KENINDIA

Contents

company information

Registered office	Kenindia House Loita Street P O Box 44372 Nairobi GPO 00100 Kenya
Website	www.kenindia.com
Email	kenindia@kenindia.com
Subsidiaries	Kenya Pravack Limited Kenindia Asset Management Company Limited Tanzindia Assurance Company Limited

Board of Directors

Mr M N Mehta	Chairman
Dr M P Chandaria, OBE, EBS	Vice-Chairman
Mr Inderjeet Singh	Managing Director
Hon Simeon Nyachae, EGH	(Alternate Mr Leon Nyachae, Pending IRA approval)
Mrs A G Vaidyan	Director
Mr A N Ngugi, OGW	Director
Dr P M King'ori	Director
Mr G Radhakrishnan	Director (Appointed on 16 January 2019)
Mr H Bhargava	Director (Appointed on 4 March 2019)
Mr M N Sarma	Director (Resigned on 31 May 2018)
Mr V K Sharma	(Alternate Mrs U S Sangwan Resigned on 31 December 2018)
Mrs M G Ngige	Director (Resigned on 22 March 2019)

Company Secretary Mr N P Kothari FCPS (Kenya)

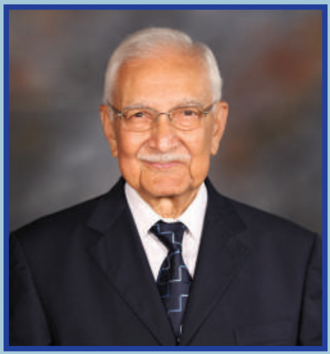
Auditors

RSM Eastern Africa LLP
Certified Public Accountants (Kenya)
1st Floor, Pacis Centre
Slip Road, Off Waiyaki Way, Westlands
P O Box 349 - 00606, Nairobi, Kenya

Management Team

Mr Inderjeet Singh	Managing Director/Principal Officer
Mr James K Macharia	Chief Operating Officer
Mr V R Kumar	General Manager, Operations/Acting Financial Controller
Mr P V Saseendran	General Manager, Life
Mr S V Deshkulkarni	General Manager, Finance/Financial Controller (Upto 17 May 2018)

board of directors


M N Mehta
Chairman


Dr M P Chandaria
Vice Chairman


Hon. Simeon Nyachae
Director


A N Ngugi
Director


Girish Radhakrishnan
Director
(Appointed 16/01/2019)


Mary Ngige
Director
(Resigned 22/03/2019)


Dr. Patricia M. King`ori
Director


A G Vaidyan
Director


Hemant Bhargava
Director
(Appointed 04/03/2019)


Vijay Kumar Sharma
Director
(Resigned 31/12/2018)


M N Sarma
Director
(Resigned 31/05/2018)


Usha Sangwan
Alternate Director
(Ceased 30/09/2018)


Inderjeet Singh
Managing Director

notice of the annual general meeting

KENINDIA

Notice is hereby given that the Fortieth Annual General Meeting of the Company will be held on Wednesday, 26th June 2019 at the Registered office of the Company, Kenindia House, 12th Floor, Loita Street, Nairobi at 12 noon to transact the following business:

1 To read the notice convening the meeting.

2 To receive the report of the auditors on the financial statements for the year ended 31st December 2018.

3 To receive the Directors' report and audited financial statements for the year ended 31st December 2018.

4 To declare a dividend.

5 To approve Directors' fees.

6 To re-elect Directors: Mr M N Mehta retires by rotation and being eligible offers himself for re-election.

7 To authorize the Directors to appoint auditors in terms of the Insurance Act (Cap 487) and in accordance with Section 719(2) of the Companies Act 2015 to fill vacancy as the term of RSM Eastern Africa expires at the conclusion of this meeting and to authorize the Directors to fix their remuneration.

By Order of the Board

N P Kothari

Secretary

14th May 2019

1. A Member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A proxy form is enclosed.
2. To be valid the proxy form should be completed and deposited at the Registered office not less than 24 hours before the time appointed for holding the meeting or adjourned meeting.

On behalf of the Board of Directors of Kenindia Assurance Company Limited, I am pleased to present to you the Annual Report and Audited Financial Statements of the Company for the year ended 31st December 2018.

Overview of the Economy

According to the World Bank, GDP growth for Kenya, which is our main market, was 6.30% in 2018, up from 4.7% in the year 2017. This growth in GDP was mainly spurred by the growth in Agricultural sector. The Manufacturing sector grew by 4.2% in 2018, up from low of 0.5% in 2017.

The main focus of the government in 2018 was on the Big Four Agenda - expansion of manufacturing sector, affordable housing, affordable healthcare and food security. If the government spending on these areas increased, the GDP growth is expected to continue in 2019 also.

The Kenyan Shilling remained resilient against the US Dollar in 2018, appreciating by 1.38% to close at KShs 101.77 compared to KShs 103.23 at the beginning of the year. This was in spite of most of the currencies in the world weakening against the US Dollar in the global markets. Also the Kenya Shilling appreciated against the GBP and Euro. The Kenya Shilling closed at KShs 129.824 and KShs 117.10 against the GBP and Euro respectively compared to KShs 138.75 and KShs 123.28 as at the beginning of the year. The buoyancy of Kenyan currency was mainly on account of increased inward remittances.

The average inflation rate for the year 2018 was 4.7% compared to 8.00% in 2017. However towards the end of the year, inflation rate increased to above 5.7% in December 2018 driven by high food prices due to drought situation in the country and also due to pressure from rising fuel prices.

In 2018, the yields on government securities showed a downward trend, mainly due to Central Bank of Kenya's efforts to keep interest rates low. The yields on the 91-day T Bill declined from 8.0% to 7.3% during the year 2018, yields on the 182 and 364 day T Bills declined by 160 bps and 120 bps in 2018 resulting to 9.00% and 10.00% from 10.6% and 11.2% at the end of 2017 respectively.

The equity market at the Nairobi Securities Exchange (NSE), recorded loss in share prices with the NSE 20 Share Index closing at 2,833.84 points on 31.12.2018, down from 3,712 points in 2017.

Company Performance

(I) General Insurance Business

The General Insurance business registered a gross premium of KShs 2.855 billion for 2018 compared to KShs 3.015 billion in 2017. However, this line of business reported a net profit after tax of KShs 187.241 million (2017 profit of KShs 185.174 million).

(Ii) Life Assurance Business

The Long-term business recorded gross premium income, including pension funds deposits of KShs 5.547 billion compared to KShs 4.641 billion in 2017, being a growth of 19.52%. Gross premium income for Ordinary Life was KShs 1.448 billion compared to KShs 1.235 billion for the year 2017, registering a growth of 17.25%. Gross premiums of the Group Life Business was KShs 47.787 million compared to KShs 74.379 million in the previous year. Contributions under Deposit Administration and Retirement Fund increased from KShs 2.955 billion to KShs 3.579 billion being a growth of 21.12%.

For our new policy, Annuity contributions increased from KShs 377.252 million to KShs 472.061 million registering the growth of 25.13% in its third year.

The funds in the Long-term business and Deposit Administration stood at KShs 32.84 billion as at 31st December 2018 compared to KShs 29.40 billion in the previous year, being a growth of 12.07%. The funds earmarked for Annuity as on 31st December 2018 were KShs 1.227 billion.

Actuarial Valuation

The Company's Actuarial Valuation for Life Business was carried out at the end of the year. The actuarial surplus inclusive of Deposit Administration and Retirement Fund (Net of actuarial reserves set aside brought forward) before any allocation for the year 2018 was KShs 3.488 billion. The Company declared an interest rate of 11.50% (2017:11.25%) on Retirement Benefit Funds, a simple Reversionary Bonus of 6% (2017:6%) on-with profit ordinary life policies, 4% (2017: 4%) final additional terminal bonus on ordinary Life Policies matured, bonus of 11.50% (2017:11.50%) on Capital Advantage policies and 11.50% (2017:11.50%) interest on Bima Account plan. In addition, the Company declared one-off special bonuses of 2% (2017:2%) as simple reversionary bonus on with profit ordinary life policies and 2% (2017:2%) as terminal bonus on ordinary Life Policies matured. The Actuary recommended a transfer of KShs 172.774 million out of the actuarial surplus, for the benefit of shareholders.

KENINDIA

Investment Income

The net investment income of the Company increased by 8.56% from KShs 3.924 billion to KShs 4.260 billion. The net investment income of Life business was KShs 3.781 billion compared to KShs 3.419 billion in 2017, an increase of 10.59%. The net investment income of Non-Life business was KShs 479.13 million compared to KShs 504.79 million in 2017.

Group Performance

Total gross premium accounted by Tanzindia Assurance Company Limited, a subsidiary of the Company, was KShs 563 million as compared to KShs 664 million for the year 2017, being a decrease of 15.21% and its net loss after tax was KShs 17.66 million as compared to a profit of KShs 24.425 million in the previous year.

Total assets of the Group stood at KShs 46.31 billion compared to KShs 42.47 billion in 2017.The shareholders' funds increased from KShs 3.527 billion to KShs 3.887 billion at the end of 2018.

Dividend

The Board has recommended to the members to declare a dividend of KShs 10 /- per share for the year ended 31st December 2018 at the forthcoming Annual General meeting.

Board

Since my last report, there have been changes in the composition of the Board as indicated on the page of Company Information in these financial statements. I wish to express the Board's gratitude to all who left the Board for their valuable contributions.

I take this opportunity to welcome all the Directors who were appointed during the year. The experience and contributions of the new Directors will be very valuable to the Company.

Future Outlook

The Company is in the process of re-formulating a strategy for the years 2018 to 2021 namely "Kenindia Integrated Marketing Communication Strategy" to support business growth, by building a single strong brand identity in the Kenyan marketplace by reinforcing all brand images and messages. This re-formulation is based on the actual performance for the past two years, keeping in mind the changes in the internal and external environment and taking cognizance of current dynamics and future business trends.

According to a recent World Bank report, the Kenyan GDP growth for 2019 is expected to be 5.7%, compared to 6.30% of 2018. This decrease in GDP growth is expected due to drought conditions and also decrease in exports and decrease in external remittances, in spite of the expectation that the Government will increase the spending on the Big Four agenda. The World Bank has now changed its predicted economic growth for Kenya to 5.70% for 2019 and 5.90% for 2020.

The insurance industry is expected to continue in its present state with few changes expected during the year 2019.

Appreciation

On behalf of the Board, I would like to congratulate and thank the Company's Management and staff for their concerted efforts in taking the Company in a progressive direction by taking proper action as and when required.

My deep appreciation is also extended to my fellow Board members for the invaluable guidance they have extended to the Company's leadership. I also extend my sincere appreciation to you, our shareholders for the continuous support provided to the Company. I also sincerely thank all our brokers, agents and associates for their committed support.

M N MEHTA

CHAIRMAN

Corporate governance is the set of processes and organizational structures through which the Board and senior executives manage the Company at the highest standards.

The Company is committed to uphold the best practices of corporate governance. The role of the Board is to determine the Company's policies and strategies, to monitor the attainment of business objectives and to ensure that the Company meets its obligations to the shareholders and all the stakeholders. The Board is responsible to shareholders for promoting the long term success of the Company, and in particular, for setting the Company's strategy, monitoring management's performance against the strategy, setting the Company's risk appetite, ensuring the Company has adequate resources and effective controls are in place in the business. The Board also sets the values and the culture of the Company and has a duty to protect the interests of the policyholders.

BOARD OF DIRECTORS

The composition of the Board is in line with good corporate governance practices. The roles of the Chairman and the Managing Director are segregated. A non-executive director acts as the Chairman of the Board. The Managing Director is in charge of the day to day running of the business. The current Board is composed of one Executive Director (Managing Director) and nine non-executive Directors including three independent Directors. The Board consists of committed individuals with diverse and complementary skills to ensure that there is sufficient wealth of experience in the Board.

The Directors are given appropriate and timely information enabling them to maintain full and effective control over all strategic, financial, operational and compliance issues. During the period under review and up to the date of this statement, none of the Directors has received any benefit from the Company other than Director's fees and emoluments disclosed in the financial statements. Also no loans have been advanced to the Directors during this period.

BOARD COMMITTEES

The Board has delegated certain duties to Board Committees. It has five Committees all of which are guided by clear terms of reference. The Committees are instrumental in monitoring business operations, systems and internal control. The Committees are as follows:

(i) Executive Committee

The Committee is chaired by Dr. M.P. Chandaria, the Vice-Chairman of the Board and two non-executive independent Directors and the Managing Director. The Committee reviews the Company's operations, strategies, investments, asset liability management, policyholders' protection amongst others. Its main functions include sanction of insurance claims and capital expenditure in excess of the financial limits set for the Managing Director. The meetings for this Committee are held quarterly.

(ii) Nomination and Remuneration Committee

The Nomination and Remuneration Committee is chaired by a non-executive independent Director. The other members are two non-executive Directors and the Managing Director. The Committee's main function is to identify and nominate for the approval by the Board, candidates to fill Board vacancies, succession planning of the Board and other senior executives and make recommendations to the Board with regards to any changes and to advise on remuneration.

(iii) Audit Committee

The Committee is chaired by an independent non-executive Director, Mrs. Mary G. Ngige, a qualified accountant and includes two non-Executive Directors and two independent non-executive Directors. The Chief Internal Auditor reports to the Committee. The Managing Director and Financial Controller attend meetings of the Committee as and when necessary. The Committee also meets external auditors in accordance with terms of reference. The Committee meets at least four times in a year.

(iv) Credit Management Committee

The Committee is chaired by Mrs. Alice Vaidyan and includes the two other non-Executive Directors and the Managing Director. The Committee's terms of reference include reviewing the Credit Policy of the Company, outstanding receivables from the premium debtors and provisioning/write off of bad and doubtful debts, amongst others. The Committee meets at least four times in a year.

(v) Risk Management Committee

The Committee is chaired by Mr. V.K. Sharma, a non-Executive Director and includes one other non-Executive Directors, two independent non-Executive Directors and the Managing Director. The terms of reference include reviewing on a continuous basis the potential risks the Company is exposed to, monitor the system of management of risks and ensuring that the required action is taken by the management to mitigate the impact of risks, amongst others, with the assistance of the Risk Manager of the Company. The Committee meets at least four times in a year.

BOARD MEETING ATTENDANCE

Name	Position	21.3.18	27.6.18	21.9.18	15.12.18
Mr. M. N. Mehta	Chairman	√	×	√	√
Dr. M. P. Chandaria OBE CBS EBS	Vice -Chairman	√	√	√	√
Mr. V. K. Sharma	Member	√	√	√	√
Mrs. Alice Vaidyan	Member	√	√	√	√
Mr. M.N. Sarma	Member	√	×	R	R
Hon. Simon Nyachae	Member	√	×	×	√
Mr. Allan N. Ngugi	Member	√	√	×	√
Mrs. Mary G. Ngige	Member	√	√	√	√
Dr. Patricia M. King'ori	Member	√	√	√	√
Mr. Girish Radhakrishnan	Member	-	-	-	√
Mr. Inderjeet Singh	Managing Director	√	√	√	√

KEY

√Attended

×Absent with apologies

R Retired

SHAREHOLDERS

10 major shareholders and their individual holdings at the year end were as follows:

	Number of Shares	%age of holding
Life Insurance Corporation of India	573,124	10.21
General Insurance Corporation of India	515,776	9.19
The National Insurance Company Limited	515,776	9.19
The New India Assurance Company Limited	515,776	9.19
The United India Insurance Company Limited	515,776	9.19
The Oriental Insurance Company Limited	505,025	9.00
Sansora Investments Limited	444,254	7.90
The Chandaria Foundation Registered Trustees	432,484	7.70
Mehta Group Limited	346,400	6.17
Lex Holdings Limited	257,230	4.58
Others (numbering 30)	992,259	17.68
Total	**5,613,880**	**100.00**

The Company continues to undertake Corporate Social Responsibility activities by promoting various activities among local communities in which it operates. The Company is committed to the principle of responsible corporate citizenship and makes Corporate Social Responsibility an integral part of its annual business plans. Under its Corporate Social Responsibility (CSR) programmes, the Company conducts community support activities every year. Members of staff participated in various activities. The main activities taken up by the Company during the year were the following:-

a) The Nest Children's Home

The Nest Children's Home was started in 1997 as a rescue and temporary care centre for children of imprisoned mothers. The home provides these children with food, clothing, accommodation and education. The Corporate Social Responsibility Committee visited the home on 19th April, 2018 and donated provisions and other assorted items.

b) Hope House Babies Home

Hope House cares for abandoned babies and mothers who offer their babies for adoption. They are admitted in the home from the time they are newly born and are usually adopted by the age of 2 to 3 years. The babies and their caregivers are housed at the home and provided with the basic needs including medical care. The Corporate Social Responsibility Committee visited the home on 31 October, 2018 and donated provisions and other assorted items.

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2018, which disclose the state of financial affairs of the Group comprising Kenindia Assurance Company Limited and its subsidiaries: Kenya Pravack Limited, Kenindia Asset Management Limited, and Tanzindia Assurance Company Limited.

Principal Activities

The Company and its subsidiary Tanzindia Assurance Company Limited underwrite all classes of life and non-life insurance risks as defined by the Insurance Acts. Kenindia Asset Management Company Limited provides its customers with asset management solution for their savings and retirement needs.

Results

	2018 KSh'000	2017 KSh'000
Group profit before tax	332,013	437,941
Taxation charge	(21,621)	(160,242)
Group profit after tax	310,392	277,699
Non-controlling interest	6,181	(8,549)
Net profit for the year transferred to retained earnings	**316,573**	**269,150**

Business Review

During the year 2018, the total turnover (including pension fund deposits and annuities) of the group and company increased from KShs 8.32 billion to KShs 8.96 billion and for the Company from KShs 7.66 billion to KShs 8.40 billion respectively. This was mainly attributed to increase in life business and pensions. The profit before tax decreased from KShs 437.941 million to KShs 332.013 million for the group and from KShs 386.665 million to KShs 352.158 million for the company reflecting the effects of increased claims incurred business in the year under review and overall loss position reported by the subsidiary, Tanzindia.

As at 31 December 2018, the net asset position of the group and company increased from KShs 3.926 billion to KShs 4.281 billion and for the Company from KShs 3.694 billion to KShs 4.077 billion respectively.

The company is in the process of implementing the "Kenindia Integrated Marketing & Communication Strategy 2018-2021'' to support business growth by building a single strong brand identity in Kenyan market. In keeping up with the changes in the internal and external environment, the Company; in formulating the strategy will take cognizance of current dynamics and future business trends. The strategy is geared towards enhancing the Company's top line.

Key Performance Indicators (Company)

	Long term assurance business 2018	Long term assurance business 2017	Short term insurance business 2018	Short term insurance business 2017
Retention ratio	97%	97%	67%	64%
Incurred claims ratio	-	-	71%	67%
Net commission ratio	3%	3%	7%	8%
Management expenses ratio	6%	7%	22%	20%
Combined ratio	-	-	100%	95%

Dividend

The directors recommend the payment of a first and final dividend of KShs 56.14 million which represents KShs 10 per share in respect of the year ended 31 December 2018 (2017: KShs 56.14 million representing KShs 10 per share).

Directors

The Board of Directors is as stated on page 1.

Directors' Indemnities

In line with sound governance practices, the Company maintains Directors' and officers' Liability Insurance, which gives appropriate cover for legal action, brought against its Directors. The Company has also granted indemnities to each of its Directors and the Secretary to the extent permitted by law.

Statement as to disclosure to the company's auditor

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

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

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

Terms of appointment of the auditor

The directors approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KSh 6.28 million has been charged to the profit or loss in the year.

Auditor

The term of RSM Easten Africa as auditors of the Company will expire at the conclusion of the Annual General Meeting. The Directors will request for proposals from other reputable audit firms and will recommend to the members, the selected firm for appointment as auditors of the Company in accordance with the Companies Act 2015 and Insurance Act (Cap 487).

The Report of the Directors was approved by the Board of Directors on 22nd March 2019 and signed on its behalf by the Secretary.

By order of the Board

N P Kothari

Secretary

22nd March 2019

statement of directors' responsibilities

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

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

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) selecting suitable accounting policies and applying them consistently; and

iii) making accounting estimates and judgments that are reasonable in the circumstances.

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

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

Approved by the board of directors on 22nd March 2019 and signed on its behalf by:

Allan N. Ngugi	**Dr P M King'ori**	**Inderjeet Singh**
Director	Director	Managing Director/Principal officer

From left to right

P. V. Saseendran - General Manager (Life Business)

Inderjeet Singh - Managing Director/Principal Officer

James K. Macharia - Chief Operating Officer

V. R. Kumar - General Manager (Operations)

report of the consulting actuary

KENINDIA

I have conducted an actuarial valuation of the life assurance business and an insurance liability valuation of the short term business of Kenindia Assurance Company Limited as at 31 December 2018.

