed and the outputs validated.

- Level 3 – Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

The following table presents the Group's assets that are measured at fair value and amortised cost at 31 December 2019 and 31 December 2018.

31 December 2018	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Fair value through profit and loss financial assets				
Quoted shares	285,196	-	-	285,196
Unquoted shares	-	-	40,071	40,071
Government securities and bonds	-	3,316,193	-	3,316,193
Corporate Bonds	-	105,507	-	105,507
	285,196	**3,421,700**	**40,071**	**3,746,967**
Financial assets measured at amortised costs				
Loans and receivables	-	262,884	-	262,884
	285,196	**3,684,584**	**40,071**	**4,009,851**

The following table presents the Company's assets that are measured at fair value and amortised cost at 31 December 2019 and 31 December 2018.

31 December 2019	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Fair value through profit and loss financial assets				
Quoted shares	11,304	-	-	11,304
Government securities and bonds	-	4,429,968	-	4,429,968
Corporate Bonds	-	28,693	-	28,693
	11,304	**4,458,661**	**-**	**4,469,965**
Financial assets measured at amortised costs				
Loans and receivables	-	256,600	-	256,600
	11,304	**4,715,261**	**-**	**4,726,565**

2. Management of insurance and financial risk (continued)

31 December 2018	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Fair value through profit and loss financial assets				
Quoted shares	285,196	-	-	285,196
Government securities and bonds	-	3,133,240	-	3,133,240
Corporate Bonds	-	98,322	-	98,322
	285,196	**3,231,562**	**-**	**3,516,758**
Financial assets measured at amortised costs				
Loans and receivables	-	262,884	-	262,884
	285,196	**3,494,446**	**-**	**3,779,642**

3. Gross earned premium revenue

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Short-term insurance				
Motor	1,856,148	1,767,323	1,476,583	1,487,981
Fire	1,778,969	1,471,088	721,546	636,794
Accident	2,215,298	2,222,488	1,522,366	1,533,282
Medical	1,846,393	1,766,749	1,761,379	1,766,749
Marine	246,140	195,662	104,038	103,450
Gross earned premium revenue	**7,942,948**	**7,423,310**	**5,585,912**	**5,528,256**

4. Investment income

Dividend income				
Group entities:				
Subsidiaries - Foreign	-	-	79,865	80,786
Equity instruments at fair value through profit or loss:				
Unlisted investments - Foreign	1,110	(2,289)	-	-
Total dividend income	**1,110**	**(2,289)**	**79,865**	**80,786**
Interest income				
Investments in financial assets:				
Debt instruments at fair value through profit or loss	370,777	385,351	346,644	361,215
Total investment income	**371,887**	**383,062**	**426,509**	**442,001**

5. Interest income on financial assets held at amortised cost

Interest income on cash and cash equivalents	199,842	164,563	114,276	89,536
Loans and receivables	25,439	23,634	25,439	23,634
	225,281	**188,197**	**139,715**	**113,170**

6. Fair value gains (losses) on financial investments

Fair value gain/loss sale of financial investments	5,685	(18,658)	4,232	(33,716)

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
7. Other income				
Loss on sale of property and equipment	(9,843)	1,611	(10,822)	-
Other sundry income	29,708	40,735	24,330	16,285
	19,865	**42,346**	**13,508**	**16,285**
8. Claims and policy holder benefits				
Short-term insurance				
Motor	986,110	1,097,865	884,129	1,001,083
Fire	728,237	349,516	67,173	182,716
Marine	18,689	99,189	12,392	64,280
Medical	1,188,682	1,285,745	1,188,682	1,285,745
Accident	434,050	872,817	362,462	597,172
Total claims and policyholder benefits	**3,355,768**	**3,705,132**	**2,514,838**	**3,130,996**
9. Operating expenses				
Employee costs (Note 10)	936,825	827,030	741,471	659,845
Auditor's remuneration	16,902	11,721	7,728	7,737
Depreciation	79,934	32,348	61,088	25,571
Amortisation of intangible assets	16,231	15,804	11,297	14,107
Rent and related expenses	22,353	75,890	22,353	75,890
Repairs and maintenance	69,997	66,429	66,647	65,749
Bad debts	34,508	(3,781)	38,450	16,979
Other expenses	651,299	632,105	530,548	520,962
Directors' fees	15,142	15,997	8,452	8,344
	1,843,191	**1,673,543**	**1,488,034**	**1,395,184**