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

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

In my opinion;

(i) the Life Assurance Business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of Life Insurance Business did not exceed the amount of funds of the Life Assurance Business at 31 December 2018.

(ii) the calculation of the short term insurance liabilities as at 31 December 2018 is appropriate and that the insurance liabilities as per the valuation are sufficiently prudent and appropriate given the nature of the business and existing liabilities.

Name of Actuary: **MR. SAKET SINGHAL**

22nd March 2019

RSM

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TO THE MEMBERS OF KENINDIA ASSURANCE COMPANY LIMITED

Opinion

We have audited the accompanying financial statements of Kenindia Assurance Company Limited (the company) and its subsidiaries (together, the group), set out on pages 20 to 119, which comprises the consolidated and company statement of financial position as at 31st December 2017, statements of comprehensive income, statements of changes in equity, statements of cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the group and company as at 31st December 2017 and of the financial performance and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and 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 company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

TO THE MEMBERS OF KENINDIA ASSURANCE COMPANY LIMITED (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed
Actuarial value of liabilities of the long- term business	The company has significant long term insurance contract liabilities including deposit administration liabilities representing about 76% of the company's total liabilities. Valuation of insurance contract liabilities involves complex and subjective judgement made by management and the independent actuary. Changes in these assumptions can result in material impact to the valuation of these liabilities. Our audit procedures in this area included: • Assessing the competencies and objectivity as well as verifying the qualifications of the independent external expert engaged by management and approved by the Insurance Regulatory Authority. • We reviewed the actuarial report and calculations underlying these provisions, particularly the following areas: a) appropriateness of the methodologies used and that the approach was in accordance with best practice as recommended by IRA; b) reasonableness of key assumptions; c) sensitivities to key assumptions; d) consistency between valuation periods; and e) accuracy and relevance of the input data used.
Short-term insurance contract liabilities	Valuation of these liabilities is highly judgmental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported to the company. Our audit procedures in this area included: • evaluating and testing controls around claims handling and reservation process; • performing cut-off procedures to check for any unrecorded claims at the end of the year; • on a sample basis, checking the claims reserved by comparing the estimated amount reserved to documentation such as the assessors report and the discharge voucher; • reviewing the reserving methodology applied focusing on understanding the methodologies applied and examining areas of judgement such as changes in valuation assumptions; and • obtaining legal confirmation of claims in dispute.
Receivables arising from reinsurance arrangements	The valuation of receivables from reinsurance arrangements requires a significant level of judgement, given its inherent dependence on underlying estimates of gross outstanding claims. Our audit procedures in this area included: • verifying the year end reinsurance returns and reconciliations with key reinsurers; • testing of controls on computation of reinsurance premium ceded and reinsurance claims recoverable; and · • verifying that transactions were in accordance with reinsurance treaty agreements.
Compliance with laws and regulations	The insurance industry is highly regulated as insurance companies conduct their business in a fiduciary capacity. Over the past few years the insurance industry has also been experiencing a significant increase in prudential (reporting) regulations, which have also become more extensive and more complex. Our audit procedures in this area included: • obtaining an understanding of the laws and regulations governing the company, such as the Insurance Act and regulations; • reviewing correspondence with the regulators; and • checking compliance with the requirement of the regulator on aspects such as technical reserves, application of premium as well as commission rates.

TO THE MEMBERS OF KENINDIA ASSURANCE COMPANY LIMITED (continued)

Other information

The directors are responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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

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

Directors' responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

TO THE MEMBERS OF KENINDIA ASSURANCE COMPANY LIMITED (continued)

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

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

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

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 9 - 10 is consistent with the financial statements.

The signing partner responsible for the independent audit was **CPA Elvis Ogeto, Practising Certificate No. 2303.**

RSM Eastern Africa

RSM Eastern Africa
Certified Public Accountants (Kenya)
Nairobi, Kenya

22nd March 2019

financial highlights
for the year ended 31 december 2018

GROUP	2018 KShs million	2017 KShs million	% VARIATION OVER PREVIOUS YEAR
GROSS PREMIUM WRITTEN (SHORT TERM BUSINESS)	3,417.25	3,678.57	-7.10%
GROSS EARNED PREMIUM			
(I) SHORT TERM BUSINESS	3,479.46	3,749.66	-7.21%
(II) LONG TERM BUSINESS	1,495.91	1,309.46	14.24%
(III) DEPOSIT ADMINISTRATION CONTRACTS	3,578.79	2,954.61	21.13%
(IV) ANNUITIES	472.06	377.25	25.13%
TOTAL	**9,026.22**	**8,390.98**	**7.57%**
NET EARNED PREMIUM			
(I) SHORT TERM BUSINESS	2,116.94	2,251.52	-5.98%
(II) LONG TERM BUSINESS	1,450.84	1,268.23	14.40%
(III) DEPOSIT ADMINISTRATION CONTRACTS	3,578.79	2,954.61	21.13%
(IV) ANNUITIES	472.06	377.25	25.13%
TOTAL	**7,618.63**	**6,851.61**	**11.19%**
INVESTMENT INCOME			
(I) SHORT TERM BUSINESS	494.74	532.13	-7.03%
(II) LONG TERM BUSINESS	3,780.60	3,419.02	10.58%
TOTAL	**4,275.34**	**3,951.15**	**8.20%**
PROFIT BEFORE TAX	332.01	437.94	-24.19%
PROFIT AFTER TAX	310.39	277.70	11.77%
MINORITY INTEREST	(6.18)	8.55	-172.28%
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	316.57	269.15	17.62%
SHARE CAPITAL	561.39	561.39	0.00%
SHAREHOLDERS' FUND	3,886.74	3,526.59	10.21%
POLICYHOLDERS' LIABILITIES	8,358.72	6,911.07	20.95%
PAYABLE UNDER DEPOSIT ADMINISTRATION CONTRACTS	23,238.23	21,760.40	6.79%
PAYABLE UNDER ANNUITIES	1,226.56	727.51	68.60%
TOTAL ASSETS	46,305.21	42,467.69	9.04%
COMPANY			
GROSS PREMIUM WRITTEN (SHORT TERM BUSINESS)	**2,854.69**	**3,014.53**	**-5.30%**
GROSS EARNED PREMIUM			
(I) SHORT TERM BUSINESS	2,916.90	3,085.62	-5.47%
(II) LONG TERM BUSINESS	1,495.91	1,309.46	14.24%
(III) DEPOSIT ADMINISTRATION CONTRACTS	3,578.79	2,954.61	21.13%
(IV) ANNUITIES	472.06	377.25	25.13%
TOTAL	**8,463.66**	**7,726.94**	**9.53%**
NET EARNED PREMIUM			
(I) SHORT TERM BUSINESS	1,925.48	1,984.46	-2.97%
(II) LONG TERM BUSINESS	1,450.84	1,268.23	14.40%
(III) DEPOSIT ADMINISTRATION CONTRACTS	3,578.79	2,954.61	21.13%
(IV) ANNUITIES	472.06	377.25	25.13%
TOTAL	**7,427.17**	**6,584.55**	**12.80%**
INVESTMENT INCOME			
(I) SHORT TERM BUSINESS	479.13	504.79	-5.08%
(II) LONG TERM BUSINESS	3,780.60	3,419.02	10.58%
TOTAL	**4,259.73**	**3,923.81**	**8.56%**
PROFIT BEFORE TAX	352.16	386.67	-8.92%
PROFIT AFTER TAX	329.16	245.26	34.21%
SHARE CAPITAL	561.39	561.39	0.00%
SHAREHOLDERS' FUND	3,758.73	3,375.77	11.34%
POLICYHOLDERS' LIABILITIES	8,358.72	6,911.07	20.95%
PAYABLE UNDER DEPOSIT ADMINISTRATION CONTRACTS	23,238.23	21,760.40	6.79%
PAYABLE UNDER ANNUITIES	1,226.56	727.51	68.60%
TOTAL ASSETS	44,322.79	40,724.25	8.84%
PROPOSED DIVIDEND	56.14	56.14	0.00%

financial statements 2018

consolidated statement of profit or loss
for the year ended 31 december 2018

	Note	Long term assurance business KShs'000	Short term insurance business KShs'000	Total 2018 KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	Total 2017 KShs'000
Premium income							
Gross earned premium income	2a	1,495,914	3,479,460	4,975,374	1,309,456	3,749,660	5,059,116
Premium ceded to reinsurers	2b	(45,079)	(1,362,523)	(1,407,602)	(41,223)	(1,498,141)	(1,539,364)
Net earned premium income		**1,450,835**	**2,116,937**	**3,567,772**	**1,268,233**	**2,251,519**	**3,519,752**
Other income							
Investment income	3a	3,780,603	494,743	4,275,346	3,419,020	532,128	3,951,148
Commission income	4a	8,665	423,386	432,051	-	455,900	455,900
Other income	4c	2,555	8,229	10,784	5,130	65,695	70,825
Net other income		**3,791,823**	**926,358**	**4,718,181**	**3,424,150**	**1,053,723**	**4,477,873**
Benefits and claims expense							
Claims and policy holder benefits expense		(304,146)	(1,980,787)	(2,284,933)	(1,774,598)	(1,793,625)	(3,568,223)
Surrender and annuity incurred		(4,167,672)	-	(4,167,672)	(2,297,841)	-	(2,297,841)
Claims ceded to reinsurers		-	546,777	546,777	-	382,242	382,242
Net benefits and claims expense		**(4,471,818)**	**(1,434,010)**	**(5,905,828)**	**(4,072,439)**	**(1,411,383)**	**(5,483,822)**
Expenses							
Operating expenses	5	(293,856)	(764,539)	(1,058,395)	(269,536)	(780,372)	(1,049,908)
Other expenses	6a	(55,651)	(79,088)	(134,739)	(53,474)	(84,380)	(137,854)
Allowance for credit losses on premium debtors	22	-	-	-	-	(53,549)	(53,549)
Write back of credit losses on premium debtors	22	-	93,969	93,969	-	1,339	1,339
Write back of credit losses on rental and other receivables	24	629	-	629	-	-	-
Provision for expected credit losses on premium debtors	22	-	(33,189)	(33,189)	-	-	-
Provision for expected credit losses on financial assets	33	(503)	(21,655)	(22,158)	-	-	-
Allowance for credit losses on rental and other receivables	24	(17,228)	(44,139)	(61,367)	(14,077)	(32,771)	(46,848)
Allowance for credit losses on deposits with financial institutions		-	-	-	(8,930)	-	(8,930)
Allowance for credit losses on commercial paper	33	(76,889)	(30,756)	(107,645)	-	-	-
Bad debts written off		-	-	-	-	(6,575)	(6,575)
Commission expense	4b	(150,131)	(531,339)	(681,470)	(135,888)	(594,544)	(730,432)
Premium levy		(3,447)	(32,268)	(35,715)	(4,141)	(30,940)	(35,081)
Contribution to policy holders compensation fund		(990)	(7,042)	(8,032)	(1,028)	(6,996)	(8,024)
Total expenses		**(598,066)**	**(1,450,046)**	**(2,048,112)**	**(487,074)**	**(1,588,788)**	**(2,075,862)**
Profit before taxation		**172,774**	**159,239**	**332,013**	**132,870**	**305,071**	**437,941**
Income tax credit/(expense)	7c	(30,858)	9,237	(21,621)	(72,783)	(87,459)	(160,242)
Profit for the year		**141,916**	**168,476**	**310,392**	**60,087**	**217,612**	**277,699**
Basic earnings per share (KShs)	8c	-	-	33.35	-	-	47.94
Diluted earnings per share (KShs)	8c	-	-	33.35	-	-	47.94
Attributable to:							
Equity holders of parent		141,916	174,657	316,573	60,087	209,063	269,150
Non-controlling interest		-	(6,181)	(6,181)	-	8,549	8,549
		141,916	168,476	310,392	60,087	217,612	277,699

consolidated statement of profit or loss and other comprehensive income
for the year ended 31 december 2018

	Note	Long term assurance business KShs'000	Short term insurance business KShs'000	Total 2018 KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	Total 2017 KShs'000
Profit for the year		**141,916**	**168,476**	**310,392**	**60,087**	**217,612**	**277,699**
Other comprehensive income							
Items that may be reclassified to profit or loss in subsequent periods:							
Net gain /(loss)on available-for-sale investments:							
- Government securities	9a	-	20,404	20,404	-	31,652	31,652
-Overstatement in prior year	9a	-	-	-	-	(184)	(184)
- Unquoted shares	9a	-	81,053	81,053	(522)	425,671	425,149
Overstatement in previous year in subsidiary	9a	-	(303)	(303)	-	-	-
		-	101,154	101,154	(522)	457,139	456,617
Deferred tax on available-for-sale reserve	9a	-	(30,432)	(30,432)	157	(137,197)	(137,040)
Overstatement in previous year in subsidiary	9a	-	91	91	-	-	-
Exchange difference on deferred tax	9a	-	27	27	-	-	-
Exchange differences		-	(75)	(75)	-	-	-
Non-controlling interest	9e	-	1,050	1,050	-	558	558
Exchange differences on translation of foreign operations	9b	-	(13,219)	(13,219)	-	12,423	12,423
		-	58,596	58,596	(365)	332,923	332,558
Items that will not be reclassified to profit or loss in subsequent periods:							
Revaluation of buildings		-	60,251	60,251	-	84,135	84,135
Deferred tax on revaluation		-	(18,075)	(18,075)	-	(25,241)	(25,241)
	9c	-	42,176	42,176	-	58,894	58,894
Total other comprehensive income for the year net of tax		**-**	**100,772**	**100,772**	**(365)**	**391,817**	**391,452**
Total comprehensive income		**141,916**	**269,248**	**411,164**	**59,722**	**609,429**	**669,151**
Attributable to:							
Equity holders of the parent		141,916	274,379	416,295	59,722	600,322	660,044
Non-controlling interest		-	(5,131)	(5,131)	-	9,107	9,107
		141,916	**269,248**	**411,164**	**59,722**	**609,429**	**669,151**

company statement of profit or loss
for the year ended 31 december 2018

	Note	Long term assurance business KShs'000	Short term insurance business KShs'000	Total 2018 KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	Total 2017 KShs'000
Premium income							
Gross earned premium income	2a	1,495,914	2,916,896	4,412,810	1,309,456	3,085,619	4,395,075
Premiums ceded to reinsurers	2b	(45,079)	(991,418)	(1,036,497)	(41,223)	(1,101,156)	(1,142,379)
Net earned premium income		**1,450,835**	**1,925,478**	**3,376,313**	**1,268,233**	**1,984,463**	**3,252,696**
Other income							
Investment income	3b	3,780,603	479,129	4,259,732	3,419,020	504,788	3,923,808
Commission income	4a	8,665	319,104	327,769	-	330,418	330,418
Other income	4c	2,555	4,406	6,961	5,130	63,428	68,558
Net other income		**3,791,823**	**802,639**	**4,594,462**	**3,424,150**	**898,634**	**4,322,784**
Benefits and claims expense							
Claims and policyholders benefits expense		(304,146)	(1,708,720)	(2,012,866)	(1,774,598)	(1,574,695)	(3,349,293)
Surrender and annuity incurred		(4,167,672)	-	(4,167,672)	(2,297,841)	-	(2,297,841)
Claims ceded to reinsurers		-	343,883	343,883	-	237,145	237,145
Net benefits and claims expense		**(4,471,818)**	**(1,364,837)**	**(5,836,655)**	**(4,072,439)**	**(1,337,550)**	**(5,409,989)**
Expenses							
Operating expenses	5	(293,856)	(625,378)	(919,234)	(269,536)	(615,012)	(884,548)
Other expenses	6b	(55,651)	(67,729)	(123,380)	(53,474)	(72,600)	(126,074)
Allowance for credit losses on premium debtors	22	-	-	-	-	(53,549)	(53,549)
Write back of credit losses on premium debtors	22	-	93,969	93,969	-	1,339	1,339
Write back of credit losses on rental and other receivables	24	629	-	629	-	-	-
Provision for expected credit losses on premium debtors	22	-	(29,382)	(29,382)	-	-	-
Provision for expected credit losses on financial assets	33	(503)	(1,439)	(1,942)	-	-	-
Bad debts written off		-	-	-	-	(1,235)	(1,235)
Allowance for credit losses on rental and other receivables	24	(17,228)	(44,139)	(61,367)	(14,077)	(32,771)	(46,848)
Allowance for credit losses on deposits with financial institutions	33	-	-	-	(8,930)	-	(8,930)
Allowance for credit losses on commercial paper	33	(76,889)	(30,756)	(107,645)	-	-	-
Commission expense	4b	(150,131)	(446,417)	(596,548)	(135,888)	(488,807)	(624,695)
Premium levy		(3,447)	(25,583)	(29,030)	(4,141)	(22,121)	(26,262)
Contribution to policy holders compensation fund		(990)	(7,042)	- (8,032)	(1,028)	(6,996)	(8,024)
Total expenses		**(598,066)**	**(1,183,896)**	**(1,781,962)**	**(487,074)**	**(1,291,752)**	**(1,778,826)**
Profit before taxation		**172,774**	**179,384**	**352,158**	**132,870**	**253,795**	**386,665**
Income tax credit/(expense)	7d	(30,858)	7,857	(23,001)	(72,783)	(68,621)	(141,404)
Profit for the year		**141,916**	**187,241**	**329,157**	**60,087**	**185,174**	**245,261**
Basic earnings per share (KShs)	8c	-	-	**56.39**	-	-	**43.69**
Diluted earnings per share (KShs)	8c	-	-	**56.39**	-	-	**43.69**

company statement of profit or loss and other comprehensive income
for the year ended 31 december 2018

KENINDIA

	Note	Long term assurance business KShs'000	Short term insurance business KShs'000	Total 2018 KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	Total 2017 KShs'000
Profit for the year		**141,916**	**187,241**	**329,157**	**60,087**	**185,174**	**245,261**
Other comprehensive income							
Items that may be reclassified to profit or loss in subsequent periods:							
Net gain/(loss) on available-for-sale investments:							
- Government securities	9a	-	20,046	20,046	-	31,095	31,095
- Unquoted shares	9a	-	76,767	76,767	(522)	424,728	424,206
		-	96,813	96,813	(522)	455,823	455,301
Deferred tax on available-for-sale reserve	9a	-	(29,044)	(29,044)	157	(136,747)	(136,590)
		-	67,769	67,769	(365)	319,076	318,711
Items that will not be reclassified to profit or loss in subsequent periods:							
Revaluation of buildings		-	60,251	60,251	-	84,135	84,135
Deferred tax on revaluation		-	(18,075)	(18,075)	-	(25,241.	(25,241.
	9c	-	42,176	42,176	-	58,894	58,894
Total other comprehensive income for the year net of tax		**-**	**109,945**	**109,945**	**(365)**	**377,970**	**377,605**
Total comprehensive income		**141,916**	**297,186**	**439,102**	**59,722**	**563,144**	**622,866**

consolidated statement of financial position

for the year ended 31 december 2018

	Note	Long term assurance business KShs'000	Short term insurance business KShs'000	Total KShs'000
EQUITY				
Share capital	8a	161,388	400,000	561,388
Share premium	8b	-	1,198	1,198
Available-for-sale reserve	9a	(365)	379,087	378,722
Revaluation reserve	9c	-	427,860	427,860
General reserve	9d	129,951	-	129,951
Retained earnings	10	29,214	2,368,498	2,397,712
Foreign currency translation reserve	9b	-	(10,088)	(10,088)
Equity attributable to shareholders of parent		**320,188**	**3,566,555**	**3,886,743**
Statutory reserve	11	318,516	-	318,516
Non-controlling interest	9e	-	76,231	76,231
Total equity		**638,704**	**3,642,786**	**4,281,490**
REPRESENTED BY:				
Assets				
Property and equipment	12	14,997	852,701	867,698
Intangible assets	14a	11,918	46,365	58,283
Prepaid operating lease rentals	15a	1,083,940	7,401	1,091,341
Deferred tax asset	29a	-	63,957	63,957
Investment properties	16a	2,008,654	1,291,053	3,299,707
Due from Kenya Motor Insurance Pool	24b	-	98,089	98,089
Available-for-sale equity investments	18a	153	679,621	679,774
Financial assets at fair value through profit or loss	19a	134,204	51,192	185,396
Loans receivable	20	170,399	10	170,409
Receivables arising out of reinsurance arrangements	21	1,280	1,370,240	1,371,520
Receivables arising out of direct insurance arrangements	22	1,286	636,531	637,817
Reinsurers' share of insurance liabilities	36	-	3,110,588	3,110,588
Other receivables	24a	94,252	192,517	286,769
Taxation recoverable	7a	-	56,202	56,202
Government securities:				
At amortised cost	25a	30,153,710	2,094,673	32,248,383
Available-for-sale	25c	-	682,741	682,741
Deposits with financial institutions	33	119,052	795,536	914,588
Bonds and debentures	33	52,525	52,525	105,050
Bank and cash balances	32a	225,760	151,134	376,894
Total assets		**34,072,130**	**12,233,076**	**46,305,206**
Liabilities				
Insurance liabilities	23	139,638	4,794,401	4,934,039
Payable under deposit administration contracts	26a	23,238,228	-	23,238,228
Payable under annuities	26b	1,226,564	-	1,226,564
Actuarial value of policyholders' liabilities	27	8,358,722	-	8,358,722
Provision for unearned premium	28a	-	1,250,330	1,250,330
Taxation payable	7a	79,106	-	79,106
Deferred tax liability	29a	13,786	311,958	325,744
Payables arising from reinsurance arrangements	30a	13,930	1,738,954	1,752,884
Payables arising out of direct insurance arrangements	30a	-	228,369	228,369
Bank overdraft	32a	-	124,122	124,122
Other payables	31a	363,452	142,156	505,608
Total liabilities		**33,433,426**	**8,590,290**	**42,023,716**
Total assets net of liabilities		**638,704**	**3,642,786**	**4,281,490**

The financial statements on pages 20 to 119 were approved and authorised for issue by the Board of Directors on 22nd March 2019 and signed on its behalf by:

Allan N. Ngugi
Director

Dr P M King'ori
Director

Inderjeet Singh
Managing Director/Principal Officer

consolidated statement of financial position

for the year ended 31 december 2017

KENINDIA

	Note	Long term assurance business KShs'000	Short term insurance business KShs'000	Total KShs'000
EQUITY				
Share capital	8a	161,388	400,000	561,388
Share premium	8b	-	1,198	1,198
Available-for-sale reserve	9a	(365)	308,322	307,957
Revaluation reserve	9c	-	387,375	387,375
General reserve	9d	51,009	-	51,009
Retained earnings	10	22,379	2,192,150	2,214,529
Foreign currency translation reserve	9b	-	3,131	3,131
Equity attributable to shareholders of parent		**234,411**	**3,292,176**	**3,526,587**
Statutory reserve	11	318,516	-	318,516
Non-controlling interest	9e	-	81,362	81,362
Total equity		**552,927**	**3,373,538**	**3,926,465**
REPRESENTED BY:				
Assets				
Property and equipment	12	18,330	824,058	842,388
Intangible assets	14a	13,255	56,472	69,727
Prepaid operating lease rentals	15a	1,122,662	6,708	1,129,370
Investment properties	16a	1,902,289	1,221,515	3,123,804
Due from Kenya Motor Insurance Pool	24b	-	97,011	97,011
Available-for-sale equity investments	18a	153	600,997	601,150
Financial assets at fair value through profit or loss	19a	178,015	74,697	252,712
Loans receivable	20	96,334	200	96,534
Receivables arising out of reinsurance arrangements	21	-	1,326,349	1,326,349
Receivables arising out of direct insurance arrangements	22	2,441	549,421	551,862
Reinsurers' share of insurance liabilities	36	-	3,317,895	3,317,895
Other receivables	24a	92,107	210,361	302,468
Taxation recoverable	7a	-	55,352	55,352
Government securities:				
Held to maturity	25a	26,482,642	1,795,189	28,277,831
Available-for-sale	25c	-	764,314	764,314
Deposits with financial institutions	33	195,798	842,070	1,037,868
Commercial paper	33	115,707	46,283	161,990
Bonds and debentures	33	52,780	52,780	105,560
Bank and cash balances	32a	156,814	196,688	353,502
Total assets		**30,429,327**	**12,038,360**	**42,467,687**
Liabilities				
Insurance liabilities	23	90,451	4,754,391	4,844,842
Payable under deposit administration contracts	26a	21,760,403	-	21,760,403
Payable under annuities	26b	727,514	-	727,514
Actuarial value of policyholders' liabilities	27	6,911,074	-	6,911,074
Provision for unearned premium	28a	-	1,337,218	1,337,218
Taxation payable	7a	75,135	5,910	81,045
Deferred tax liability	29a	34,760	217,539	252,299
Payables arising from reinsurance arrangements	30a	19,036	1,896,511	1,915,547
Payables arising out of direct insurance arrangements	30a	-	260,156	260,156
Bank overdraft	32a	-	71,107	71,107
Other payables	31a	258,027	121,990	380,017
Total liabilities		**29,876,400**	**8,664,822**	**38,541,222**
Total assets net of liabilities		**552,927**	**3,373,538**	**3,926,465**

The financial statements on pages 20 to 119 were approved and authorised for issue by the Board of Directors on 22nd March 2019 and signed on its behalf by:

Allan N. Ngugi
Director

Dr P M King'ori
Director

Inderjeet Singh
Managing Director/Principal Officer

company statement of financial position

for the year ended 31 december 2018

	Note	Long term assurance business KShs'000	Short term insurance business KShs'000	Total KShs'000
CAPITAL EMPLOYED				
Share capital	8a	161,388	400,000	561,388
Share premium	8b	-	1,198	1,198
Available-for-sale reserve	9a	(365)	375,303	374,938
Revaluation reserve	9c	-	427,860	427,860
General reserve	9d	129,951	-	129,951
Retained earnings	10	29,214	2,234,184	2,263,398
Total ordinary shareholders' equity		320,188	3,438,545	3,758,733
Statutory reserve	11	318,516	-	318,516
Total equity		**638,704**	**3,438,545**	**4,077,249**
REPRESENTED BY:				
Assets				
Property and equipment	13	14,997	840,480	855,477
Intangible assets	14b	11,918	42,357	54,275
Prepaid operating lease rentals	15b	1,083,940	7,272	1,091,212
Deferred tax asset	29	-	57,811	57,811
Investment properties	16b	2,008,654	1,272,538	3,281,192
Due from Kenya Motor Insurance Pool	24b	-	98,089	98,089
Investment in subsidiaries	17	-	105,612	105,612
Available-for-sale equity investments	18b	153	624,274	624,427
Financial assets at fair value through profit and loss	19b	134,204	37,833	172,037
Loans receivable	20	170,399	10	170,409
Receivables arising out of reinsurance arrangements	21	1,280	828,033	829,313
Receivables arising out of direct insurance arrangements	22	1,286	580,687	581,973
Reinsurers' share of insurance liabilities	36	-	2,141,814	2,141,814
Other receivables	24a	94,252	190,664	284,916
Taxation recoverable	7b	-	52,536	52,536
Government securities:				
At amortised cost	25b	30,153,710	2,045,315	32,199,025
Available-for-sale	25c	-	673,225	673,225
Deposits with financial institutions	33	119,052	586,501	705,553
Bonds and debentures	33	52,525	52,525	105,050
Bank and cash balances	32b	225,760	13,082	238,842
Total assets		**34,072,130**	**10,250,658**	**44,322,788**
Liabilities				
Insurance liabilities	23	139,638	3,790,663	3,930,301
Payable under deposit administration contracts	26a	23,238,228	-	23,238,228
Payable under annuities	26b	1,226,564	-	1,226,564
Actuarial value of policyholders' liabilities	27	8,358,722	-	8,358,722
Provision for unearned premium	28b	-	967,930	967,930
Payables arising from reinsurance arrangements	30b	13,930	1,295,859	1,309,789
Payables arising out of direct insurance arrangements	30b	-	228,369	228,369
Other payables	31b	363,452	95,024	458,476
Bank overdraft	32b	-	124,122	124,122
Deferred tax liability	29b	13,786	310,146	323,932
Taxation payable	7b	79,106	-	79,106
Total liabilities		**33,433,426**	**6,812,113**	**40,245,539**
Total assets net of liabilities		**638,704**	**3,438,545**	**4,077,249**

The financial statements on pages 20 to 119 were approved and authorised for issue by the Board of Directors on 22nd March 2019 and signed on its behalf by:

Allan N. Ngugi
Director

Dr P M King'ori
Director

Inderjeet Singh
Managing Director/Principal Officer

company statement of financial position

for the year ended 31 december 2017

KENINDIA

	Note	Long term assurance business KShs'000	Short term insurance business KShs'000	Total KShs'000
CAPITAL EMPLOYED				
Share capital	8a	161,388	400,000	561,388
Share premium	8b	-	1,198	1,198
Available-for-sale reserve	9a	(365)	307,534	307,169
Revaluation reserve	9c	-	387,375	387,375
General reserve	9d	51,009	-	51,009
Retained earnings	10	22,379	2,045,252	2,067,631
Total ordinary shareholders' equity		234,411	3,141,359	3,375,770
Statutory reserve	11	318,516	-	318,516
Total equity		552,927	3,141,359	3,694,286
REPRESENTED BY:				
Assets				
Property and equipment	13	18,330	808,976	827,306
Intangible assets	14b	13,255	50,513	63,768
Prepaid operating lease rentals	15b	1,122,662	6,577	1,129,239
Investment properties	16b	1,902,289	1,203,915	3,106,204
Due from Kenya Motor Insurance Pool	24b	-	97,011	97,011
Investment in subsidiaries	17	-	81,905	81,905
Available-for-sale equity investments	18b	153	547,507	547,660
Financial assets at fair value through profit and loss	19b	178,015	58,347	236,362
Loans receivable	20	96,334	200	96,534
Receivables arising out of reinsurance arrangements	21	-	923,700	923,700
Receivables arising out of direct insurance arrangements	22	2,441	479,231	481,672
Reinsurers' share of insurance liabilities	36	-	2,478,472	2,478,472
Other receivables	24a	92,107	230,206	322,313
Taxation recoverable	7b	-	55,062	55,062
Government securities:				
Held to maturity investments	25b	26,482,642	1,745,049	28,227,691
Available-for-sale	25c	-	751,408	751,408
Deposits with financial institutions	33	195,798	663,450	859,248
Commercial paper	33	115,707	46,283	161,990
Bonds and debentures	33	52,780	52,780	105,560
Bank and cash balances	32b	156,814	14,328	171,142
Total assets		**30,429,327**	**10,294,920**	**40,724,247**
Liabilities				
Insurance liabilities	23	90,451	3,905,518	3,995,969
Payable under deposit administration contracts	26a	21,760,403	-	21,760,403
Payable under annuities	26b	727,514	-	727,514
Actuarial value of policyholders' liabilities	27	6,911,074	-	6,911,074
Provision for unearned premium	28b	-	1,030,140	1,030,140
Payables arising from reinsurance arrangements	30b	19,036	1,596,377	1,615,413
Payables arising out of direct insurance arrangements	30b	-	260,156	260,156
Other payables	31b	258,027	73,862	331,889
Bank overdraft	32b	-	71,107	71,107
Deferred tax liability	29b	34,760	216,401	251,161
Taxation payable	7b	75,135	-	75,135
Total liabilities		**29,876,400**	**7,153,561**	**37,029,961**
Total assets net of liabilities		**552,927**	**3,141,359**	**3,694,286**

The financial statements on pages 20 to 119 were approved and authorised for issue by the Board of Directors on 22nd March 2019 and signed on its behalf by:

Allan N. Ngugi	**Dr P M King'ori**	**Inderjeet Singh**
Director	Director	Managing Director/Principal Officer

consolidated statement of changes in equity
for the year ended 31 december 2018

KENINDIA

	Share capital (Note 8) KShs'000	Share premium (Note 8) KShs'000	Available-for-sale reserve (Note 9) KShs'000	Revaluation reserve (Note 9) KShs'000	General reserve (Note 9) KShs'000	Retained earnings (Note 10) KShs'000	Foreign currency translation reserve (Note 9) KShs'000	Total ordinary shareholders' equity KShs'000	Statutory reserve (Note 11) KShs'000	Non-controlling interest KShs'000	Total equity and reserves KShs'000
At 1 January 2018	**561,388**	**1,198**	**307,957**	**387,375**	**51,009**	**2,214,529**	**3,131**	**3,526,587**	**318,516**	**81,362**	**3,926,465**
Profit for the year											
-Short term business	-	-	-	-	-	174,657	-	**174,657**	-	(6,181)	**168,476**
-Long term business	-	-	-	-	-	-	-	**-**	141,916	-	**141,916**
Other comprehensive income	-	-	70,765	42,176	-	-	(13,219)	**99,722**	-	1,050	**100,772**
Total comprehensive income	-	-	**70,765**	**42,176**	**-**	**174,657**	**(13,219)**	**274,379**	**141,916**	**(5,131)**	**411,164**
Transfer of excess depreciation	-	-	-	(1,691)	-	1,691	-	-	-	-	-
Transactions with owners:											
Dividends paid for 2017	-	-	-	-	-	(56,139)	-	**(56,139)**	-	-	**(56,139)**
Transfer to general reserve, net of tax	-	-	-	-	78,942	-	-	**78,942**	(78,942)	-	-
Transfer from statutory reserve, net of tax	-	-	-	-		62,974	-	**62,974**	(62,974)	-	-
At 31 December 2018	**561,388**	**1,198**	**378,722**	**427,860**	**129,951**	**2,397,712**	**(10,088)**	**3,886,743**	**318,516**	**76,231**	**4,281,490**

consolidated statement of changes in equity
for the year ended 31 december 2017

	Share capital (Note 8) KShs'000	Share premium (Note 8) KShs'000	Available-for- sale reserve (Note 9) KShs'000	Revaluation reserve (Note 9) KShs'000	General reserve (Note 9) KShs'000	Retained earnings (Note 10) KShs'000	Foreign currency translation reserve (Note 9) KShs'000	Total ordinary shareholders' equity KShs'000	Statutory reserve (Note 11) KShs'000	Non-controlling interest KShs'000	Total equity and reserves KShs'000
At 1 January 2017	**561,388**	**1,198**	**(11,620)**	**329,573**	**-**	**2,051,435**	**(9,292)**	**2,922,682**	**318,516**	**72,255**	**3,313,453**
Profit for the year											
-Short term business	-	-	-	-	-	209,063	-	**209,063**	-	8,549	**217,612**
-Long term business	-	-	-	-	-	-	-	**-**	60,087	-	**60,087**
Other comprehensive income	-	-	319,577	58,894	-	-	12,423	**390,894**	-	558	**391,452**
Total comprehensive income	**-**	**-**	**319,577**	**58,894**	**-**	**209,063**	**12,423**	**599,957**	**60,087**	**9,107**	**669,151**
Transfer of excess depreciation	-	-	-	(1,092)	-	1,092	-	**-**	-	-	**-**
Transactions with owners:											
Dividends paid for 2016	-	-	-	-	-	(56,139)	-	**(56,139)**	-	-	**(56,139)**
Transfer to general reserve, net of tax	-	-	-	-	51,009	-	-	**51,009**	(51,009)	-	-
Transfer from statutory reserve, net of tax	-	-	-	-	-	9,078	-	**9,078**	(9,078)	-	**-**
At 31 December 2017	**561,388**	**1,198**	**307,957**	**387,375**	**51,009**	**2,214,529**	**3,131**	**3,526,587**	**318,516**	**81,362**	**3,926,465**

company statement of changes in equity
for the year ended 31 december 2018

	Share capital (Note 8) KShs'000	Share premium (Note 8) KShs'000	Available-for-sale reserve (Note 9) KShs'000	Revaluation reserve (Note 9) KShs'000	General reserve (Note 9) KShs'000	Retained earnings (Note 10) KShs'000	Total ordinary shareholders' equity KShs'000	Statutory reserve (Note 11) KShs'000	Total equity and reserves KShs'000
At 1 January 2018	**561,388**	**1,198**	**307,169**	**387,375**	**51,009**	**2,067,631**	**3,375,770**	**318,516**	**3,694,286**
Profit for the year -Short term business	-	-	-	-	-	187,241	**187,241**	-	**187,241**
-Long term business	-	-	-	-	-	-	-	141,916	**141,916**
Other comprehensive income	-	-	67,769	42,176	-	-	**109,945**	-	**109,945**
Total comprehensive income	**-**	**-**	**67,769**	**42,176**	**-**	**187,241**	**297,186**	**141,916**	**439,102**
Transfer of excess depreciation	-	-	-	(1,691)	-	1,691	-	-	**-**
Transactions with owners: Dividends paid for 2017	-	-	-	-	-	(56,139)	**(56,139)**	-	**(56,139)**
Transfer to general reserve, net of tax	-	-	-	-	78,942	-	**78,942**	(78,942)	**-**
Transfer from statutory reserve, net of tax	-	-	-	-	-	62,974	**62,974**	(62,974)	**-**
At 31 December 2018	**561,388**	**1,198**	**374,938**	**427,860**	**129,951**	**2,263,398**	**3,758,733**	**318,516**	**4,077,249**

company statement of changes in equity
for the year ended 31 december 2017

	Share capital (Note 8) KShs'000	Share premium (Note 8) KShs'000	Available-for sale reserve (Note 9) KShs'000	Revaluation reserve (Note 9) KShs'000	General reserve (Note 9) KShs'000	Retained earnings (Note 10) KShs'000	Total ordinary shareholders' equity KShs'000	Statutory reserve (Note 11) KShs'000	Total equity and reserves KShs'000
At 1 January 2017	**561,388**	**1,198**	**(11,542)**	**329,573**	**-**	**1,928,426**	**2,809,043**	**318,516**	**3,127,559**
Profit for the year									
-Short term business	-	-	-	-	-	185,174	**185,174**	-	**185,174**
-Long term business	-	-	-	-	-	-	-	60,087	**60,087**
Other comprehensive income	-	-	318,711	58,894	-	-	**377,605**	-	**377,605**
Total comprehensive income	**-**	**-**	**318,711**	**58,894**	**-**	**185,174**	**562,779**	**60,087**	**622,866**
Transfer of excess depreciation	-	-	-	(1,092)	-	1,092	**-**	-	**-**
Transactions with owners:									
Dividends paid for 2016	-	-	-	-	-	(56,139)	**(56,139)**	-	**(56,139)**
Transfer to general reserve, net of tax	-	-	-	-	51,009	-	**51,009**	(51,009)	**-**
Transfer from statutory reserve, net of tax	-	-	-	-	-	9,078	**9,078**	(9,078)	**-**
At 31 December 2017	**561,388**	**1,198**	**307,169**	**387,375**	**51,009**	**2,067,631**	**3,375,770**	**318,516**	**3,694,286**