10. Employee costs

As at 31 December 2019 the group had 165 permanent employees (2018: 178). Employee benefits expense is made up of the following for all employees, including executive directors:

	Group 2019	Group 2018	Company 2019	Company 2018
Employee costs				
Basic	669,906	631,461	481,181	464,276
Social security contributions	414	428	414	428
Employee insurances	8,082	9,315	8,082	9,315
Shared and other costs	198,287	143,495	191,658	143,495
Retirement benefit plans	44,668	42,331	44,668	42,331
Termination benefits	15,468	-	15,468	-
	936,825	**827,030**	**741,471**	**659,845**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

11. Non controlling interest (NCI)

	Heritage Tanzania 2019	Heritage Tanzania 2018
NCI percentage	40%	40%
	KShs '000	KShs '000
Non-current assets	85,008	133,660
Current assets	3,120,538	2,556,789
Current liabilities	(2,543,987)	(1,987,839)
Net assets	**661,559**	**702,610**
Net assets atributable to NCI	**264,624**	**281,046**
Revenue	2,357,036	1,895,055
Total comprehensive income	**97,975**	**139,534**
Profit allocated to NCI	39,190	55,814
Foreign currency translation differences	2,443	10,988
Cashflow flows from operating activities	115,160	90,936
Cashflow flows from investing activities	66,323	67,320
Cashflow flows from financing activities	(53,168)	(55,332)
Net increase (decrease) in cash and cash equivalents	128,315	102,924

11 b) Foreign currency translation difference

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

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
At start of the year	(29,966)	(17,013)	-	-
Movement for the year	24,328	(12,953)	-	-
	(5,638)	**(29,966)**	**-**	**-**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
12. Taxation				
Major components of the tax expense				
Current				
Local income tax - current period	299,487	173,863	260,203	127,131
Local income tax - recognised in current tax for prior periods	10,239	-	-	-
	309,726	**173,863**	**260,203**	**127,131**
Deferred				
Deferred tax	(9,271)	36,100	(14,834)	19,735
	300,455	**209,963**	**245,369**	**146,866**
Reconciliation of the tax expenses				
Profit before income tax	927,702	649,363	854,502	527,514
Tax calculated at a rate of 30% (2018 - 30%)	278,311	194,809	256,351	158,254
Income tax not subject to tax	(2,515)	941	(21,099)	(22,608)
Tax effect of interest income	(442)	(1,293)	(442)	(1,293)
Expenses not deductable for tax purposes	14,862	15,506	10,559	12,513
Prior year tax under provision	10,239	-	-	-
Income tax charge	**300,455**	**209,963**	**245,369**	**146,866**
Tax recoverable/(payable) movement				
As at 1 January	92,229	(26,083)	94,922	(36,511)
Current tax charge for the year	(299,487)	(173,863)	(260,202)	(127,131)
Recognised in current tax for prior periods	(10,239)	-	-	-
Paid in the year	167,581	292,175	100,182	258,564
Tax withheld	8,258	-	-	-
	(41,658)	**92,229**	**(65,098)**	**94,922**

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	30.00 %	30.00 %	30.00 %	30.00 %

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
13. Share capital				
Authorised				
50 Million Ordinary shares of 20 each (Issued on 6 Aug 2019)	-	-	1,000,000	500,000

During the year, the Company issued 50m additional shares at KShs 20 each from retained earnings. This effectively increased the Company's share capital to KShs 1 billion.

Reconciliation of number of shares issued:				
Reported as at 1 January 2019	-	-	500,000	-
Issue of shares – ordinary shares	-	-	500,000	-
	-	**-**	**1,000,000**	**-**
Issued				
Ordinary	1,000,000	500,000	1,000,000	500,000

14. Revenue and other reserves

Statutory reserve	200,996	190,768	-	-
Currency translation reserve	(48,206)	(47,503)	-	-
Total other reserves	**152,790**	**143,265**	**-**	**-**
Revenue reserve	2,569,789	2,717,452	2,471,899	2,585,766
At 31 December	**2,722,579**	**2,860,717**	**2,471,899**	**2,585,766**

- Movement in the statutory reserves are shown in the statement of changes in equity on pages 22 to 24.
- A 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.
- The Currency translation reserve represents exchange rate differences arising on the translation of the foreign subsidiary.
- The retained earnings balance represents the amount available for dividend distribution to the shareholders of the Company.

15. Property and equipment

Group	2019			2018		
	Cost or revaluation KShs '000	Accumulated depreciation KShs '000	Carrying value KShs '000	Cost or revaluation KShs '000	Accumulated depreciation KShs 000	Carrying value KShs '000
Furniture and fixtures	155,177	(118,437)	36,740	169,611	(115,190)	54,421
Motor vehicles	17,798	(17,637)	161	21,962	(20,240)	1,722
Office equipment	115,150	(107,372)	7,778	114,395	(104,916)	9,479
IT equipment	225,040	(190,611)	34,429	201,297	(176,945)	24,352
Total	**513,165**	**(434,057)**	**79,108**	**507,265**	**(417,291)**	**89,974**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

15. Property and equipment (continued)

Company	2019			2018		
	Cost or revaluation Kshs '000	Accumulated depreciation KShs '000	Carrying value KShs '000	Cost or revaluation KShs '000	Accumulated depreciation KShs '000	Carrying value KShs '000
Furniture and fixtures	129,116	(105,234)	23,882	144,570	(106,163)	38,407
Motor vehicles	11,638	(11,510)	128	11,638	(9,971)	1,667
Office equipment	115,150	(107,372)	7,778	114,395	(104,916)	9,479
IT equipment	203,044	(172,842)	30,202	181,757	(161,452)	20,305
Total	**458,948**	**(396,958)**	**61,990**	**452,360**	**(382,502)**	**69,858**

Reconciliation of property and equipment - Group - 2019

	Opening balance KShs '000	Additions KShs '000	Disposals KShs '000	Foreign exchange movements Kshs '000	Depreciation Kshs '000	Total KShs '000
Furniture and fixtures	54,421	3,987	(10,822)	(142)	(10,704)	36,740
Motor vehicles	1,722	-	-	-	(1,561)	161
Office equipment	9,479	755	-	-	(2,456)	7,778
IT equipment	24,352	23,881	-	-	(13,804)	34,429
	89,974	**28,623**	**(10,822)**	**(142)**	**(28,525)**	**79,108**

Reconciliation of property and equipment - Group - 2018

	Opening balance KShs '000	Additions KShs '000	Disposals KShs '000	Foreign exchange movements KShs '000	Depreciation KShs '000	Total KShs '000
Furniture and fixtures	66,000	1,929	(1,030)	(781)	(11,697)	54,421
Motor vehicles	4,922	-	-	(40)	(3,160)	1,722
Office equipment	12,348	27	-	-	(2,896)	9,479
IT equipment	29,060	10,070	(117)	(66)	(14,595)	24,352
	112,330	**12,026**	**(1,147)**	**(887)**	**(32,348)**	**89,974**

Reconciliation of property and equipment - Company - 2019

	Opening balance KShs '000	Additions KShs '000	Disposals KShs '000	Depreciation KShs '000	Total KShs '000
Furniture and fixtures	38,407	2,787	(10,822)	(6,490)	23,882
Motor vehicles	1,667	-	-	(1,539)	128
Office equipment	9,479	755	-	(2,456)	7,778
IT equipment	20,305	21,287	-	(11,390)	30,202
	69,858	**24,829**	**(10,822)**	**(21,875)**	**61,990**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