KENINDIA

consolidated statement of cash flows
for the year ended 31 december 2018

Cash flows from operating activities	2018 KShs'000	2017 KShs'000
Profit before tax	**332,013**	**437,941**
Adjustments for:		
Depreciation on property and equipment	39,829	42,857
Amortisation of intangible assets	24,985	29,903
Amortisation of prepaid lease	38,841	38,826
Exchange adjustment on property and equipments	(2,259)	(11)
Exchange adjustment on intangible assets	226	161
Fair value gains on investment properties	(173,427)	(277,116)
Interest from government securities (Held to maturity)	(3,786,125)	(3,305,421)
Interest from government securities (Available-for-sale)	(94,128)	(95,750)
Bank deposit interest	(78,558)	(71,325)
Loan interest	(83,689)	(13,939)
Commercial paper interest	-	(29,400)
Bonds and debentures interest	(7,077)	(7,263)
Dividends received from equity investments	(29,303)	(23,603)
Fair value loss/(gain) on quoted investments	67,311	(41,508)
Loss on sale of property and equipment	(1,207)	(978)
Working capital changes;		
Increase in insurance liabilities	89,197	28,302
Increase in payable under deposit administration contracts	1,477,825	2,607,454
Increase in payable under annuities	499,050	384,729
Increase in actuarial value of policyholders' liabilities	1,447,648	1,050,534
Decrease in unearned premium reserve	(86,888)	(129,369)
Decrease in reinsurance arrangements payables	(162,663)	(626,603)
(Decrease)/increase in direct insurance arrangements payables	(31,787)	66,176
Decrease/(increase) in other payables	125,591	(251,507)
Increase in due from motor pool	(1,078)	(7,580)
(Increase)/decrease in reinsurance arrangements receivables	(45,171)	675,059
Decrease/(increase) in direct insurance arrangements receivables	(85,955)	317,791
Increase in reinsurers' share of insurance liabilities	207,307	83,229
(Increase)/decrease in other receivables	15,699	227,960
Cash (used in)/ generated from operations	**(303,793)**	**1,109,549**
Income tax paid	(63,495)	(39,286)
Net cash flows (used in) /generated from operating activities	**(367,288)**	**1,070,263**

consolidated statement of cash flows (cont'd)

for the year ended 31 december 2018

	2018 KShs'000	2017 KShs'000
Cash flows from investing activities		
Purchase of property and equipment	(8,170)	(22,324)
Purchase of intangible assets	(13,767)	(27,238)
Proceeds from disposal of property and equipment	6,509	6,509
Additions to investment properties	(3,288)	(5,218)
Net decrease in available-for-sale equity investments	2,429	1,069
Purchase of financial assets at fair value through profit and loss (Quoted shares)	-	(11,912)
Policy loans advanced	(36,749)	(37,226)
Repayment of policy loans	32,458	32,957
Net movement in policy loans	(69,081)	
Motor vehicle loans advanced	(990)	-
Repayment of motor vehicle loans	487	471
Net investment in government securities (Held to maturity)	(3,970,552)	(4,418,679)
Net investment in government securities (Available-for-sale)	101,977	(264)
Decrease/(increase) in deposits with financial institutions (maturing after 90 days of date of acquisition)	(94,896)	149,284
Interest from government securities (Held to maturity)	3,786,125	3,305,421
Interest from government securities (Available-for-sale)	94,128	95,750
Bank deposit interest	78,558	71,325
Loan interest	83,689	13,939
Commercial paper interest	-	29,400
Bonds and debentures interest	7,077	7,263
Dividends received from equity investments	29,303	23,603
Net cash flows used in investing activities	**25,247**	**(785,870)**
Cash flows from financing activities		
Dividends paid	(56,139)	(56,139)
Net cash flows used in financing activities	**(56,139)**	**(56,139)**
(Decrease)/increase in cash and cash equivalents	**(398,180)**	**228,254**
Movement in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	1,296,341	1,055,265
Increase in cash and cash equivalents	(398,180)	228,254
Exchange differences on translation of foreign operations	(11,609)	12,822
Cash and cash equivalents at the end of the year (Note 32)	**886,552**	**1,296,341**

company statement of cash flows (cont'd)

for the year ended 31 december 2018

Cash flows from operating activities	2018 KShs'000	2017 KShs'000
Profit before tax	**352,158**	**386,665**
Adjustments for:		
Depreciation on property and equipment	35,781	37,781
Amortisation of intangible assets	23,260	27,331
Amortisation of prepaid lease	38,839	38,824
Fair value gains on investment properties	(172,512)	(275,516)
Interest from government securities (Held to maturity)	(3,781,739)	(3,299,322)
Interest from government securities (Available-for-sale)	(92,825)	(94,250)
Bank deposit interest	(67,170)	(58,530)
Loan interest	(83,597)	(13,879)
Commercial paper interest	-	(29,400)
Bonds and debentures interest	(7,077)	(7,263)
Dividends received from equity investments	(28,787)	(22,721)
Fair value loss/(gains) on quoted investments	64,325	(37,104)
Loss/(gains) on sale of property and equipment	924	(1,442)
Working capital changes;		
Decrease in insurance liabilities	(65,668)	(66,208)
Increase in payable under deposit administration contracts	1,477,825	2,607,454
Increase in payable under annuities	499,050	384,729
Increase in actuarial value of policyholders' liabilities	1,447,648	1,050,534
Increase in unearned premium reserve	(62,210)	(71,086)
(Decrease)increase in reinsurance arrangements payables	(305,624)	(211,723)
Increase/(decrease) in direct insurance arrangements payables	(31,787)	66,176
Decrease in other payables	126,587	(301,737)
Increase in motor pool	(1,078)	(7,580)
Decrease in reinsurance arrangements receivables	94,387	318,204
(Increase)/decrease in direct insurance arrangements receivables	(100,301)	87,782
Decrease in reinsurers' share of insurance liabilities	336,658	207,639
Decrease in other receivables	37,397	233,415
Cash (used in)/generated from operations	**(265,536)**	**948,773**
Income tax paid	(48,663)	(17,022)
Net cash flows (used in)/generated from operating activities	**(314,199)**	**931,751**

	2018 KShs'000	2017 KShs'000
Cash flows from investing activities		
Purchase of property and equipment	(5,847)	(16,070)
Purchase of intangible assets	(13,767)	(27,238)
Proceeds from disposal of property and equipment	1,222	5,459
Additions to investment properties	(3,288)	(5,218)
Purchase of financial assets at fair value through profit and loss (Quoted shares)	-	(11,912)
Policy loans advanced	(36,749)	(37,226)
Net movement in policy loans	(69,081)	-
Repayment of policy loans	32,458	32,957
Motor vehicle loans advanced	(990)	-
Repayment of motor vehicle loans	487	471
Net movement in investment in government securities (Held to maturity)	(3,971,334)	(4,421,405)
Net (increase)/decrease in investment in government securities (Available-for-sale)	75,032	(260)
(Increase)/decrease in deposits with financial institutions (maturing after 90 days of date of acquisition)	(92,162)	(8,976)
Interest from government securities (Held to maturity)	3,781,739	3,299,322
Interest from government securities (Available-for-sale)	92,825	94,250
Bank deposit interest	67,170	58,530
Loan interest	83,597	13,879
Commercial paper interest	-	29,400
Bonds and debentures interest	7,077	7,263
Dividends received from equity investments	28,787	22,721
Net cash flows used in investing activities	**(22,824)**	**(964,053)**
Cash flows from financing activities		
Dividends paid	(56,139)	(56,139)
Net cash flows used in financing activities	**(56,139)**	**(56,139)**
Decrease in cash and cash equivalents	**(393,162)**	**(88,441)**
Movement in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	935,361	1,023,802
Decrease in cash and cash equivalents	(393,162)	(88,441)
Cash and cash equivalents at the end of the year (Note 32)	**542,199**	**935,361**

1. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in compliance with the requirements of the Kenyan Companies Act, 2015. The financial statements are prepared on the historical cost basis, except for investment properties and certain investments which are carried at fair value, impaired assets at their recoverable amounts and actuarially determined liabilities at their present value. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, which is also the functional Company's currency.

The financial statements comprise the consolidated and company statements of profit or loss, consolidated and company statements of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company statements of cash flows, and explanatory notes. Income and expenses, excluding the components of other comprehensive income, are recognised in profit or loss. Other comprehensive income is recognised in the statement of other comprehensive income and comprises items of income and expenses (including reclassification adjustments) that are not recognised in the statement of profit or loss as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the Group in their capacity as owners are recognised in the statement of changes in equity.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after reporting date (current) and more than twelve months after reporting date (non-current), is presented in the notes (note 41(iii)).

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires directors to exercise judgement in the process of applying the accounting policies adopted by the Group. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in Note 1 (w) below.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Adoption of new and revised International Financial Reporting Standards (IFRS))

i) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments : Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instrument s project: classification and measurement; impairment; and hedge accounting.

The Group did not early adopt any of IFRS 9 in previous periods.

The Group has applied IFRS 9 prospectively, with the initial application date of 31 December 2018.

The Group has elected not to restate its comparatives, as restating prior periods would be impossible without the use of hindsight. Hindsight in this context inculdes factors influencing measurement such as fair values and expected credit loss calculations.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the closing retained earnings and other reserves of the current period. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policy. The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification also significantly amends other standards dealing with financial instruments as IFRS 7 'Financial Instruments: Disclosures'.

The Company's measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and the new measurement categories under IFRS 9 are compared as follows:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Equity investments-quoted	Fair value through profit or loss	Fair value through profit or loss	172,037	172,037
Equity investments-unquoted	Fair value through other comprehensive income	Fair value through other comprehensive income	624,427	624,427
Loans receivable	Loans and receivables	Amortised cost	101,328	170,409
Receivables arising out of direct insurance arrangements	Loans and receivables	Amortised cost	517,386	581,973
Receivables arising out of reinsurance arrangements	Loans and receivables	Amortised cost	829,313	829,313
Other receivables	Loans and receivables	Amortised cost	374,313	284,916
Government securities	Held to maturity	Amortised cost	32,199,025	32,199,025
Government securities	Available-for-sale	Fair value through other comprehensive income	673,225	673,225
Bonds and debentures	Held to maturity	Amortised cost	105,583	105,050
Commercial paper	Held to maturity	Amortised cost	107,645	-
Deposits with financial institutions	Loans and receivables	Amortised cost	706,962	705,553
Bank and cash balances	Loans and receivables	Amortised cost	238,842	238,842
Total financial assets			**36,650,086**	**36,584,770**

Total provision for impairment of financial assets increased by KShs 31,324,000.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(b) **Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)**

i) **New and amended standards adopted by the Company**

IFRS 9 Financial Instruments (continued)

IFRS 9 requires all financial assets to be measured at fair value on initial recognition and subsequently at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow.

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" (ECL) model based on the concept of providing for expected losses at the inception of a contract; this will require judgement in quantifying the impact of forecast economic factors. For financial assets for which there has not been a significant increase in credit risk since initial recognition, the loss allowance should represent ECLs that would result from probable default events within 12 months from the reporting date (12-month ECLs). For financial assets for which there has been a significant increase in credit risk, the loss allowance should represent lifetime ECLs. A simplified approach is allowed for trade receivables and lease receivables, whereby lifetime ECLs can be recognised from inception. For premium debtors, the company has applied the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(b) Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

i) New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or clarifying on the recognition of income tax consequences of dividends.
- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.
- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.
- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019 in relation to remeasurement of previously held interests on a joint operation on obtaining control.
- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the Amortised cost classification.
- IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019,replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.
- IFRS 17 'Insurance Contracts' (issued May 2017) effective for annual periods beginning on or after 1 January 2022 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued in December 2016) effective for annual periods beginning on or after 1 January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes

The directors expect that the future adoption of IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other standards and interpretations will have a material impact on the financial statements in future periods. The Group plans to apply the changes above from their effective dates.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(c) **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group (Company and its subsidiaries) as at 31 December each year. Subsidiary companies are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. The Group companies are as set out in note 17.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the 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. Acquisition-related costs are expensed as incurred

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re- measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition- date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group balances, transactions, income and expenses and profits and losses, resulting from intra-group transactions and dividends, are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if this results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it;

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of services, excluding discounts, rebates, and value added taxes or other taxes. Sale of services is recognised upon performance of the service and customer acceptance based on the proportion of actual service rendered to the total services to be provided.

The following specific criteria must also be met before revenue is recognised:

Gross premiums

Gross recurring premiums on life are recognised as revenue when payable by the policyholder. For single premium, business revenue is recognised on the date on which the policy is effective. Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

Net 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 reporting date, and is computed using the 1/24 method in general business.

Reinsurance premiums

Gross reinsurance premiums on life are recognised as an expense when payable or on the date on which the policy is effective. Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incepts.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Commission income and fees

Insurance contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. Commission income is recognized in the period in which they are earned.

Investment income

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established. For listed securities, this is the date the security is listed as ex dividend.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease period.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(d) **Revenue recognition (continued)**

Realised gains and losses

Realised gains and losses recorded in the statement of profit or loss on investments include gains and losses on the financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

(e) **Benefits, claims and expense recognition**

Gross benefits and claims

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims as well as changes in the gross valuation of insurance contract liabilities. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

General insurance and health claims include all claims that have occurred during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims incurred

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 claims arising from incidents occurring prior to the accounting date and not settled, and are computed on the basis of the best information available at the time the records for the period are closed and include provisions for claims incurred but not reported (IBNR). IBNR is computed based on certain minimum percentages of gross premium written on each class of business, as stipulated by the insurance industry regulator. This amount is included in the outstanding claims as at year end.

Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

Outstanding claims in short term business are not discounted.

Reinsurance claims recoverable

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Policy holder benefits

Policyholder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all payments made during the year, whether arising from events during that or earlier years. Insurance contract liabilities represent the estimated ultimate cost of settling all benefits accruing to policyholders and are discounted to the present value.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Product classification

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

Investment contracts are further classified as being either with or without Discretionary Participation Feature (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

i. Likely to be a significant portion of the total contractual benefits
ii. The amount or timing of which is contractually at the discretion of the issuer
iii. 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 issuer
- The profit or loss of the company, fund or other entity that issues the contract.

(g) Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Reinsurance assets consist of the amount due from reinsurers for claims submitted as well as the portion of the current Long term assurance that is ceded to the reinsurers on the basis of the reinsurance agreement (treaty proportional or facultative).

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss. Gains or losses on buying reinsurance are recognised in the statement of profit or loss immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(g) Reinsurance (continued)

The Group also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are recognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest rate method when accrued.

(h) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are recognised when the recognition criteria for financial assets, as described in note (u), has been met.

(i) Policyholder benefits

Policy holder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all payments made during the year, whether arising from events during that or earlier years. Insurance contract liabilities represent the estimated ultimate cost of settling all benefits accruing to policy holders and are discounted to the present value.

(j) Deposit administration contracts

The Group administers the funds of a number of retirement benefit schemes. The liability of the Group to the schemes is measured at fair value and is included within the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the liability in the statement of financial position and are not recognised as gross premium and investments income in the consolidated statement of profit or loss.

(k) Expenses

Expenses are recognised in the statement of profit or loss when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognised in the statement of profit or loss on the basis of systematic and rational allocation procedures.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Expenses (continued)

This is often necessary in recognising the equipment associated with the using up of assets such as property, plant and equipment. In such cases the expense is referred to as a depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

An expense is recognised immediately in the statement of profit or loss when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

(l) Property and equipment

All categories of property and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Subsequent costs (including replacement costs) are included in the asset's carrying amount or recognised as a separate asset, as appropriate, when incurred and 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. Repairs and maintenance expenses are charged to the statement of profit or loss in the year in which they are incurred.

Buildings are subsequently carried at a revalued amount, based on annual valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other items of property and equipment are subsequently carried at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment losses.

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

Depreciation of an asset begins when it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the reducing balance basis to write down carrying values of the assets over their useful lives at the following annual rates:

Furniture, fixtures and office equipment	12.5%
Computer equipment, duplicators and copies	30%
Motor vehicles	25%

The assets' residual values, and useful lives and method of depreciation are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indicators that the carrying amount may not be recoverable. Impairment losses are recognised in the statement of profit or loss as an expense. An item of property and equipment is recognised upon disposal or when no future economic benefits are expected to arise from the Continued use of the asset or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss in the year the item is recognised.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(m) Investment properties

Investment properties comprise buildings and parts of buildings held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost, including the transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as typical financing, sale and lease back arrangements, special consideration or concessions granted by anyone associated with the sale.

The Group determines fair value without any deductions for transactional costs it may incur on sale or other disposal. Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Fair values are evaluated annually by an accredited external independent valuer. Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

Investment properties are recognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal or retirement of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to the statement of profit or loss in the year of disposal or retirement.

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner- occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. When the Group completes the construction or development of a self- constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

(n) Intangible assets

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use, the specific software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life at 30 percent per annum, using the reducing balance method. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised.

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Intangible assets (continued)

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset

Intangible assets are recognised on disposal or when no future economic benefits are expected from its use or disposal.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

(o) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the statement of profit or loss on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Foreign currency transactions

The Group's consolidated financial statements are presented in KShs which is also the Company's functional currency. That is the currency of the primary economic environment in which Kenindia Assurance Company Limited operates. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the statement of profit or loss. Tax changes and credits attributable to exchange differences on these items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into Kenya Shillings at the rate of exchange prevailing at the reporting date and their statement of profit or loss are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

(q) Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date in the countries where the Group operates and generates taxable income. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the statement of profit or loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The income tax charge is analysed between tax in respect of policyholders' returns and the balance which represents the tax on equity holders' returns. The income tax charge in respect of policyholders' returns reflects the movement in current and deferred income tax recognised in respect of those items of income, gains and expenses, which inure to the benefit of policyholders.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(q) **Taxation (continued)**

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(q) Taxation (continued)

Sales taxes and premium taxes

Revenues, expenses and assets and liabilities are recognised net of the amount of sales taxes and premium taxes except when:

- The sales or premium tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable,
- Receivables and payables that are stated with the amount of sales or premium tax included.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(r) Employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the liability for annual leave as a result of services rendered by employees up to the statement of financial position.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(t) Retirement benefits obligations

The company operates a defined contribution pension scheme for all its employees, the assets of which are held in trustee administered funds. The retirement plan is funded by payments from both employees and the company.

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute and currently limited to KShs 200 per employee per month.

The company's contributions to the defined contribution pension scheme are charged to statement of profit or loss in the year to which they relate.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(u) Financial instruments

i) Initial recognition and measurement

Financial instruments within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities. The Group determines the classification of its financial assets and financial liabilities at initial recognition.

Financial assets and financial liabilities are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group initially recognises a financial asset or financial liability in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised and recognised, as applicable, using trade date accounting. Purchases and sales of investments are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. When the Group uses settlement date accounting for an asset that is subsequently measured at cost or amortised cost, the asset is recognised initially at its fair value on the trade date.

Management determines the appropriate classification of its financial instruments at initial recognition and designation at every reporting date. The classification depends on the purpose for which the investments were acquired or originated.

Financial assets are classified as at fair value through profit or loss where the Group's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' equity) is passively managed and/or carried at fair value on initial recognition.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables and quoted and unquoted financial instruments.

Financial liabilities within the scope of IAS 39 are classified as other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. The financial liabilities are recognised initially at fair value. The Group's financial liabilities include insurance payables and other payables (see note 30 and 31).

ii) Subsequent measurement

The subsequent measurement of financial assets and liabilities depends on their classification as follows;

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Information regarding these instruments is reported to the key management personnel on a fair value basis.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Financial instruments (continued)

ii) Subsequent measurement (continued)

***Financial assets at fair value through profit or loss* (continued)**

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the statement of profit or loss.

Financial assets at fair value through profit or loss (financial assets held for trading) comprise quoted shares.

Financial assets at fair value through profit or loss (those designated upon initial recognition at fair value through profit or loss) comprise deposits with financial institutions and commercial paper.

Held to maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the goup has the positive intention and ability to hold until maturity. They include government securities (long term business). These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, held to-maturity financial assets are measured at amortised cost, using the effective interest rate method, less impairment. Gains and losses are recognised in the statement of profit or loss when the investments are recognised or impaired, as well as through the amortisation process.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include mortgage and policy loans, receivables arising from direct insurance arrangements and other receivables. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the investments are recognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available-for-sale financial assets include equity investments. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. They include government securities (short term business) and investments in unquoted shares. These investments are initially recorded at fair value.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised and reported as a separate component in other comprehensive income in the available-for-sale reserve until the investment is recognised, at which time the cumulative gain or loss is recognised in other operating income or the investment is determined to be impaired or the cumulative loss is recognised in the statement of profit or loss in finance cost and removed from available-for-sale reserve. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the statement of profit or loss.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(u) Financial instruments (continued)

ii) Subsequent measurement (continued)

Available-for-sale financial assets (continued)

The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Group is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the statement of profit or loss.

Financial liabilities

Financial liabilities are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss when the liabilities are recognised as well as through the effective interest rate method (EIR) amortisation process.

iii) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs.

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 33.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(u) Financial instruments (continued)

iv) Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of profit or loss, to the extent that the carrying value of the asset does not exceed what the amortised cost would have been (at the reversal date) had the particular impairment loss not been recognised in the past.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(u) Financial instruments (continued)

iv) Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

v) Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is recognised when

- The rights to receive cash flows from the asset have expired; or
- The Group retains the right to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either

a) The Group has transferred substantially all the risks and rewards of the asset, or

b) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

vi) Derecognition of financial liabilities

A financial liability is recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

(v) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

(w) Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognised in the financial statements.

Operating lease commitments – Group as a lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

Product classification between Insurance and Investment contracts
The Group uses judgement to distinguish between insurance and investment contracts for its life products.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Valuation of insurance contract liabilities

Life assurance contract liabilities
The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(w) Significant accounting judgements and estimates (continued)

Estimates and assumptions (continued)

***a) Valuation of insurance contract liabilities* (continued)**

Life assurance contract liabilities (continued)

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group bases mortality and morbidity on standard industry mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation if appropriate. Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

The carrying value at the reporting date of life insurance liabilities is as follows: KShs 139,638,000 (2017: KShs 90,451,000) for insurance liabilities and KShs 8,386,223,000 (2017: KShs 6,911,074,000) for actuarial value of policy holders' liabilities.

Non-life insurance (which comprises general insurance and healthcare) contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The key variables include frequency of claims, average claim costs, inflation and average handling costs and are covered in detail under note 40.

Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types.

Large claims are usually separately addressed, by being reserved at the face value of loss adjuster estimates.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

The carrying value at the reporting date of non-life insurance liabilities is as follows: For Group KShs 4,934,039,000 (2017: KShs 4,754,391,000) and for Company KShs 3,930,301,000 (2017: KShs 3,905,518,000).

b) Fair value of financial assets determined using valuation techniques

Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flows model and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counter parties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(w) Significant accounting judgements and estimates (continued)

Estimates and assumptions (continued)

c) Deferred tax assets and liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Details on deferred taxes are disclosed in Note 29.

d) Property and equipment and intangible assets

Critical estimates are made by the directors in determining depreciation and amortisation rates for property and equipment and intangible assets. The rates used are set out in the accounting policy (l) and (n) above.