15. Property and equipment (continued)

Reconciliation of property and equipment - Company - 2018

	Opening balance KShs '000	Additions Kshs '000	Depreciation KShs '000	Total Kshs '000
Furniture and fixtures	44,816	1,161	(7,570)	38,407
Motor vehicles	3,841	-	(2,174)	1,667
Office equipment	12,348	27	(2,896)	9,479
IT equipment	26,775	6,461	(12,931)	20,305
	87,780	**7,649**	**(25,571)**	**69,858**

16. Leases

The Company leases office premises for use in its branch and head office operations. The leases typically run for a period of 4-6 years and are open for renewal. Some leases provide for additional rent payments that are based on estimated changes in local price indices.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Company is a lessee is presented below:

a) Right-of-use assets

Right-of-use assets relate to leased office premises.

	Group		Company	
Right-of-use assets	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Recognised on 1 January	229,771	-	190,083	-
Additions to right-of-use assets	16,311	-	13,867	-
At 31 December	246,082	-	203,950	-
Charge for the year	(51,409)	-	(39,213)	-
Carrying amount at 31 December	**194,673**	**-**	**164,737**	**-**

b) Lease Liability

The movement in lease liabilities during the year 2019 is as follows

	Group		Company	
Lease Liability	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
At 1 January	229,771	-	190,083	-
Additions	16,311	-	13,867	-
Repayments	(72,211)	-	(58,740)	-
Interest expensed on lease liabilities	25,849	-	23,844	-
Carrying amount at 31 December	**199,720**	**-**	**169,054**	**-**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

16. Leases (continued)

Maturity analysis of lease liabilities as at 31 December 2019

	Group		Company	
	2019	**2018**	**2019**	**2018**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
Later than one year and not later than 5 years	177,689	-	147,023	-
Later than 5 years	22,031	-	22,031	-
	199,720	**-**	**169,054**	**-**

c) Amounts recognised in profit or loss

	Group		Company	
	2019	**2018**	**2019**	**2018**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
Interest expensed on lease liabilities	25,849	-	23,844	-
Depreciation charge	51,409	-	39,213	-
Lease expense*	-	91,351	-	75,890
	77,258	**91,351**	**63,057**	**75,890**

*** Lease expense in year 2018 was measured under IAS 17**

d) Amounts recogised in statement of cash flows

	Group		Company	
	2019	**2018**	**2019**	**2018**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
Payment of lease liabilities	46,362	-	34,896	-
Interest expense on lease liabilities	25,849	-	23,844	-
	72,211	**-**	**58,740**	**-**

17. Intangible assets

Group	2019			2018		
	Cost / Valuation KShs '000	Accumulated amortisation KShs '000	Carrying value KShs '000	Cost / Valuation KShs '000	Accumulated amortisation KShs '000	Carrying value KShs '000
Computer software	180,514	(123,929)	56,585	159,941	(108,412)	51,529

Company	2019			2018		
	Cost / Valuation KShs '000	Accumulated amortisation KShs '000	Carrying value KShs '000	Cost / Valuation KShs '000	Accumulated amortisation KShs '000	Carrying value KShs '000
Computer software	116,011	(81,477)	34,534	102,031	(70,181)	31,850

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

17. Intangible assets (continued)

Reconciliation of intangible assets
Group - 2019

	Opening balance KShs '000	Additions KShs '000	Disposals KShs '000	Foreign exchange movements KShs '000	Amortisation KShs '000	Total KShs '000
Computer software	51,529	23,835	(2,408)	(140)	(16,231)	56,585

Reconciliation of intangible assets
Group - 2018

	Opening balance KShs '000	Additions KShs '000	Foreign exchange movements	Amortisation KShs '000	Total KShs '000
Computer software	39,216	28,142	(39)	(15,790)	51,529

Reconciliation of intangible assets
Company - 2019

	Opening balance KShs '000	Additions KShs '000	Amortisation KShs '000	Total KShs '000
Computer software	31,850	13,981	(11,297)	34,534

Reconciliation of intangible assets
Company - 2018

	Opening balance KShs '000	Additions KShs '000	Amortisation KShs '000	Total KShs '000
Computer software	38,155	7,802	(14,107)	31,850

18. Interests in subsidiaries including consolidated structured entities

The following table lists the entities which are controlled directly by the company, and the carrying amounts of the investments in the company's separate financial statements.

Company

Name of company	Held by	% voting power 2019	% voting power 2018	% holding 2019	% holding 2018	Carrying amount 2019	Carrying amount 2018
The Heritage Insurance Company Tanzania Limited	Heritage Kenya	60.00 %	60.00 %	60.00 %	60.00 %	146,557	146,557

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
19. Other receivables				
Financial instruments:				
Prepayments	211,369	84,804	203,397	75,500
Due from related parties (note 30)	1,790	22,521	6,688	46,764
Trade receivables at amortised cost	213,159	107,325	210,085	122,264
Other receivables	63,026	9,688	3,612	6,583
Total trade and other receivables	**276,185**	**117,013**	**213,697**	**128,847**
Split between non-current and current portions				
Current assets	276,185	117,013	213,697	128,847

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

20. Financial investments

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
At fair value through profit or loss designated	4,692,123	3,746,967	4,469,965	3,516,758
Held at amortised cost	256,600	262,884	256,600	262,884
	4,948,723	**4,009,851**	**4,726,565**	**3,779,642**
At fair value through profit or loss - designated				
Quoted shares	11,304	285,196	11,304	285,196
Unquoted shares	40,671	40,071	-	-
Goverment securities	4,604,886	3,316,193	4,429,968	3,133,240
Corporate bonds	35,262	105,507	28,693	98,322
As at end of year	**4,692,123**	**3,746,967**	**4,469,965**	**3,516,758**
Quoted shares				
As at start of year	285,196	334,696	285,196	334,696
Additions	-	4,907	-	4,907
Disposals	(286,341)	(6,548)	(286,341)	(6,548)
Net fair value gains/(losses)	12,449	(47,859)	12,449	(47,859)
As at end of year	**11,304**	**285,196**	**11,304**	**285,196**
Unquoted shares				
As at start of year	40,071	27,722	-	-
Net fair value gains	884	13,351	-	-
Currency translation	(284)	(1,002)	-	-
As at end of year	**40,671**	**40,071**	-	-
Government securities and corporate bonds*				
As at start of year	3,421,700	3,647,625	3,231,562	3,454,921
Additions	5,373,986	2,914,516	5,351,000	2,887,000
Disposals	(4,146,096)	(3,148,208)	(4,115,684)	(3,123,064)
Fair value gains/ (loss)	(8,146)	14,488	(8,217)	12,705
Currency translation	(1,296)	(6,721)	-	-
As at end of year	**4,640,148**	**3,421,700**	**4,458,661**	**3,231,562**

*Corporate bonds have been combined with government securities for the comparative period. This has been applied consistently in the year 2019

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Held at amortised cost				
Staff mortgages	216,203	225,142	216,203	225,142
Other staff loans	40,397	37,742	40,397	37,742
	256,600	**262,884**	**256,600**	**262,884**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

20. Financial investments (continued)

Movement of loans and receivables is as shown below

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
As at start of year	262,885	315,946	262,885	315,946
Loan advanced	58,004	54,844	58,004	54,844
Loan repayment	(73,788)	(75,088)	(73,788)	(75,088)
IFRS 9 adjustment	9,499	(32,818)	9,499	(32,818)
	256,600	**262,884**	**256,600**	**262,884**

Mortgage loans offered to staff members as a benefit which are collateralised. The Heritage Insuance Company Kenya Limited has the first right to recover mortgage deductions from employment income.

The risk of default occurring over the expected life of the financial instrument has not increased significantly during the year ended 31 December 2019, any expected impairment losses would therefore be recognised under the 12 months expected credit loss. The mortgage loans and policy 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 either directly from staff salaries or being limited to the surrender value of policyholder investments. The expected credit impairment loss was immaterial as at 31 December 2019.