(x) Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends (if any) are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

(y) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Derecognition of insurance payables

Insurance payables are recognised when the obligation under the liability is discharged, cancelled or expired.

(z) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the statement of financial position.

For the purpose of the consolidated and company's statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts (if any).

(aa) Share capital

The Group has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(ab) Events after reporting date

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

(ac) Insurance contract liabilities

Life assurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group.

Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss. Profits originated from margins of adverse deviations on run-off contracts, are recognised in the statement of profit or loss over the life of the contract, whereas losses are fully recognised in the statement of profit or loss during the first year of run-off. The liability is recognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessmen is made of whether the recognised life insurance liabilities are adequate, by using an existing liability adequacy test. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows. Aggregation levels and the level of prudence applied in the test are consistent with IFRS 4 (Insurance Contracts) requirements. To the extent that the test involves discounting of cash flows, the interest rate applied may be based on management's prudent expectation of current market interest rates. Any inadequacy is recorded in the statement of profit or loss, by establishing a technical reserve for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists.

Non-life insurance (which comprises general insurance and healthcare) contract liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using actual claims data. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are recognised when the contract expires, is discharged or is cancelled.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(ac) Insurance contract liabilities (continued)

Non - life insurance (which comprises general insurance and healthcare) contract liabilities (continued)

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each reporting date the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for liability adequacy. There was no deficiency noted at the reporting date.

(ad) Off-setting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses will not be offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

(ae) Statutory reserve

The statutory reserve represents a reserve maintained within the long term assurance business and represents amounts recommended for transfer by the actuary from actuarial valuation as required by the Kenyan Insurance Act.

Transfers into the statutory reserve are processed through the statement of changes in equity. Transfers from the statutory reserve relates to amounts on the life assurance business which is distributable as dividends upon the recommendation of the actuary.

2. Premium Earned

(a) Gross earned premium income

The company's insurance business is organised into two main divisions, short term insurance business and long term assurance business. Long term assurance business comprises life assurance business and deposit administration business. Life assurance business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person. Short term insurance business relates to all other categories of general insurance business written by the company, analysed into several sub-classes of business based on the nature of the assumed risks. Approximately 84% of the Group's business is generated in Kenya.

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

	Group		Company	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Short term insurance business:				
Motor	1,028,619	1,095,684	880,301	939,392
Fire	907,218	1,058,614	703,595	791,989
Personal accident and medical	182,646	176,467	182,646	176,467
Marine	339,338	322,979	278,207	274,274
Theft	221,240	236,295	221,240	236,295
Workmen compensation	396,135	416,134	396,135	416,134
Engineering	200,003	238,689	178,437	178,893
Liability	53,608	48,918	53,608	48,918
Aviation	21,896	11,240	37	17
Other miscellaneous	128,757	144,640	22,690	23,240
	3,479,460	**3,749,660**	**2,916,896**	**3,085,619**
Long term assurance business:				
Ordinary life (Gross)	1,448,127	1,235,077	1,448,127	1,235,077
Group life (Gross)	47,787	74,379	47,787	74,379
	1,495,914	**1,309,456**	**1,495,914**	**1,309,456**
	4,975,374	**5,059,116**	**4,412,810**	**4,395,075**

(b) Premium ceded to re-insurers on re-insurance contracts

	Group 2018	Group 2017	Company 2018	Company 2017
Long term business	**(45,079)**	**(41,223)**	**(45,079)**	**(41,223)**
Short term business	(1,285,559)	(1,483,612)	(946,813)	(1,088,337)
Change in unearned premiums provision (Note 28)	(76,964)	(14,529)	(44,605)	(12,819)
	(1,362,523)	**(1,498,141)**	**(991,418)**	**(1,101,156)**
Net earned premium income	**3,567,772**	**3,519,752**	**3,376,313**	**3,252,696**

3. Investment income

(a) Group 2018

	Long term assurance business KShs'000	Short term insurance business KShs'000	Total KShs'000
Interest from government securities (Held to maturity)	3,522,146	263,979	3,786,125
Interest from government securities (Available-for-sale)	-	94,128	94,128
Bank deposit interest	22,305	56,253	78,558
Loan interest	83,546	143	83,689
Operating lease income/rent from investment properties	100,687	38,761	139,448
Gains on valuation of investment properties (Note 16)	105,613	67,814	173,427
Dividends receivable from equity investments	7,271	22,032	29,303
Bonds and debentures interest	3,516	3,561	7,077
Gain on valuation of quoted investments	(43,811)	(23,500)	(67,311)
Other investment charges/operating expenses on investment properties	(20,670)	(28,428)	(49,098)
	3,780,603	494,743	4,275,346

(a) Group 2017

	KShs'000	KShs'000	Total KShs'000
Interest from government securities (Held to maturity)	3,072,915	232,506	3,305,421
Interest from government securities (Available-for-sale)	-	95,750	95,750
Bank deposit interest	18,421	52,904	71,325
Loan interest	13,814	125	13,939
Operating lease income/rent from investment properties	106,427	39,057	145,484
Gains on valuation of investment properties (Note 16)	166,881	110,235	277,116
Dividends receivable from equity investments	5,695	17,908	23,603
Commercial paper interest	21,000	8,400	29,400
Bonds and debentures interest	3,625	3,638	7,263
Gain on valuation of quoted investments	25,879	15,629	41,508
Other investment charges/operating expenses on investment properties	(15,637)	(44,024)	(59,661)
	3,419,020	532,128	3,951,148

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3. Investment income

(b) Company 2018

	Long term assurance business KShs'000	Short term insurance business KShs'000	Total KShs'000
Interest from government securities (Held to maturity)	3,522,146	259,593	3,781,739
Interest from government securities (Available-for-sale)	-	92,825	92,825
Bank deposit interest	22,305	44,865	67,170
Loan interest	83,546	51	83,597
Operating lease income/rent from investment properties	100,687	38,761	139,448
Loss on valuation of investment properties (Note 16)	105,613	66,899	172,512
Dividends receivable from equity investments	7,271	21,516	28,787
Bonds and debentures interest	3,516	3,561	7,077
Loss on valuation of quoted investments	(43,811)	(20,514)	(64,325)
Other investment charges/operating expenses on investment properties	(20,670)	(28,428)	(49,098)
	3,780,603	479,129	4,259,732

(b) Company 2017

	Long term assurance business KShs'000	Short term insurance business KShs'000	Total KShs'000
Interest from government securities (Held to maturity)	3,072,915	226,407	3,299,322
Interest from government securities (Available-for-sale)	-	94,250	94,250
Bank deposit interest	18,421	40,109	58,530
Loan interest	13,814	65	13,879
Operating lease income/rent from investment properties	106,427	39,057	145,484
Gains on valuation of investment properties (Note 16)	166,881	108,635	275,516
Dividends receivable from equity investments	5,695	17,026	22,721
Commercial paper interest	21,000	8,400	29,400
Bonds and debentures interest	3,625	3,638	7,263
Gain on valuation of quoted investments	25,879	11,225	37,104
Other investment charges/operating expenses on investment properties	(15,637)	(44,024)	(59,661)
	3,419,020	504,788	3,923,808

4.(a) Commission income

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Re-insurance commission income	432,051	455,900	327,769	330,418

4.(b) Commission expense

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Commission on direct insurance arrangements	665,846	716,708	580,924	610,971
Commission on inward re-insurance arrangements	15,624	13,724	15,624	13,724
	681,470	730,432	596,548	624,695

4.(c) Other income

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Group						
Gain/(loss) on disposal of property and equipment	-	(1,207)	(1,207)	-	978	978
Exchange gain	37	4,099	4,136	-	1,358	1,358
Administration fees	-	2,413	2,413	-	3,167	3,167
Miscellaneous income	2,518	2,924	5,442	5,130	60,192	65,322
	2,555	8,229	10,784	5,130	65,695	70,825
Company						
Gain/(loss) on disposal of property and equipment	-	(924)	(924)	-	1,442	1,442
Exchange gain/(loss)	37	86	123	-	(1,338)	(1,338)
Administration fees	-	2,413	2,413	-	3,167	3,167
Miscellaneous income	2,518	2,831	5,349	5,130	60,157	65,287
	2,555	4,406	6,961	5,130	63,428	68,558

5. Operating expenses

Group	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Staff costs	170,998	432,873	603,871	150,435	452,355	602,790
Rent	8,051	29,001	37,052	9,188	34,301	43,489
Printing and stationery	6,009	15,449	21,458	4,407	13,097	17,504
Telephone expenses	4,568	5,566	10,134	3,863	6,964	10,827
Travelling expenses	8,351	15,069	23,420	7,502	21,831	29,333
Repairs and maintenance expenditure	7,572	38,397	45,969	9,077	32,557	41,634
Advertisement expenses	9,385	127,881	137,266	8,700	89,428	98,128
Entertainment expenses	1,947	2,389	4,336	1,197	4,851	6,048
Bank charges	3,674	4,128	7,802	4,355	20,420	24,775
Interest on car loans and other advances	-	1079	1,079	166	427	593
Interest on bank overdraft	-	6,633	6,633	-	-	-
Training expenses	601	1,649	2,250	1,167	3,745	4,912
General office expenses	72,700	84,422	157,122	69,479	100,396	169,875
	293,856	764,536	1,058,392	269,536	780,372	1,049,908
Staff costs include the following:						
- Salaries and wages	146,678	358,382	505,060	128,050	371,005	499,055
- Social security benefit costs	352	11,666	12,018	339	13,806	14,145
- Retirement benefit costs	23,968	62,825	86,793	22,046	67,544	89,590
	170,998	432,873	603,871	150,435	452,355	602,790

5. Operating expenses

Company	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Staff costs	170,998	366,069	537,067	150,435	367,735	518,170
Rent	8,051	13,827	21,878	9,188	14,207	23,395
Printing and stationery	6,009	14,059	20,068	4,407	12,023	16,430
Telephone expenses	4,568	3,118	7,686	3,863	4,395	8,258
Travelling expenses	8,351	8,282	16,633	7,502	12,685	20,187
Repairs and maintenance expenditure	7,572	28,517	36,089	9,077	26,586	35,663
Advertisement expenses	9,385	124,543	133,928	8,700	84,636	93,336
Entertainment expenses	1,947	2,389	4,336	1,197	4,851	6,048
Bank charges	3,674	3,431	7,105	4,355	18,696	23,051
Interest on car loans and other advances	-	49	49	166	427	593
Interest on bank overdraft	-	6,633	6,633	-	-	-
Training expenses	601	1,382	1,983	1,167	2,517	3,684
General office expenses	72,700	53,076	125,776	69,479	66,254	135,733
	293,856	**625,375**	**919,231**	**269,536**	**615,012**	**884,548**
Staff costs include the following:						
- Salaries and wages	146,678	303,596	450,274	129,604	334,026	463,630
- Social security benefit costs	352	794	1,146	340	967	1,307
- Retirement benefit costs	23,968	61,679	85,647	16,197	51,599	67,796
	170,998	**366,069**	**537,067**	**146,141**	**386,592**	**532,733**

The number of persons employed by the Group at year end was 245 (2017: 265). At company level, the employees as at year end were 212 (2017: 229).

The number of persons employed by the Group and company at year end, by category, were:

	Group		Company	
	2018 Number	2017 Number	2018 Number	2017 Number
Executive wing and marketing	11	11	11	11
Operations	128	142	95	106
Life	50	49	50	49
Support	56	63	56	63
	245	**265**	**212**	**229**

6. Other expenses

(a) Group

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Depreciation and amortisation	8,714	56,100	64,814	9,814	62,946	72,760
Amortisation of prepaid lease	38,722	119	38,841	38,722	104	38,826
Audit fee	3,202	5,246	8,448	1,977	8,185	10,162
Donations	1,058	3,284	4,342	418	1,734	2,152
Directors' remuneration (Note 39)	506	1,519	2,025	-	3,620	3,620
Other directors' expenses	3,449	12,820	16,269	2,543	7,791	10,334
	55,651	79,088	134,739	53,474	84,380	137,854

(b) Company

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Depreciation and amortisation	8,714	50,328	59,042	9,814	55,298	65,112
Amortisation of prepaid lease	38,722	117	38,839	38,722	102	38,824
Audit fee	3,202	2,404	5,606	1,977	6,260	8,237
Donations	1058	3,284	4,342	418	1,583	2,001
Directors' remuneration (Note 39)	506	1,519	2,025	-	2,025	2,025
Other directors' expenses	3,449	10,077	13,526	2,543	7,332	9,875
	55,651	67,729	123,380	53,474	72,600	126,074

7. Income tax

Taxation payable/(recoverable)	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
(a) Group						
Taxation recoverable						
Balance brought forward	-	(55,352)	(55,352)	-	(56,794)	(56,794)
Charge for the year	-	3,328	3,328	-	1,457	1,457
Paid during the year	-	(817)	(817)	-	(15)	(15)
Balance carried forward	-	(52,841)	(52,841)	-	(55,352)	(55,352)
Taxation payable						
Balance brought forward	75,135	5,910	81,045	52,296	11,125	63,421
Charge for the year	51,832	5,546	57,378	39,861	17,034	56,895
Paid during the year	(47,861)	(14,817)	(62,678)	(17,022)	(22,249)	(39,271)
Balance carried forward	79,106	(3,361)	75,745	75,135	5,910	81,045

Taxation payable/ (recoverable)	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
(b) Company						
Balance brought forward	75,135	(55,062)	20,073	52,296	(56,519)	(4,223)
Charge for the year	51,832	3,328	55,160	39,861	1,457	41,318
Over provision in previous year	-	-	-	-	-	-
Paid during the year	(47,861)	(802)	(48,663)	(17,022)	-	(17,022)
Balance carried forward	79,106	(52,536)	26,570	75,135	(55,062)	20,073

Income tax charge/(credit)

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
(c) Group						
Current income tax charge	51,832	8,874	60,706	39,861	18,491	58,352
Over provision in previous year	-	-	-	-	(21)	(21)
Deferred tax charge/(credit)	(20,974)	(18,111)	(39,085)	32,922	68,989	101,911
Income tax charge/(credit)	30,858	(9,237)	21,621	72,783	87,459	160,242

7. Income tax (continued)

(c) Taxation payable/(recoverable) (continued)

The Group's current tax charge is computed in accordance with the income tax rules applicable to composite Kenyan Insurance companies. A reconciliation of the tax charge is shown below:

Group	**Long term assurance business KShs'000**	**Short term insurance business KShs'000**	**2018 Total KShs'000**	**Long term assurance business KShs'000**	**Short term insurance business KShs'000**	**2017 Total KShs'000**
Profit before taxation	172,774	159,239	332,013	132,870	305,071	437,941
Tax calculated at a statutory tax rate of 30%	51,832	47,772	99,604	39,861	91,521	131,382
Tax effect of income not subject to tax	-	(88,519)	(88,519)	-	(129,842)	(129,842)
Tax effect of expenses not deductible for tax purposes	0	49,621	49,621	-	56,791	56,791
Deferred tax charge/(credit)	(20,974)	(18,111)	(39,085)	32,922	68,989	101,911
Income tax charge/(credit)	**30,858**	**(9,237)**	**21,621**	**72,783**	**87,459**	**160,242**

Income tax charge/(credit)	**Long term assurance business KShs'000**	**Short term insurance business KShs'000**	**2018 Total KShs'000**	**Long term assurance business KShs'000**	**Short term insurance business KShs'000**	**2017 Total KShs'000**
(d) Company						
Current income tax charge	51,832	3,328	55,160	39,861	1,457	41,318
Deferred tax charge/(credit)	(20,974)	(11,185)	(32,159)	32,922	67,164	100,086
Income tax charge/(credit)	**30,858**	**(7,857)**	**23,001**	**72,783**	**68,621**	**141,404**
Company						
Profit before taxation	172,774	179,384	352,158	132,870	253,795	386,665
Tax calculated at a statutory tax rate of 30%	51,832	53,815	105,647	39,861	76,139	116,000
Tax effect of income not subject to tax	-	(76,680)	(76,680)	-	(114,020)	(114,020)
Tax effect of expenses not deductible for tax purposes	-	26,193	26,193	-	39,338	39,338
Deferred tax charge/(credit)	(20,974)	(11,185)	(32,159)	32,922	67,164	100,086
Income tax charge/(credit)	**30,858**	**(7,857)**	**23,001**	**72,783**	**68,621**	**141,404**

8. (a) Share capital

	Number of shares 2018	**2017**	**Share capital 2018 Kshs'000**	**2017 Kshs'000**
Authorised (Short-term business)				
Ordinary shares of KShs 100 each	4,386,120	4,386,120	438,612	438,612
Authorised (Long-term business)				
Ordinary shares of KShs 100 each	1,613,880	1,613,880	161,388	161,388
Total	**6,000,000**	**6,000,000**	**600,000**	**600,000**
Ordinary shares: Issued and fully paid				
At start and end of year (Short-term business)	4,000,002	4,000,002	400,000	400,000
At start and end of year (Long-term business)	1,613,880	1,613,880	161,388	161,388
Total	**5,613,882**	**5,613,882**	**561,388**	**561,388**

All ordinary shares are fully paid.

8.(b) Share premium

Share premium arose during the year 2011 as a result of some bonus shares issues and purchased at a price higher than the par value.

(c) Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the parent by the number of shares outstanding at the reporting date.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the number of ordinary shares outstanding during the year plus the number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Basic and diluted earnings per share are the same. Group earnings reported for 2018 and 2017 were KShs 224,607,000 and KShs 269,150,000 respectively. Company earnings reported for 2018 and 2017 were KShs 168,167,000 and KShs 245,261,000 respectively.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Net profit attributable to ordinary shareholders for basic and diluted earnings	316,573	269,150	187,241	245,261
	2018	**2017**	**2018**	**2017**
	KShs	**KShs**	**KShs**	**KShs**
Number of ordinary shares for basic and diluted earnings per share	5,613,882	5,613,882	5,613,882	5,613,882
Basic earnings per share (KShs)	**56.39**	**47.94**	**33.35**	**43.69**
Diluted earnings per share (KShs)	**56.39**	**47.94**	**33.35**	**43.69**

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

(d) Dividend per share

Dividend per share is calculated by dividing dividends for the year by the weighted average number of ordinary shares outstanding during the year.

	2018	**2017**
	KShs' 000	**KShs' 000**
Dividend proposed	**KShs 56,140**	**KShs 56,140**
Dividend per share	**KShs 10**	**KShs 10**

In respect of the current year, the Directors propose the payment of a dividend of KShs 10 (2017: KShs 10) per share equivalent to total sum of KShs 56.14 million (2017: KShs 56.14 million) be paid to the shareholders.

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-residents. For resident shareholders, withholding tax is only deductible where the shareholding is below 12.5%.

9. Reserves

(a) Available-for-sale reserve

The fair value reserve represents fair value gains/(losses) arising from the revaluation of available-for-sale financial instruments and is not distributable as dividends. The movement in the fair value reserve for the Group and Company is shown below and in the statement of other comprehensive income on pages 21 and 23 respectively.

	Group				Company			
	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 KShs'000	2017 KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 KShs'000	2017 KShs'000
At 1 January	(365)	308,322	307,957	(11,620)	(365)	307,534	307,169	(11,542)
Reclassification	-	-	-	(184)	-	-	-	-
Net gain/(loss) on available-for-sale investments:								
Government securities	-	21,329	21,329	31,652	-	20,970	20,970	31,095
Adjustment for losses included in income statement on disposal of investments	-	(925)	(925)	-	-	(924)	(924)	-
Net gain (Note 25)	-	20,404	20,404	31,652	-	20,046	20,046	31,095
Gain in unquoted shares	-	81,053	81,053	425,149	-	76,767	76,767	424,206
Over provision in previous year in subsidiary	-	(303)	(303)	-	-	-	-	-
	-	80,750	80,750	425,149	-	76,767	76,767	424,206
Total movement in available-for-sale investments	-	101,457	101,457	456,801	-	96,813	96,813	455,301
Deferred tax on available-for-sale reserve	-	(30,432)	(30,432)	(137,040)	-	(29,044)	(29,044)	(136,590)
Over provision in previous year in subsidiary	-	91	91	-	-	-	-	-
Exchange differences on deferred tax	-	27	27	-	-	-	-	-
Exchange differences	-	(75)	(75)	-	-	-	-	-
At 31 December	**(365)**	**379,087**	**378,722**	**307,957**	**(365)**	**375,303**	**374,938**	**307,169**

9. Reserves (continued)

(b) Foreign currency translation reserve (Group)

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign operations.