Fair value hierarchy of available-for-sale financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Level 1				
Quoted equities	11,304	285,196	11,304	285,196
Level 2				
Government securities and Corporate bonds	4,640,148	3,421,700	4,458,661	3,231,562
	4,651,452	**3,706,896**	**4,469,965**	**3,516,758**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

21. Deferred acquisition costs

	Group		Company	
	2019 KSh '000	2018 KSh '000	2019 KSh '000	2018 KSh '000
Assets				
At start of the year	123,615	68,593	33,284	12,746
Additions	429,428	341,024	184,357	108,099
Amortisation charge	(397,167)	(283,983)	(148,260)	(87,561)
Currency translation	(641)	(2,019)	-	-
At end of the year	155,235	123,615	69,381	33,284
Liabilities	-	-	-	-
At start of the year	(86,942)	(59,594)	-	-
Additions	(205,200)	(224,722)	-	-
Amortisation charge	221,575	195,220	-	-
Currency translation	617	2,154	-	-
At end of the year	(69,950)	(86,942)	-	-
Net	**85,285**	**36,673**	**69,381**	**33,284**

22. Reinsurance share of insurance liabilities

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Reinsurers' share of:				
Unearned premium	1,289,143	1,389,164	791,766	957,188
Notified claims outstanding	1,142,371	1,066,657	595,602	690,604
Claims incurred but not reported	277,600	169,769	168,246	94,558
	2,709,114	**2,625,590**	**1,555,614**	**1,742,350**

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

23. Cash and cash equivalents

Cash and cash equivalents consist of:

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Bank balances	575,130	421,675	490,459	227,754
Short-term deposits	2,492,746	3,120,342	1,161,266	2,028,023
	3,067,876	**3,542,017**	**1,651,725**	**2,255,777**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

24. Insurance contract liabilities

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Short-term insurance contracts:				
Reported claims and claims handling expenses	2,965,872	2,797,727	2,231,838	2,206,606
Claims incurred but not reported	632,169	654,576	485,362	536,352
	3,598,041	**3,452,303**	**2,717,200**	**2,742,958**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

24. Insurance contract liabilities (continued)

Short-term insurance contracts

The Group 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. In the year the company adopted fully the actuarial reserving basis of IBNR.

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

The latest valuation of IBNR was carried out by Ernest and Young as at 31 December 2019.

Group	2013 KShs '000	2014 KShs '000	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	Total KShs '000
Estimates of ultimate claims costs:								
At end of accident year	5,949,190	1,917,950	2,867,707	3,054,272	3,031,797	3,245,971	3,290,912	23,357,799
One year later	3,896,052	740,350	634,114	977,893	758,560	551,034	-	7,558,003
Two years later	3,696,640	160,273	409,118	112,955	95,585	-	-	4,474,571
Three years later	87,089	98,084	77,074	101,834	-	-	-	364,081
Four years later	68,182	35,724	42,969	-	-	-	-	146,875
Five years later	(1,618)	17,541	-	-	-	-	-	15,923
Six years later	9,642	-	-	-	-	-	-	9,642
Current estimate of cumulative claims	1,744,119	1,533,381	2,266,144	2,773,296	2,942,997	3,152,631	3,158,573	17,571,141
Less: cumulative payments to date	(1,417,111)	(1,471,397)	(2,133,976)	(2,515,599)	(2,699,988)	(2,549,702)	(1,817,496)	(14,605,269)
Liability in the statement of financial position	**327,008**	**61,984**	**132,168**	**257,697**	**243,009**	**602,929**	**1,341,077**	**2,965,872**
Incurred but not reported								632,169
Total gross claims liability included in the statement of financial position	**327,008**	**61,984**	**132,168**	**257,697**	**243,009**	**602,929**	**1,341,077**	**3,598,041**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

24. Insurance contract liabilities (continued)

Company	2013 KShs '000	2014 KShs '000	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	Total KShs '000
At the end of accident year	1,295,863	1,218,738	1,851,381	2,332,126	2,305,432	2,601,597	774,100	12,379,237
One year later	302,042	207,754	292,774	304,958	541,980	385,638	-	2,035,146
Two years later	81,852	81,993	54,734	34,378	302,721	-	-	555,678
Three years later	43,918	10,589	24,286	235,319	-	-	-	314,112
Four years later	18,806	(3,234)	142,692	-	-	-	-	158,264
Five years later	(8,004)	65,395	-	-	-	-	-	57,391
Six years later	325,974	-	-	-	-	-	-	325,974
Current estimate of cummulative claims	1,742,723	1,522,643	2,247,107	2,737,440	2,893,187	2,746,336	2,372,785	16,262,221
Less: Cummulative payments to date	(1,416,750)	(1,457,248)	(2,104,415)	(2,502,121)	(2,590,466)	(2,360,698)	(1,598,685)	(14,030,383)
Subtotal	325,973	65,395	142,692	235,319	302,721	385,638	774,100	2,231,838
incurred but not reported	-	-	-	-	-	-	-	485,362
Total gross claims liability included in the statement of financial position	**325,973**	**65,395**	**142,692**	**235,319**	**302,721**	**385,638**	**774,100**	**2,717,200**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

25. Other payables

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Accrued expenses	526,696	415,663	75,901	61,456
Due to related parties (note 30)	21,673	4,267	21,318	4,267
Other liabilities	86,747	91,079	86,747	91,886
	635,116	**511,009**	**183,966**	**157,609**

26. Deferred tax

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Deferred tax asset	230,763	221,492	189,799	174,965
Reconciliation of deferred tax asset / (liability)				
At beginning of year	221,492	228,171	174,965	165,279
Profit or credit/(charge) loss	9,271	(36,100)	14,834	(19,735)
Provision through equity	-	29,421	-	29,421
	230,763	**221,492**	**189,799**	**174,965**

Recognition of deferred tax asset

The Group and Company recognises deferred tax assets for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

27. Unearned premium reserve

This reserve represents the liability for short term business contracts where the Group's obligations are not expired as at the year end. Movements in the reserve are shown below:

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
As at 1 January	2,846,218	2,918,386	2,263,150	2,355,765
Net movement in the year	153,570	(51,832)	48,424	(92,615)
Currency adjustment	(4,133)	(20,336)	-	-
As at 31 December	**2,995,655**	**2,846,218**	**2,311,574**	**2,263,150**

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
28. Cash generated from operations				
Profit before taxation	927,702	649,363	854,502	527,514
Adjustments for:				
Interest income	(610,100)	(580,214)	(501,055)	(481,051)
Interest expense on lease liabilities (Note 16(b))	25,849	-	23,844	-
Depreciation (Note 15)	28,525	32,348	21,875	25,571
Amortization of intangibles (Note 17)	16,231	15,790	11,297	14,107
Depreciation of right-of-use assets	51,409	-	39,213	-
Losses on disposals of property, equipment and intangibles (Note 7)	9,843	-	10,822	-
Revaluation reserve of bonds and shares	(5,187)	20,020	(4,232)	35,155
IFRS 9 transition adjustment	-	(98,071)	-	(98,071)
Staff loan impairment	(9,499)	32,817	(9,499)	32,817
Changes in working capital:				
Other receivables	(159,172)	270,170	(84,850)	261,518
Deferred acquisition costs	(48,612)	(27,674)	(36,097)	(20,538)
Receivable arising out of reinsurance arrangements	(210,057)	607,151	(114,740)	434,802
Receivable arising out of direct insurance arrangements	240,315	126,029	240,315	126,029
Reinsurers' share of insurance liabilities	(83,524)	(365,071)	186,736	(169,686)
Other payables	(50,309)	(123,811)	(411,981)	(91,111)
Insurance contract liabilities	145,738	628,581	(25,758)	560,100
Unearned premium reserve	149,437	(72,168)	48,424	(92,615)
	418,589	**1,115,260**	**248,816**	**1,064,541**
29. Dividends paid				
Dividends	(276,168)	(383,332)	(223,000)	(328,000)

Dividends are from profits generated by the Group and Company

During the year, the Company paid KShs 223 million (2018: KShs 328 million) The Directors do not propose payment of a final dividend (2018: Nil)