	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
At 1 January	3,131	(9,292)	-	-
Exchange difference on translation	(13,219)	12,423	-	-
At 31 December	**(10,088)**	**3,131**	**-**	**-**

(c) Revaluation reserve (Group and Company)

	2018 KShs'000	2017 KShs'000
At 1 January		
Revaluation of buildings	387,375	329,573
Depreciation released on revaluation	41,733	67,308
Total revaluation	18,518	16,827
Deferred tax on revaluation	60,251	84,135
	(18,075)	(25,241)
	42,176	58,894
Transfer of excess depreciation	(1,691)	(1,092)
At 31 December	**427,860**	**387,375**

(d) General reserve-Group and Company

	2018 KShs'000	2017 KShs'000
At 1 January	51,009	-
Transfer from statutory reserve, net of tax	78,942	51,009
At 31 December	**129,951**	**51,009**

General reserves represents un-appropriated surpluses transferred from the life fund, as recommended by the actuary.

(e) Non-controlling interests-Group

	2018 KShs'000	2017 KShs'000
At 1 January	81,362	72,255
Share of profit for the year	(6,181)	8,549
Other comprehensive income	1,050	558
At 31 December	**76,231**	**81,362**
The non-controlling interests consist of:		
Equity interests held by individual shareholders	**76,231**	**81,362**

10. Retained earnings

Included within retained earnings are gains arising from the revaluation of investment properties whose distribution is subject to restrictions imposed by legislation. The Insurance Regulatory Authority has placed restrictions on distribution of gains arising from the revaluation of investment properties of KShs 3,163.258 million (KShs 2,989.831 million for 2017).

The movement for the year is shown below.

Retained earnings	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
At 1 January	2,214,529	2,051,435	2,067,631	1,928,426
Profit for the year	237,631	209,063	250,215	185,174
Transfer of excess depreciation	1,691	1,092	1,691	1,092
Dividends paid	(56,139)	(56,139)	(56,139)	(56,139)
Transfer from statutory reserve to retained earnings	-	9,078	-	9,078
At 31 December	2,397,712	2,214,529	2,263,398	2,067,631

Included in the retained earnings is gain on transfer of one part of the properties (Kenindia Business Park) from General Business to Life Business. The gain which arose in 2015 and amounting to KShs 976,837,000 is not distributable to shareholders.

11. Statutory reserve

The statutory reserve represents profits from the long term business whose distribution is subject to restrictions imposed by the Kenyan Insurance Act. The Act restricts the amounts of surpluses of the long term business available for distribution to shareholders to 30% of the accumulated profits of the life business.

Movement in the statutory reserve for the Group and Company is shown below and in the statement of changes in equity on pages 28, 29, 30 and 31 respectively.

Statutory reserve	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
At 1 January	318,516	318,516	318,516	318,516
Surplus for the year	141,916	60,087	141,916	60,087
Transfer to retained earnings	(62,974)	(9,078)	(62,974)	(9,078)
Transfer to general reserve	(78,942)	(51,009)	(78,942)	(51,009)
At 31 December	318,516	318,516	318,516	318,516

12. Property and equipment (Group)

At 31 December 2018	Buildings KShs'000	Motor vehicles KShs'000	Computer equipment KShs'000	Fittings and equipment KShs'000	Work-in-progress kShs'000	2018 Total KShs'000
Cost						
At 1 January 2018	740,387	79,780	184,451	192,603	-	1,197,221
Additions	332	-	3,090	4,748	-	8,170
Revaluation surplus	41,733	-	-	-	-	41,733
Disposals	-	-	(120)	(2,078)	-	(2,198)
Exchange differences	-	(290)	(777)	(450)	-	(1,517)
At 31 December 2018	**782,452**	**79,490**	**186,644**	**194,823**	**-**	**1,243,409**
Depreciation						
At 1 January 2018	-	48,312	164,070	142,451	-	354,833
Charge for the year	18,518	7,423	6,805	7,083	-	39,829
Eliminated on revaluation	(18,518)	-	-	-	-	(18,518)
Eliminated on disposal	-	-	(64)	(1,112)	-	(1,176)
Exchange differences	-	(1,506)	(456)	2,704	-	742
At 31 December 2018	**-**	**54,229**	**170,355**	**151,126**	**-**	**375,710**
Net book value At 31 December 2018	**782,452**	**25,261**	**16,289**	**43,697**	**-**	**867,699**

At 31 December 2017	Buildings KShs'000	Motor vehicles KShs'000	Computer equipment KShs'000	Fittings and equipment KShs'000	Work-in-progress kShs'000	2017 Total KShs'000
Cost						
At 1 January 2017	673,079	82,849	192,608	187,857	-	1,136,393
Additions	-	4,767	5,882	11,675	-	22,324
Revaluation surplus	67,308	-	-	-	-	67,308
Disposals	-	(7,698)	(491)	(6,688)	-	(14,877)
Transfer to intangible assets	-	-	(13,185)	-	-	(13,185)
Exchange differences	-	(138)	(363)	(241.	-	(742)
At 31 December 2017	**740,387**	**79,780**	**184,451**	**192,603**	**-**	**1,197,221**
Depreciation						
At 1 January 2017	-	42,720	160,844	139,831	-	343,395
Charge for the year	16,827	10,068	8,305	7,657	-	42,857
Eliminated on revaluation	(16,827)	-	-	-	-	(16,827)
Eliminated on disposal	-	(4,372)	(389)	(4,585)	-	(9,346)
Transfer to intangible assets	-	-	(4,493)	-	-	(4,493)
Exchange differences	-	(104)	(197)	(452)	-	(753)
At 31 December 2017	**-**	**48,312**	**164,070**	**142,451**	**-**	**354,833**
Net book value At 31 December 2017	**740,387**	**31,468**	**20,381**	**50,152**	**-**	**842,388**

Buildings were valued by City Valuers, independent valuers, on the basis of open market value. The carrying amount of the asset was restated to the revalued amount of the asset, and the resulting surplus arising on revaluation net of deferred income tax was recognised in other comprehensive income and credited to the revaluation surplus in equity.

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13. Property and equipment (Company)

At 31 December 2018	Buildings KShs'000	Motor vehicles KShs'000	Computer equipment KShs'000	Fittings and equipment KShs'000	2018 Total KShs'000
Cost					
At 1 January 2018	740,387	72,362	164,308	181,111	1,158,168
Additions	332	-	2,454	3,061	5,847
Revaluation surplus	41,733	-	-	-	41,733
Disposals	-	(3,000)	-	(1,333)	(4,333)
At 31 December 2018	**782,452**	**69,362**	**166,762**	**182,839**	**1,201,415**
Depreciation					
At 1 January 2018	-	43,425	152,425	135,012	330,862
Charge for the year	18,518	6,812	4,301	6,150	35,781
Eliminated on revaluation	(18,518)	-	-	-	(18,518)
Eliminated on disposal	-	(1,312)	-	(875)	(2,187)
At 31 December 2018	**-**	**48,925**	**156,726**	**140,287**	**345,938**
Net book value					
At 31 December 2018	**782,452**	**20,437**	**10,036**	**42,552**	**855,477**

At 31 December 2017	Buildings KShs'000	Motor vehicles KShs'000	Computer equipment KShs'000	Fittings and equipment KShs'000	2017 Total KShs'000
Cost					
At 1 January 2017	673,079	76,127	161,489	176,186	1,086,881
Additions	-	2,988	3,148	9,934	16,070
Revaluation surplus	67,308	-	-	-	67,308
Disposals	-	(6,753)	(329)	(5,009)	(12,091)
At 31 December 2017	**740,387**	**72,362**	**164,308**	**181,111**	**1,158,168**
Depreciation					
At 1 January 2017	-	37,958	147,643	132,381	317,982
Charge for the year	16,827	9,212	5,093	6,649	37,781
Eliminated on revaluation	(16,827)	-	-	-	(16,827)
Eliminated on disposal	-	(3,745)	(311)	(4,018)	(8,074)
At 31 December 2017	**-**	**43,425**	**152,425**	**135,012**	**330,862**
Net book value					
At 31 December 2017	**740,387**	**28,937**	**11,883**	**46,099**	**827,306**

Work in progress related to the new computer software.

No property and equipment are held as security against any liabilities.

In the opinion of the directors, there is no impairment of property and equipment as at 31 December 2017 and 2018.

14.(a) Intangible assets (Group)

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Cost						
At 1 January	37,886	112,495	150,381	35,204	75,026	110,230
Additions	3,770	9,997	13,767	2,682	24,556	27,238
Reclassification from property and equipment	-	-	-	-	13,185	13,185
Exchange differences	-	(506)	(506)	-	(272)	(272)
Impairment of computer software	-	(8,079)	(8,079)	-	-	-
At 31 December	**41,656**	**113,907**	**155,563**	**37,886**	**112,495**	**150,381**
Amortisation						
At 1 January	24,631	56,023	80,654	18,949	27,420	46,369
Reclassification from property and equipment	-	-	-	-	4,493	4,493
Impairment of computer software	-	(8,079)	(8,079)	-	-	-
Charge for the year	5,107	19,878	24,985	5,682	24,221	29,903
Exchange differences	-	(280)	(280)	-	(111)	(111)
At 31 December	**29,738**	**67,542**	**97,280**	**24,631**	**56,023**	**80,654**
Net book value						
At 31 December	**11,918**	**46,365**	**58,283**	**13,255**	**56,472**	**69,727**

(b) Intangible assets (Company)

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Cost						
At 1 January	37,886	99,582	137,468	35,204	75,026	110,230
Additions	3,770	9,997	13,767	2,682	24,556	27,238
Impairment of computer software	-	(8,079)	(8,079)	-	-	-
At 31 December	**41,656**	**101,500**	**143,156**	**37,886**	**99,582**	**137,468**
Amortisation						
At 1 January	24,631	49,069	73,700	18,949	27,420	46,369
Charge for the year	5,107	18,153	23,260	5,682	21,649	27,331
Impairment of computer software	-	(8,079)	(8,079)	-	-	-
At 31 December	**29,738**	**59,143**	**88,881**	**24,631**	**49,069**	**73,700**
Net book value						
At 31 December	**11,918**	**42,357**	**54,275**	**13,255**	**50,513**	**63,768**

Intangible assets relate to the cost of purchase and installation of computer software (Genisys and Elife). Additions during the year 2018 and 2017 relate to the cost of purchase and installation of ELIFE-Pensions Module and Group Life Module (Life Business) and modifications to Genisys (General Business). Impairment of computer software relate to impairment of PREMIA (Medical Division, which is no longer in use). As at 31 December 2018, these intangible assets were tested for impairment, and management has determined no impairment provision is required in respect of these intangibles.

15. Prepaid operating lease rentals

(a) Group

Cost	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
At 1 January	1,248,431	9,314	1,257,745	1,248,431	9,314	1,257,745
Reclassification from investment properties	-	812	812	-	-	-
Disposals	-	(150)	(150)	-	-	-
At 31 December	**1,248,431**	**9,976**	**1,258,407**	**1,248,431**	**9,314**	**1,257,745**
Amortisation						
At 1 January	125,769	2,606	128,375	87,047	2,502	89,549
Eliminated on disposal	-	(150)	(150)	-	-	-
Charge for the year	38,722	119	38,841	38,722	104	38,826
At 31 December	**164,491**	**2,575**	**167,066**	**125,769**	**2,606**	**128,375**
Net book value						
At 31 December	**1,083,940**	**7,401**	**1,091,341**	**1,122,662**	**6,708**	**1,129,370**

(b) Company

Cost	Long term assurance business	Short term insurance business	2018 Total	Long term assurance business	Short term insurance business	2017 Total
At 1 January	1,248,431	9,168	1,257,599	1,248,431	9,168	1,257,599
Reclassification from investment properties	-	812	812	-	-	-
Disposals	-	(150)	(150)	-	-	-
At 31 December	**1,248,431**	**9,830**	**1,258,261**	**1,248,431**	**9,168**	**1,257,599**
Amortisation						
At 1 January	125,769	2,591	128,360	87,047	2,489	89,536
Eliminated on disposal	-	(150)	(150)	-	-	-
Charge for the year	38,722	117	38,839	38,722	102	38,824
At 31 December	**164,491**	**2,558**	**167,049**	**125,769**	**2,591**	**128,360**
Net book value						
At 31 December	**1,083,940**	**7,272**	**1,091,212**	**1,122,662**	**6,577**	**1,129,239**

16. Investment properties

(a) Group

	Long term assurance business	Short term insurance business	2018 Total	Long term assurance business	Short term insurance business	2017 Total
Cost						
At 1 January	1,902,289	1,221,515	3,123,804	1,731,002	1,110,468	2,841,470
Additions	752	2,536	3,288	4,406	812	5,218
Reclassification to prepaid operating lease rentals	-	(812)	(812)	-	-	-
Fair value gains	105,613	67,814	173,427	166,881	110,235	277,116
At 31 December	2,008,654	1,291,053	3,299,707	1,902,289	1,221,515	3,123,804

(b) Company

	Long term assurance business	Short term insurance business	2018 Total	Long term assurance business	Short term insurance business	2017 Total
Cost						
At 1 January	1,902,289	1,203,915	3,106,204	1,731,002	1,094,468	2,825,470
Additions	752	2,536	3,288	4,406	812	5,218
Reclassification to prepaid operating lease rentals	-	(812)	(812)	-	-	-
Fair value gains	105,613	66,899	172,512	166,881	108,635	275,516
At 31 December	2,008,654	1,272,538	3,281,192	1,902,289	1,203,915	3,106,204

Investment properties are stated at fair value, which has been determined based on valuation (open market value for existing use) performed by City Valuers Limited as at 31 December 2018. City Valuers Limited are industry specialists in valuing these types of investment properties. The fair value is supported by market evidence and represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation in accordance with the standards issued by the International Valuation Standards Committee. In estimating the fair value of the properties, the highest and best use of the properties is their current use. Valuations are performed on an annual basis using recent transaction prices for similar use assets and the fair value gains and losses are dealt with in the statement of profit or loss.

The Group enters into operating leases for all its investment properties. The rental income arising during the year amounted to KShs 139,448,000 (2017: KShs 145,484,000) which is included in investment income (Note 3).

Direct operating expenses (included in note 3) attributable to the rental of these properties during the year were KShs 49,098,000 (2017: KShs 59,661,000).

Disclosures regarding minimum lease payments have been provided in Note 38(b).

The following table shows an analysis of investment properties recorded at fair value by level of the fair value hierarchy

Group	2018 KShs'000	2017 KShs'000
Level 1	-	-
Level 2	3,299,707	3,123,804
Level 3	-	-
Fair value as at 31 December	3,299,707	3,123,804

Company	KShs'000	KShs'000
Level 1	-	-
Level 2	3,281,192	3,123,804
Level 3	-	-
Fair value as at 31 December	3,281,192	3,123,804

17. Investment in subsidiaries (Company)

	Percentage % of shareholding	2018 KShs'000	2017 KShs'000
Kenya Pravack Limited	100	3,640	3,640
Kenindia Asset Management Company Limited	100	10,000	10,000
Tanzindia Assurance Company limited	65	91,972	68,265
At 31 December		**105,612**	**81,905**

Investment in subsidiaries is stated at cost.

Kenya Pravack Limited

The principal activity of Kenya Pravack Limited is to carry out investments for Kenindia Assurance Company Limited. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

Kenindia Asset Management Company Limited

The principle activity of Kenindia Asset Management Company Limited is that the company manages and administers retirement benefit schemes. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

Tanzindia Assurance Company limited

The principal activity of Tanzindia Assurance Company Limited is the transaction of general insurance business. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

The total non-controlling interest for the period is KShs 76,231,000 (2017: KShs 81,362,000) which is wholly attributed to Tanzindia Assurance Company Limited.

Set out below are the summarised financial information for the subsidiary whose non-controlling interest are material to the group;

Summarised statement of financial position	**2018 KShs'000**	**2017 KShs'000**
Total assets	2,001,408	1,798,437
Total liabilities	(1,775,337)	(1,566,671)
Net assets	**226,071**	**231,766**
Summarised statement of profit or loss		
Gross earned premiums	562,564	664,041
Underwriting surplus	1,874	34,497
Profit before income tax	(19,490)	42,768
Income tax expense	1,830	(18,343)
Other comprehensive income	3,000	1,596
Total comprehensive income	**(14,660)**	**26,021**
Total comprehensive income allocated to non-controlling interest	**(5,131)**	**9,107**
Summarised statement of cash flows		
Net cash (used in)/ generated from/operating activities	(25,695)	145,675
Net cash (used in)/generated from/ investing activities	(41,126)	10,433
Net cash generated from/(used in) financing activities	19,508	(2,327)
Net (decrease)/increase in cash and cash equivalents	**(47,313)**	**153,781**
Cash and cash equivalents at beginning of year	**172,940**	**16,828**
Exchange (loss)/gains on cash and cash equivalents	(2,685)	2,331
Cash and cash equivalents at the end of the year	**122,942**	**172,940**

18. Available-for-sale equity investments

(a) Group

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
At start of year	153	600,997	601,150	675	174,853	175,528
Reclassification from quoted shares	-	-	-	-	1,542	1,542
Over provision in previous year	-	(303)	(303)	-	-	
Fair value gain/(loss)	-	81,053	81,053	(522)	425,671	425,149
Provision for expected credit losses	-	(28)	(28)	-	-	-
Exchange loss	-	(2,098)	(2,098)	-	(1,069)	(1,069)
At end of year	**153**	**679,621**	**679,774**	**153**	**600,997**	**601,150**

(b) Company

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
At start of year	153	547,507	547,660	675	122,779	123,454
Fair value gain/(loss)	-	76,767	76,767	(522)	424,728	424,206
At end of year	**153**	**624,274**	**624,427**	**153**	**547,507**	**547,660**

Available-for-sale equity investments comprise investments in shares of unquoted companies, which the Group intends to hold for long term. Although there is no market for these investments, during the year, the investments were carried at fair value. Valuation was done using the market approach and a conservation view adopted.

19. Financial assets at fair value through profit or loss

(a) Group

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
At start of year	178,015	74,697	252,712	141,198	59,640	200,838
Additions	-	-	-	10,938	974	11,912
Reclassification to unquoted shares	-	-	-	-	(1,542)	(1,542)
Exchange losses	-	(5)	(5)	-	(4)	(4)
Fair value loss	(43,811)	(23,500)	(67,311)	25,879	15,629	41,508
At end of year	**134,204**	**51,192**	**185,396**	**178,015**	**74,697**	**252,712**

(b) Company

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
At start of year	178,015	58,347	236,362	141,198	46,148	187,346
Additions	-	-	-	10,938	974	11,912
Fair value gain/(loss)	(43,811)	(20,514)	(64,325)	25,879	11,225	37,104
At end of year	**134,204**	**37,833**	**172,037**	**178,015**	**58,347**	**236,362**

20. Loans receivable (Group and Company)

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Mortgage loans						
At start of year	4,813	-	4,813	4,813	-	4,813
Loan repayments	-	-	-	-	-	-
At end of year	**4,813**	**-**	**4,813**	**4,813**	**-**	**4,813**
Maturity profile of mortgage loans maturing						
In 1-5 years	3,546	-	3,546	3,546	-	3,546
In over 5 years	1,267	-	1,267	1,267	-	1,267
At end of year	**4,813**	**-**	**4,813**	**4,813**	**-**	**4,813**
Policy loans						
At start of year	90,659	-	90,659	86,390	-	86,390
Loan advanced	36,749	-	36,749	37,226	-	37,226
Loan repayments	(32,458)	-	(32,458)	(32,957)	-	(32,957)
Accrued interest	69,081	-	69,081	-	-	-
At end of year	**164,031**	**-**	**164,031**	**90,659**	**-**	**90,659**
Maturity profile of policy loans maturing						
Within 1 year	6,744		6,744	8,773		8,773
In 1-5 years	45,639	-	45,639	44,461	-	44,461
In over 5 years	111,648	-	111,648	37,425	-	37,425
At end of year	**164,031**	**-**	**164,031**	**90,659**	**-**	**90,659**
Motor vehicle loans						
(Maturing between 1-5 years)						
At start of year	862	200	1,062	1,093	440	1,533
Loan advanced	950	40	990	-	-	-
Loan repayments	(257)	(230)	(487)	(231)	(240)	(471)
At end of year	**1,555**	**10**	**1,565**	**862**	**200**	**1,062**
Book amount						
Mortage loans	4,813	-	4,813	4,813	-	4,813
Policy loans	164,031	-	164,031	90,659	-	90,659
Motor vehicles	1,555	10	1,565	862	200	1,062
At end of year	**170,399**	**10**	**170,409**	**96,334**	**200**	**96,534**

Mortgage loans, policy loans and staff motor vehicle loans are carried at amortised cost. The weighted average effective interest rates for these loans are disclosed in Note 5. There is no concentration of credit risk in respect of these loans.

Collateral

The group holds collateral against loans to loanees (staff and non-staff) in the form of mortgage interests over property and motor vehicle. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. The Group can liquidate the collateral in case of default. The Group holds in its custody the title deeds and log books for the assets attributable to the mortgage loans and motor vehicle loans respectively on behalf of the loanees. The title documents are released to the loanees upon full settlement of the respective loans. The collateral for the policy loans is the cash surrender value of the underlying policy. In the opinion of the directors, the collateral in place is adequate to cover the debt amount. In case of default, the policy loan is written off against the cash surrender value. None of these loans have had their terms renegotiated.

21. Receivables arising out of reinsurance arrangements

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Group						
Amount due from re-insurers	33,873	1,370,240	1,404,113	32,593	1,326,349	1,326,349
Allowance for credit losses	(32,593)	-	(32,593)	(32,593)	-	-
	1,280	1,370,240	1,371,520	-	1,329,349	1,326,349
Company						
Amount due from re-insurers	33,873	828,033	861,906	32,593	923,700	923,700
Allowance for credit losses	(32,593)	-	(32,593)	(32,593)	-	-
	1,280	828,033	829,313	-	923,700	923,700

Receivables arising out of reinsurance arrangements are non-interest bearing. Those past due and non-interest bearing are not considered impaired as these relate to active accounts and recovery is still being purwsued by management. For an analysis of the past due not impaired receivables arising from reinsurance arrangements, refer to Note 41 (Credit Risk).

22. Receivables arising out of direct insurance arrangements

	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
Outstanding premium	907,089	888,444	846,147	816,894
Allowance for credit losses	(269,272)	(336,582)	(264,174)	(335,222)
At 31 December	637,817	551,862	581,973	481,672
Allowance for credit losses				
At the beginning of the year	336,582	284,401	335,222	283,012
Charge for the year	-	53,549	-	53,549
Write back of credit losses	(93,969)	(1,339)	(93,969)	(1,339)
Write off of credit losses	(6,461)	-	(6,461)	-
Exchange differences	(69)	(29)	-	-
Provision for expected credit losses	33,189	-	29,382	-
At 31 December	269,272	336,582	264,174	335,222
Aged analysis of outstanding premium				
Neither past due nor impaired				
Less than 30 days	(126,484)	(117,926)	(116,220)	(113,504)
31 – 60 days	77,427	72,043	71,544	76,465
61 – 90 days	109,935	102,480	68,397	106,902
Past due but not impaired				
91 – 120 days	52,603	49,050	109,858	44,170
Over 120 days	524,336	446,215	448,394	367,639
At 31 December	637,817	551,862	581,973	481,672

Receivables arising out of direct insurance arrangements are non-interest bearing and are generally on cash and carry terms (require immediate settlement). Amounts that are past due are not considered impaired as these relate to active accounts and recovery is still being pursued by management.

23. Insurance liabilities

Insurance liabilities comprise gross claims reported, claims handling expense liabilities and the liability for claims incurred but not reported and are stated net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2018 and 2017 are insignificant.

(i) Outstanding balances

	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
Short term insurance contracts				
Claims reported and claims handling expenses	3,468,184	3,424,787	2,625,477	2,717,393
Claims incurred but not reported	1,326,217	1,329,604	1,165,186	1,188,125
	4,794,401	4,754,391	3,790,663	3,905,518
Reinsurers' share of insurance liabilities	(2,614,155)	(2,744,498)	(1,835,716)	(2,127,769)
Net outstanding liabilities	2,180,246	2,009,893	1,954,947	1,777,749
Long term assurance contracts				
Claims reported and claims handling expenses	139,638	90,451	139,638	90,451

(ii) Outstanding claims provisions movement

Long term assurance business (Group and Company)

	2018 Insurance contract liabilities KShs'000	2017 Insurance contract liabilities KShs'000
At 1 January	90,451	51,499
Claims incurred in current year	365,895	362,932
Claims paid	(316,708)	(323,980)
At 31 December	139,638	90,451

Short term insurance business

(a) Group

	Insurance contract liabilities KShs'000	Re-insurers' share of liabilities KShs'000	Total 2018 KShs'000	Insurance contract liabilities KShs'000	Re-insurers' share of liabilities KShs'000	Total 2017 KShs'000
At 1 January	4,754,391	2,744,498	2,009,893	4,765,041	2,813,198	1,951,843
Claims incurred in current accident year	2,133,397	708,488	1,424,909	1,875,856	507,333	1,368,523
Claims paid during the year	(2,093,387)	(838,831)	(1,254,556)	(1,886,506)	(576,033)	(1,310,473)
At end of year	4,794,401	2,614,155	2,180,246	4,754,391	2,744,498	2,009,893

(b) Company

	Insurance contract liabilities KShs'000	Re-insurers' share of liabilities KShs'000	Total 2018 KShs'000	Insurance contract liabilities KShs'000	Re-insurers' share of liabilities KShs'000	Total 2017 KShs'000
At 1 January	3,905,518	2,127,769	1,777,749	4,010,678	2,322,589	1,688,089
Claims incurred in current accident year	1,708,720	343,884	1,364,836	1,574,696	237,145	1,337,551
Claims paid during the year	(1,823,575)	(635,937)	(1,187,638)	(1,679,856)	(431,965)	(1,247,891)
At end of year	3,790,663	1,835,716	1,954,947	3,905,518	2,127,769	1,777,749

24. Other receivables

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
(a) Group						
Due from related companies	-	-	-	-	287	287
Prepayments	-	234	234	75	959	1,034
Interdepartmental balance	-	33,189	33,189	-	23,366	23,366
Deposits, outstanding rental income and others	130,664	203,233	333,897	106,109	218,520	324,629
Provision for rental and other receivables	(36,412)	(44,139)	(80,551)	(14,077)	(32,771)	(46,848)
At end of year	94,252	192,517	286,769	92,107	210,361	302,468
(b) Company						
Amount due from related companies	-	17,292	17,292	-	38,940	38,940
Interdepartmental balances	-	33,189	33,189	-	23,366	23,366
Prepayments	-	234	234	75	959	1,034
Deposits, outstanding rental income and others	130,664	184,088	314,752	106,109	199,712	305,821
Provision for rental and other receivables	(36,412)	(44,139)	(80,551)	(14,077)	(32,771)	(46,848)
At end of year	94,252	190,664	284,916	92,107	230,206	322,313

Other receivables category is made up of amounts due from related companies, inter-departmental balance, pre-payments, deposits, outstanding rental income and miscellaneous receivables. For terms and conditions relating to related party receivables refer to note 39. Other receivables are non-interest bearing and are generally on 30-90 days terms.

(b) Kenya Motor Insurance Pool (Group and company)

The amount due from Kenya Motor Insurance Pool relates to the Group's share of net assets in a motor insurance pool where underwriters/insurance companies in Kenya were required to cede a portion of their premiums to a pool in order to cushion themselves from excessive claims arising from public vehicles incidences. The Kenya Motor Insurance Pool is able to settle claims as and when they fall due. In the opinion of the directors, the amount due from Kenya Motor Insurance Pool is recoverable.

	2018 KShs'000	2017 KShs'000
At 1 January	97,011	89,431
Net increase in group share of net assets of the pool	1,078	7,580
At end of year	98,089	97,011

Summarised financial information in respect of the Kenya Motor Pool is as follows;

	2018 KShs'000	2017 KShs'000
Total asset new/old pool	970,278	963,005
Total liabilities new/old pool	(48,883)	(51,344)
Total net assets	921,395	911,661
Group's share of net assets	98,089	97,011
Surplus for the year new/old pool	12,026	80,156
Group's share of the profit for the year	1,078	7,580

25. Government securities

(a) Group

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Treasury bills and bonds movement (At amortised cost/ Held to Maturity)						
At start of year	26,482,642	1,795,189	28,277,831	22,317,475	1,541,677	23,859,152
Additions	4,438,948	304,571	4,743,519	4,587,126	235,708	4,822,834
Maturity of bonds	(942,874)	(30,000)	(972,874)	(595,283)	-	(595,283)
Provision for expected credit losses	-	(24)	(24)	-	-	-
Exchange differences	-	(1,964)	(1,964)	-	-	-
Accrued interest	174,994	26,901	201,895	173,324	17,804	191,128
At end of year	30,153,710	2,094,673	32,248,383	26,482,642	1,795,189	28,277,831
Treasury bills and bonds maturity analysis						
-Within 1 year	76,407	61,586	137,993	984,255	80,273	1,064,528
-In 1-5 years	5,833,141	901,398	6,734,539	5,765,543	143,953	5,909,496
-After 5 years	24,244,162	1,131,689	25,375,851	19,732,844	1,570,963	21,303,807
At end of year	30,153,710	2,094,673	32,248,383	26,482,642	1,795,189	28,277,831

(b) Company

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Treasury bills and bonds movement (At amortised cost/ Held to maturity)						
At start of year	26,482,642	1,745,049	28,227,691	22,317,475	1,488,811	23,806,286
Additions	4,438,948	304,571	4,743,519	4,587,126	235,708	4,822,834
Maturity of bonds	(942,874)	(30,000)	(972,874)	(595,283)	-	(595,283)
Accrued interest	174,994	25,695	200,689	173,324	20,530	193,854
At end of year	30,153,710	2,045,315	32,199,025	26,482,642	1,745,049	28,227,691
Treasury bills and bonds maturity analysis						
-Within 1 year	76,407	12,228	88,635	984,255	30,133	1,014,388
-In 1-5 years	5,833,141	901,398	6,734,539	5,765,543	143,953	5,909,496
-After 5 years	24,244,162	1,131,689	25,375,851	19,732,844	1,570,963	21,303,807
At end of year	30,153,710	2,045,315	32,199,025	26,482,642	1,745,049	28,227,691

25. Government securities (continued)

(c) Treasury bills and bonds movement (Available-for-sale)

	Short term insurance business KShs'000	Short term insurance business KShs'000	Short term insurance business KShs'000	Short term insurance business KShs'000
	Group		Company	
	2018	2017	2018	2017
At start of year	764,314	732,398	751,408	720,053
Maturity of bonds	(103,131)	-	(99,380)	-
Fair value adjustment recorded in other comprehensive income (Note 9a)	21,329	31,652	20,970	31,095
Adjustment for gains included in statement of profit or loss on disposal of available-for-sale investment	(925)	-	(924)	-
Accrued interest	1,154	264	1,151	260
At end of year	682,741	764,314	673,225	751,408
Treasury bills and bonds maturing				
-Within 1 year	-	103,132	-	99,380
-In 1-5 years	331,394	201,484	331,394	201,484
-After 5 years	351,347	459,698	341,831	450,544
At end of year	682,741	764,314	673,225	751,408

Held to maturity government securities are in long term business and short term business and are carried at amortised costs (i.e. cost plus accrued discount or interest) and any premium or discount is amortised through profit or loss during the tenancy of the bond or securities. Available-for-sale government securities are in short term business, and are carried at fair value. Gains and losses on valuation of fair value on available-for-sale investments are dealt with in the statement of other comprehensive income.

26. Payable (Group and Company)

(a) Deposit administration contracts

Movements in amounts payable under deposit administration contracts during the year were as shown below. The liabilities are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 11.50% for the year (2017: 11.25%)

	2018 KShs'000	2017 KShs'000
At start of the year	21,760,403	19,152,949
Pension fund deposits received	3,578,788	2,954,607
Withdrawals and benefits paid	(4,400,434)	(2,685,696)
Commissions and expenses charged	(263,085)	(147,467)
Investment income	2,562,569	2,486,010
At end of year	23,238,228	21,760,403

(b) Payable under annuities

	2018 KShs'000	2017 KShs'000
At start of year	727,514	342,785
Funds received	472,061	377,252
Benefits paid	(88,987)	(55,973)
Commissions charged	(8,425)	(7,479)
Investment income	124,401	70,929
At end of year	1,226,564	727,514

27. Actuarial value of policy holders' liabilities

The company underwrites long term policies under its long term assurance business. This type of business is subjected to an actuarial method where liabilities are determined by the company on the advice of the consulting actuary and actuarial valuations are carried out on an annual basis. The annual actuarial valuation of the life fund was carried out by the company's consulting Actuary, Saket Singhal, as at 31 December 2018 and 31 December 2017 respectively, using the gross premium method and revealed an actuarial surplus of KShs 1,707.44 million (2017: KShs 1,370 million) after reserves set aside and before declaration of interest and bonuses to policy holders and distribution to shareholders. The actuary recommended KShs 60 million (2017: KShs 60 million) transfer from the life fund to the shareholders.

Assets and liabilities of the life fund	**2018 KShs'000**	**2017 KShs'000**
Life fund assets	8,531,496	7,043,944
Transfer to shareholders, before tax	(60,000)	(60,000)
Transfer to general reserve, before tax	(112,774)	(72,870)
Actuarial value of policyholders' liabilities	**8,358,722**	**6,911,074**

Policy holders' liabilities are stated inclusive of cumulative provisions for interest and bonuses payable as at 31 December 2018 and 31 December 2017 respectively.

Movement is as follows:	**2018 KShs'000**	**2017 KShs'000**
At start of year	6,911,074	5,860,540
Policyholders' bonuses and interest	1,534,670	1,260,330
Surrenders and annuity payments	(242,829)	(256,980)
Increase/(decrease) in the period (net)	155,807	47,184
At end of the year	**8,358,722**	**6,911,074**

Actuarial assumptions:

The significant valuation assumptions for the actuarial valuation as at 31 December 2018 are summarised below. The same assumptions were used in 2017.

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

Mortality rates

Assumptions are based on standard industry and national tables, according to the type of contract written. They reflect recent historical experience and are adjusted when appropriate to reflect the Group's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders. The rates of mortality used in calculating the liability under a policy are the rates assumed in accordance with the tables published for the Institute of Actuaries in England and the Faculty of Actuaries of Scotland. The company uses the KE 2007-2010 mortality table as a base table for standard mortality rates. The rate of interest used was 4% per annum compound for all long term assurance policies. For valuing annuities, the KE 2007-2010 mortality table for annuities is used with interest at 6.5% per annum. Statistical methods are used to adjust the mortality rates reflected on the base table based on the company's experience of improvement or worsening of the mortality. There are reserves established to take account of the possible deterioration of mortality experience in respect of HIV/AIDS related deaths.

27. Actuarial value of policy holders' liabilities (continued)

Longevity

Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Group's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits for the shareholders.

Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long–term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

Lapse and surrender rates

Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

Sensitivity analysis on actuarial assumptions

The basis of valuation of life insurance contracts is prescribed in the Insurance Act of Kenya. The Act prescribes Net Premium Valuation method which is very conservative. Changes in actuarial basis derived from recent experience investigations do not have a significant impact in the actuarially derived reserves. The actuarial method used is not sensitive to changes in the key assumptions used in determining the actuarial liabilities. The key actuarial assumptions will need to change very significantly for the actuarial liabilities to change by a relatively small percentage.

27. Actuarial value of policy holders' liabilities (continued)

Sensitivity analysis on actuarial assumptions (continued)

Changes in mortality assumptions will have the following impact in the statement of profit or loss.

Sensitivities	% change in base	Insurance participating 2018 KShs'000	Assets backing life shareholders 2018 KShs'000	Insurance participating 2017 KShs'000	Assets backing life shareholders 2017 KShs'000
Discount rate on:					
Assurance mortality	1%	-	-	-	-
Assurance mortality	-1%	-	-	-	-

28. Provision for unearned premium

(a) Group

	2018 Gross KShs'000	2018 Reinsurance KShs'000	2018 Net KShs'000	2017 Gross KShs'000	2017 Reinsurance KShs'000	2017 Net KShs'000
At beginning of year	1,337,218	573,397	763,821	1,466,587	587,926	878,661
Decrease in the year	(86,888)	(76,964)	(9,924)	(129,369)	(14,529)	(114,840)
At end of year	1,250,330	496,433	753,897	1,337,218	573,397	763,821

(b) Company

	2018 Gross KShs'000	2018 Reinsurance KShs'000	2018 Net KShs'000	2017 Gross KShs'000	2017 Reinsurance KShs'000	2017 Net KShs'000
At beginning of year	1,030,140	350,703	679,437	1,101,226	363,522	737,704
Decrease in the year	(62,210)	(44,605)	(17,605)	(71,086)	(12,819)	(58,267)
At end of year	967,930	306,098	661,832	1,030,140	350,703	679,437

Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the reporting date, and is computed using the 1/24th method.

Provision for unearned premium is classified as current liability.

The movement in the unearned premium is as follows:

(a) Group

	2018 Gross unearned premium KShs'000	2018 Re-insurance KShs'000	2018 Net unearned premium KShs'000	2017 Gross unearned premium KShs'000	2017 Re-insurance KShs'000	2017 Net unearned premium KShs'000
At beginning of year	1,337,218	573,397	763,821	1,466,587	587,926	878,661
Premium written during the year	3,417,250	1,306,887	2,110,363	3,620,291	1,483,612	2,136,679
Premium earned during the year (note 2a and 2b)	(3,504,138)	(1,383,851)	(2,120,287)	(3,749,660)	(1,498,141)	(2,251,519)
At end of year	1,250,330	496,433	753,897	1,337,218	573,397	763,821

(b) Company

	2018 Gross unearned premium KShs'000	2018 Re-insurance KShs'000	2018 Net unearned premium KShs'000	2017 Gross unearned premium KShs'000	2017 Re-insurance KShs'000	2017 Net unearned premium KShs'000
At beginning of year	1,030,140	350,703	679,437	1,101,226	363,522	737,704
Premium written during the year	2,854,686	946,814	1,907,872	3,014,533	1,088,337	1,926,196
Premium earned during the year (note 2a and 2b)	(2,916,896)	(991,419)	(1,925,477)	(3,085,619)	(1,101,156)	(1,984,463)
At end of year	967,930	306,098	661,832	1,030,140	350,703	679,437

29. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2017: 30%). The deferred tax assets and liabilities are made up of the following:

(a) Group	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Deferred tax liability						
Actuarial surplus	(13,943)	-	(13,943)	(34,917)	-	(34,917)
Accelerated capital allowances	-	-	-	-	8	8
Other temporary differences	-	-	-	-	(788)	(788)
Fair value on available-for-sale	157	(169,505)	(169,348)	157	(139,073)	(138,916)
Exchange differences	-	27	27	-	-	-
Over provision of fair value on available-for-sale	-	91	91	-	-	-
Reclassification	-	(184)	(184)	-	-	-
Deferred tax on fixed assets revaluation	-	(142,387)	(142,387)	-	(124,312)	(124,312)
At end of year	(13,786)	(311,958)	(325,744)	(34,760)	(264,165)	(298,925)
Deferred tax asset						
Accelerated capital allowances	-	2,276	2,276	-	1,152	1,152
Temporary differences arising from accrued leave	-	4,565	4,565	-	4,371	4,371
Other temporary differences	-	1,562	1,562	-	(35,958)	(35,958)
Tax losses carried forward	-	55,554	55,554	-	77,061	77,061
At end of year	-	63,957	63,957	-	46,626	46,626
Net deferred tax liability	(13,786)	(248,001)	(261,787)	(34,760)	(217,539)	(252,299)

(b) Company	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
Deferred tax liablity						
Actuarial surplus	(13,943)	-	(13,943)	(34,917)	-	(34,917)
Fair value on available-for-sale	157	(167,759)	(167,602)	157	(138,715)	(138,558)
Deferred tax on fixed assets revaluation	-	(142,387)	(142,387)	-	(124,312)	(124,312)
At end of year	(13,786)	(310,146)	(323,932)	(34,760)	(263,027)	(297,787)
Deferred tax asset						
Accelerated capital allowances	-	2,387	2,387	-	1,152	1,152
Temporary differences arising from accrued leave	-	4,565	4,565	-	4,371	4,371
Other temporary differences	-	(4,695)	(4,695)	-	(35,958)	(35,958)
Tax losses carried forward	-	55,554	55,554	-	77,061	77,061
At end of year	-	57,811	57,811	-	46,626	46,626
Net deferred tax liability	(13,786)	(252,335)	(266,121)	(34,760)	(216,401)	(251,161)

The Group offsets tax assets and liabilities if and only if it has legally enforceable right to set off current tax assets and current tax liabilities which the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority.