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

30. Related parties

Relationships	Entity
Ultimate holding company	Liberty Holdings SA
Holding company	Liberty Kenya Holdings Plc
Subsidiaries	Refer to note 18
Subsidiaries of the holding company	Liberty Life Assurance Kenya Limited
Related party by virtue of being a related party to the ultimate holding Company	Stanlib Kenya Limited
Related party by virtue of being a related party to the ultimate holding Company	Stanbic Bank Kenya Limited

Related party balances

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Amounts included in Other Receivable/(Other Payables) regarding related parties				
Liberty Holdings SA	52	(1,285)	52	(1,285)
Heritage Insurance Tanzania Limited	-	-	4,898	24,243
Liberty Kenya Holdings Plc	1,738	12,870	1,738	12,870
Liberty Life Assurance Kenya Limited	(17,160)	9,650	(16,805)	9,650
Stanlib Kenya Limited	(3,281)	(2,623)	(3,281)	(2,623)
Stanbic Bank Kenya Limited	(1,232)	(359)	(1,232)	(359)
Related party transactions				
Services received from related parties				
Liberty Holdings SA	78,757	88,106	78,757	88,106
Gross premiums written				
Stanbic Bank Kenya Limited	363,072	339,049	363,072	339,049
Stanlib Kenya Limited	15,936	14,469	15,936	14,469
Liberty Life Assurance Company Kenya Limited	24,791	80,776	24,791	80,776
Rent paid to/(received from) related parties				
Liberty Life Assurance Company Kenya Limited	31,114	53,922	31,114	53,922
Investments in related parties				
Stanbic Bank Kenya Limited - Deposits	123,277	319,851	123,277	319,851
Stanbic Bank Kenya Limited - Bank balances	178,358	554,487	178,358	178,358
Advances to related parties				
Staff mortgages	216,203	225,142	216,203	225,142
Other staff loans	40,397	37,742	40,397	37,742
Loans to directors of the Company				
Loans to directors	12,977	21,231	12,977	21,231
Key management remuneration excluding directors				
Post-emploment and other short term benefits	157,090	136,310	98,624	81,401

NOTES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
31. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
• Computers, motor vehicle, furniture and equipment	117,628	110,913	92,911	86,196

This committed expenditure relates to property and will be financed by available bank facilities, retained profits, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated.

Operating leases – as lessee (expense) (IAS 17)

Minimum lease payments due				
- within one year	-	9,860	-	-
- in second to fifth year inclusive	238,362	159,958	207,696	116,190
	238,362	**169,818**	**207,696**	**116,190**

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

32. Contingencies

In common with the insurance industry in general, the Group and Company 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 totalling Tshs 270 million (2018:KShs 12 million). The Company has paid one third of the amount in dispute as per the provisions of the Tanzania Income Tax Act. In the opinion of the Directors, no additional material liability is expected to arise from the disputed assessments.

33. Critical accounting estimates and judgements in applying accounting principles

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 Group and 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 Group and Company has developed estimates of expected claims outstanding.

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33. Critical accounting estimates and judgements in applying accounting principles (continued)

Insurance contract liabilities (Continued)

The development of insurance liabilities provides a measure of the Group and Company's ability to estimate the ultimate value of the claims. The carrying amounts of insurance liabilities as at the end of the year 31 December 2019 and at 31 December 2018 are set out in Note 24.

• Impairment of financial assets

The Group and Company recognises expected credit losses (ECL) on financial assets classified as amortised cost, 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 material change in the probability of default, since origination.

• 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 use 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 and Company 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.

34. Subsequent events

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic due to its rapid spread across the globe. Many governments including the Kenyan government, are taking stringent measures to help contain the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders. This has resulted to a weaker economic outlook and uncertainties across the globe. As a result the Group and Company may likely experience a decrease in profitability especially during the second quarter of the year as insured businesses continue to be affected by the pandemic.

As at the date of this report, there is no sufficient data to quantify the effects of the pandemic. However, as the pandemic continues to evolve, directors and management will assess its impact to the Group and Company in the next twelve month from the date of approval of the financial statements.