29. Deferred tax (continued)

Deferred tax asset/(liability) movement

(a) Group

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
At 01 January	(34,760)	(217,539)	(252,299)	(1,995)	13,888	11,893
(Charged)/credited to profit or loss	20,974	18,441	39,415	(32,922)	(68,989)	(101,911)
Charged/(credited) to other comprehensive income	-	(48,573)	(48,573)	157	(162,438)	(162,281)
At end of year	**(13,786)**	**(247,671)**	**(261,457)**	**(34,760)**	**(217,539)**	**(252,299)**

(b) Company

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
At 01 January	(34,760)	(216,401)	(251,161)	(1,995)	12,751	10,756
(Charged)/credited to profit or loss	20,974	11,185	32,159	(32,922)	(67,164)	(100,086)
(Charged)/credited to other comprehensive income	-	(47,119)	(47,119)	157	(161,988)	(161,831)
At end of year	**(13,786)**	**(252,335)**	**(266,121)**	**(34,760)**	**(216,401)**	**(251,161)**

30. Insurance payables

	2018 Payables on direct insurance arrangements KShs'000	2018 Payables arising from reinsurance arrangements KShs'000	2017 Payables on direct insurance arrangements KShs'000	2017 Payables arising from reinsurance arrangements KShs'000
(a) Group				
At 1 January	260,156	1,915,547	193,980	2,542,150
Arising during the year	-	-	66,176	-
Utilised/paid	(31,787)	(162,663)	-	(626,603)
At end of year	**228,369**	**1,752,884**	**260,156**	**1,915,547**
(b) Company				
At 1 January	260,156	1,615,413	193,980	1,827,136
Utilised /paid	(31,787)	(305,624)	66,176	(211,723)
At end of year	**228,369**	**1,309,789**	**260,156**	**1,615,413**

Insurance payables comprise of amounts payable on direct insurance business (to agents and brokers) and amounts payable from reinsurance (payable to the reinsurers).

31. Other payables

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
(a) Group						
Inter- departmental balance	33,189	-	33,189	23,366	-	23,366
Accrued leave	4,672	15,217	19,889	2,687	14,598	17,285
Accrued expenses	14,447	21,548	35,995	2,714	22,644	25,358
Other liabilities	311,144	105,391	416,535	229,260	84,748	314,008
At end of year	**363,452**	**142,156**	**505,608**	**258,027**	**121,990**	**380,017**
(b) Company						
Accrued expenses	14,447	18,337	32,784	2,714	11,996	14,710
Accrued leave	4,672	15,217	19,889	2,687	14,598	17,285
Inter-departmental balance	33,189	-	33,189	23,366	-	23,366
Other liabilities	311,144	61,470	372,614	229,260	47,268	276,528
At end of year	**363,452**	**95,024**	**458,476**	**258,027**	**73,862**	**331,889**

For terms and conditions relating to related party payables, refer to Note 39.

Other payables are non-interest bearing and are generally on 30-90 day terms. Other payables are carried at amortised cost.

32. Cash and cash equivalents

For the purpose of cashflow, cash and cash equivalents comprise the following:

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
(a) Group						
Bank and cash balances	225,760	151,134	376,894	156,814	196,688	353,502
Deposits with financial institutions maturing within 90 days of the date of acquisition(call deposits and fixed deposits)	110,272	523,508	633,780	196,517	655,439	851,956
Commercial paper maturing within 90 days of the date of acquisition	-	-	-	115,707	46,283	161,990
	336,032	674,642	1,010,674	469,038	898,410	1,367,448
Bank overdraft	-	(124,122)	(124,122)	-	(71,107)	(71,107)
At end of year	336,032	550,520	886,552	469,038	827,303	1,296,341
(b) Company						
Bank and cash balances	225,760	13,082	238,842	156,814	14,328	171,142
Deposits with financial institutions maturing within 90 days of the date of acquisition(call deposits and fixed deposits)	110,272	317,207	427,479	196,517	476,819	673,336
Commercial paper maturing within 90 days of the date of acquisition	-	-	-	115,707	46,283	161,990
	336,032	330,289	666,321	469,038	537,430	1,006,468
Bank overdraft	-	(124,122)	(124,122)	-	(71,107)	(71,107)
At end of year	336,032	206,167	542,199	469,038	466,323	935,361

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. All bank balances are subject to an average variable interest rate of 0.36% (2017: 0.14%).

The carrying amounts disclosed above reasonably approximate fair value at the reporting date. There are no restrictions or collateral held on cash and equivalents.

Bank overdraft is secured by fixed deposits held with the bank.

33. Financial instruments

(a) Summary per category

(i) Group

The Group's financial instruments are summarised by categories as follows:

Financial assets	At amortised cost/Held-to maturity financial assets (Note 25) KShs'000	At amortised cost/Loans and other receivables, cash and cash equivalents (Note20, 24,32) KShs'000	Financial assets at fair value through other comprehensive income/ Available-for-sale financial assets (Note 25) KShs'000	Financial assets at fair value through profit or loss (Note 19,33) KShs'000	Total KShs'000
31 December 2018:					
Investment in quoted shares	-	-	-	185,396	185,396
Investment in unquoted shares	-	-	679,774	-	679,774
Investment in government securities	32,248,383	-	682,741	-	32,931,124
Loans receivable	-	170,409	-	-	170,409
Other receivables	-	286,769	-	-	286,769
Deposits with financial institutions:					
-Maturing after 90 days of the date of acquisition	-	-	-	280,808	280,808
-Maturing within 90 days of the date of acquisition	-	633,780	-	-	633,780
Total deposits with financial institutions	-	633,780	-	280,808	914,588
Commercial paper	-	-	-	-	-
Bonds and debentures	-	-	-	105,050	105,050
Bank and cash balances	-	376,894	-	-	376,894
Carrying value	32,248,383	1,467,852	1,362,515	571,254	35,650,004

Financial liabilities	Liabilities at amortised cost KShs'000	Liabilities at fair value KShs'000	Total 2018 KShs'000	Liabilities at amortised cost KShs'000	Liabilities at fair value KShs'000	Total 2017 KShs'000
Financial liabilities at amortised cost (Note 31)	505,608	-	505,608	380,017	-	380,017
Payable under deposit administration liabilities (Note 26a)	-	23,238,228	23,238,228	-	21,760,403	21,760,403
Payable under annuities (Note 26b)	-	1,226,564	1,226,564		727,514	727,514
Bank overdraft	124,122	-	124,122	71,107	-	71,107
Carrying value	629,730	24,464,792	25,094,522	451,124	22,487,917	22,939,041

33. Financial instruments (continued)

(a) Summary per category (continued)

(i) Group

The Group's financial instruments are summarised by categories as follows:

Financial assets	At amortised cost/Held-to maturity financial assets (Note 25) KShs'000	At amortised cost/Loans and other receivables, cash and cash equivalents (Note 20, 24,32) KShs'000	Financial assets at fair value through other comprehensive income/ Available-for-sale financial assets (Note 25) KShs'000	Financial assets at fair value through profit or loss (Note 19,33) KShs'000	Total KShs'000
31 December 2017:					
Investment in quoted shares	-	-	-	252,712	252,712
Investment in unquoted shares	-	-	601,150	-	601,150
Investment in government securities	28,277,831	-	764,314	-	29,042,145
Loans receivable	-	96,534	-	-	96,534
Other receivables	-	302,468	-	-	302,468
Deposits with financial institutions:					
-Maturing after 90 days of the date of acquisition	-	-	-	185,912	185,912
-Maturing within 90 days of the date of acquisition	-	851,956	-	-	851,956
Total deposits with financial institutions	-	851,956	-	185,912	1,037,868
Commercial paper	-	-	-	161,990	161,990
Bonds and debentures	-	-	-	105,560	105,560
Bank and cash balances	-	353,502	-	-	353,502
Carrying value	28,277,831	1,604,460	1,365,464	706,174	31,953,929

33. Financial instruments (continued)

(a) Summary per category (continued)

(ii) Company

The Company's financial instruments are summarised by categories as follows:

Financial assets	At amortised cost/ Held-to maturity financial assets KShs'000	At amortised cost/Loans and other receivables, cash and cash equivalents KShs'000	Financial assets at fair value through other comprehensive income/ Available-for-sale financial assets KShs'000	Financial assets at fair value through profit or loss KShs'000	Total KShs'000
31 December 2018:					
Investment in quoted shares	-	-	-	172,037	172,037
Investment in unquoted shares	-	-	624,427	-	624,427
Investment in government securities	32,199,025	-	673,225	-	32,872,250
Loans receivable	-	170,409	-	-	170,409
Other receivables	-	284,916	-	-	284,916
Deposits with financial institutions:					
-Maturing after 90 days of the date of acquisition	-	-	-	278,074	278,074
-Maturing within 90 days of the date of acquisition	-	427,479	-	-	427,479
Total deposits with financial institutions	-	427,479	-	278,074	705,553
Commercial paper	-	-	-	-	-
Bonds and debentures	-	-	-	105,050	105,050
Bank and cash balances	-	238,842	-	-	238,842
Carrying value	**32,199,025**	**1,121,646**	**1,297,652**	**555,161**	**35,173,484**

Financial liabilities	Liabilities at amortised cost KShs'000	Liabilities at fair value KShs'000	Total 2018 KShs'000	Liabilities at amortised cost KShs'000	Liabilities at fair value KShs'000	Total 2017 KShs'000
Financial liabilities at amortised cost (Note 31)	458,476	-	458,476	331,889	-	331,889
Payable under deposit administration liabilities (Note 26a)	-	23,238,228	23,238,228	-	21,760,403	21,760,403
Payable under annuities (Note 26 b)	-	1,226,564	1,226,564	-	727,514	727,514
Bank overdraft	124,122	-	124,122	71,107	-	71,107
Carrying value	**582,598**	**24,464,792**	**25,047,390**	**402,996**	**22,487,917**	**22,890,913**

33. Financial instruments (continued)

(a) Summary per category (continued)

(ii) Company

The Company's financial instruments are summarised by categories as follows:

Financial assets	At amortised cost/Held-to maturity financial assets (Note 25) KShs'000	At amortised cost/Loans and other receivables, cash and cash equivalents (Note20 ,24,32) KShs'000	Financial assets at fair value through other comprehensive income/ Available-for-sale financial assets (Note 25) KShs'000	Financial assets at fair value through profit or loss (Note 19,33) KShs'000	Total KShs'000
31 December 2017:					
Investment in quoted shares	-	-	-	236,362	236,362
Investment in unquoted shares	-	-	547,660	-	547,660
Investment in government securities	28,227,691	-	751,408	-	28,979,099
Loans receivable	-	96,534	-	-	96,534
Other receivables	-	322,313	-	-	322,313
Deposits with financial institutions:					
-Maturing after 90 days of the date of acquisition	-	-	-	185,912	185,912
-Maturing within 90 days of the date of acquisition	-	673,336	-	-	673,336
Total deposits with financial institutions	-	673,336	-	185,912	859,248
Commercial paper		-	-	161,990	161,990
Bonds and debentures	-	-	-	105,560	105,560
Bank and cash balances	-	171,142	-	-	171,142
Carrying value	28,227,691	1,263,325	1,299,068	689,824	31,479,908

(b) Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements (i.e., held to maturity and loans and receivables).

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money- market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices.

33. Financial instruments (continued)

(c) Determination of fair value and fair value hierarchy

Below follows required disclosure of fair value measurements, using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover instruments measured at fair value.

Level 1

Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

Included in level 2 category are financial assets and liabilities measured using significant inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Level 3

Financial assets and liabilities measured using significant inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

33. Financial instruments (continued)

(c) Determination of fair value and fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Group **As at 31 December 2018**	**Level 1** **KShs'000**	**Level 2** **KShs'000**	**Level 3** **KShs'000**	**Total fair value** **KShs'000**
Financial assets:				
Financial assets held-for-trading				
Investment in quoted shares	185,396	-	-	185,396
Financial assets designated at fair value through profit and loss				
Deposits with financial institutions	914,588	-	-	914,588
Bonds and debentures	-	105,050	-	105,050
Bank and cash balances	-	376,894	-	376,894
	914,588	481,944	-	1,396,532
Financial assets at fair value through other comprehensive income/ Available-for-sale financial assets				
Investment in government securities	682,741	-	-	682,741
Investment in unquoted shares	-	-	679,774	679,774
	682,741	-	679,774	1,362,515
Total financial assets	**1,782,725**	**481,944**	**679,774**	**2,944,443**
Financial liabilities:				
Deposit administration and annuities	**-**	**24,464,792**	**-**	**24,464,792**
Group				
As at 31 December 2017				
Financial assets:				
Financial assets held-for-trading				
Investment in quoted shares	252,712	-	-	252,712
Financial assets designated at fair value through profit and loss				
Deposits with financial institutions	1,037,868	-	-	1,037,868
Commercial paper	-	161,990	-	161,990
Bonds and debentures	-	105,560	-	105,560
Bank and cash balances	-	353,502	-	353,502
	1,037,868	621,052	-	1,658,920
Financial assets at fair value through other comprehensive income /Available-for-sale financial assets				
Investment in government securities	764,314	-	-	764,314
Investment in unquoted shares	-	-	601,150	601,150
	764,314	-	601,150	1,365,464
Total financial assets	**2,054,894**	**621,052**	**601,150**	**3,277,096**
Financial liabilities:				
Deposit administration and annuities	**-**	**22,487,917**	**-**	**22,487,917**

33. Financial instruments (continued)

(c) Determination of fair value and fair value hierarchy (continued)

Company **As at 31 December 2018**	**Level 1** **KShs'000**	**Level 2** **KShs'000**	**Level 3** **KShs'000**	**Total fair value** **KShs'000**
Financial assets:				
Financial assets held-for-trading				
Investment in quoted shares	172,037	-	-	172,037
Financial assets designated at fair value through profit and loss				
Deposits with financial institutions	705,553	-	-	705,553
Bonds and debentures	-	105,050	-	105,050
Bank and cash balances	-	238,842	-	238,842
	705,553	343,892	-	1,049,445
Financial assets at fair value through other comprehensive income/ Available-for-sale financial assets				
Investment in government securities	673,225	-	-	673,225
Investment in unquoted shares	-	-	624,427	624,427
	673,225	-	624,427	1,297,652
Total financial assets	**1,550,815**	**343,892**	**624,427**	**2,519,134**
Financial liabilities:				
Deposit administration and annuities	**-**	**24,464,792**	**-**	**24,464,792**

Company **As at 31 December 2017**				
Financial assets:				
Financial assets held-for-trading				
Investment in quoted shares	236,362	-	-	236,362
Financial assets designated at fair value through profit and loss				
Deposits with financial institutions	859,248	-	-	859,248
Commercial paper	-	161,990	-	161,990
Bonds and debentures	-	105,560		105,560
Bank and cash balances	-	171,142	-	171,142
	859,248	438,692	-	1,297,940
Financial assets at fair value through other comprehensive income/ Available-for-sale financial assets				
Investment in government securities	751,408	-	-	751,408
Investment in unquoted shares	-	-	547,660	547,660
	751,408	-	547,660	1,299,068
Total financial assets	**1,847,018**	**438,692**	**547,660**	**2,833,370**
Financial liabilities:				
Deposit administration and annuities	**-**	**22,487,917**	**-**	**22,487,917**

34. Actuarial valuation

In accordance with section 57 of the Insurance Act as amended by the Insurance (Amendment) Act, 1994, an actuarial valuation of the life fund was carried out by Saket Singhal actuaries and financial consultants, into the financial condition in respect of the long-term insurance business of the company and revealed an actuarial surplus of KShs 2,613.88 million (2017: KShs 2,271.093 million) before setting aside reserves and before declaration of interest and bonuses to policyholders. The value of the life fund at 31 December 2018 before distribution to shareholders was KShs 33,021.198 million (2017: KShs 29,531.853 million). Transfers before tax were made out of the statutory reserve in the year amounting to KShs 60 million (2017: KShs 60 million) based on the recommendation of the Actuary.

35. Weighted average effective fixed interest rates

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

	2018	2017
	%	%
Mortgage loans	8	8
Policy loans	15	15
Government securities	12.95	13.03
Deposits with financial institutions	8.12	7.68

Deposits with financial institutions regarded as cash and cash equivalents have an average maturity of 3 months (2017: 3 months)

36. Reinsurers' share of insurance liabilities

Short term business

Group	**2018 KShs'000**	**2017 KShs'000**
Reinsurers' share of:-		
- unearned premiums (Note 28)	**496,433**	**573,397**
- notified claims outstanding	2,153,418	2,311,685
- claims incurred but not reported	460,737	432,813
	2,614,155	**2,744,498**
At end of year	**3,110,588**	**3,317,895**
Company		
Reinsurers' share of:-		
- unearned premiums (Note 28)	**306,098**	**350,703**
- notified claims outstanding	1,498,460	1,642,982
- claims incurred but not reported	337,256	484,787
	1,835,716	**2,127,769**
At end of year	**2,141,814**	**2,478,472**

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

Detailed movements in the above reinsurance assets are shown below and in Notes 23 and 28.

	Group		**Company**	
	2018 KShs'000	**2017 KShs'000**	**2018 KShs'000**	**2017 KShs'000**
At start of year	3,317,895	3,401,124	2,478,472	2,686,111
Decrease during the period (gross)	(207,307)	(83,229)	(336,658)	(207,639)
At 31 December	**3,110,588**	**3,317,895**	**2,141,814**	**2,478,472**

Reinsurers' share of insurance liabilities is classified as a current asset.

37. Contingent liabilities

Legal Proceedings and Regulations

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position. The Group is also subject to insurance solvency regulations in all the territories where it operates and has complied with all these solvency regulations. There are no contingencies associated with the Group's compliance or lack of compliance with such regulations.

Contingent liabilities for custom bonds, at the year-end were KShs 2.534 billion (2017: KShs 2.165 billion).

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37. Contingent liabilities (continued)

Material Damage Claim

The company was in discussion with its reinsurers on a matter relating to a claim by one of its clients, relating to material damage as at 31 December 2012. The lead reinsurer on the matter, had contended that the company over ceded on the surplus treaty in respect of material damage portion of the policy. The company subsequently contested this assertion by the reinsurer, and reinsurers paid off their portion of the liability.

The company then settled the claim and issued a discharge voucher which was not signed and returned as expected from the claimant alleging dissatisfaction of the quantum of the settlement. The matter is still unresolved.

From management assessment, even if the insured goes to court, any additional liability will be borne by the reinsurers and the company will only suffer to the extent of the retention limit.

38. Commitments

Capital commitments

There was no capital expenditure contracted for at the reporting date but not recognised in the financial statements (2017: KShs Nil).

Operating lease commitments

The group has entered into commercial property leases in respect of its investment property portfolio. Leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

The future minimum lease payments under non-cancellable operating lease are as follows:

Payable (as a lessee)	2018 KShs'000	2017 KShs'000
Not later than 1 year	18,483	18,395
Later than 1 year and not later than 5 years	27,176	26,341
At end of year	**45,659**	**39,629**

Receivable (as a lessor)	2018 KShs'000	2017 KShs'000
Not later than 1 year	105,076	100,711
Later than 1 year and not later than 5 years	173,452	250,564
At end of year	**278,528**	**351,275**

39. Related party transactions

There are several companies which are related to the company through common shareholdings or common directorship. General Insurance Corporation, New India Assurance Company Limited and Life Insurance Corporation of India are major shareholders of Kenindia Assurance Company Limited. United Insurance Company Limited, National Insurance Company Limited, Oriental Insurance Company Limited and Kaluworks Kenya Limited are related to Kenindia Assurance Company Limited through common directorship.

Kenindia Asset Management Company Limited and Kenya Pravack Limited are wholly owned subsidiaries of Kenindia Assurance Company Limited. Tanzindia Assurance Company Limited is partially owned (65%) by Kenindia Assurance Company Limited.

In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients.

39. Related party transactions (continued)

The following transactions were carried out with related parties:

	Long term assurance business KShs'000	Short term insurance business KShs'000	2018 Total KShs'000	Long term assurance business KShs'000	Short term insurance business KShs'000	2017 Total KShs'000
(i) Transactions with related parties						
Gross earned premium						
General insurance corporation	-	126,001	126,001	-	78,476	78,476
Other related parties	-	238,642	238,642	-	245,105	245,105
Net claims incurred						
General insurance corporation	-	46,260	46,260	-	37,516	37,516
Other related parties	-	126,879	126,879	-	35,893	35,893
(ii) Outstanding balances with related parties						
Premiums receivable from related parties						
General Insurance Corporation	-	(2,388)	(2,388)	-	89,723	89,723
Life Insurance Corporation of India	(3,049)	-	(3,049)	(3,049)	-	(3,049)
New India Assurance Company Ltd	-	(465,045)	(465,045)	-	(634,488)	(634,488)
United Insurance Company Ltd	-	619	619	-	619	619
National Insurance Company Ltd	-	10,359	10,359	-	2,181	2,181
Oriental Insurance Company Ltd	-	5,515	5,515	-	1,072	1,072
Tanzindia Assurance Company Ltd	-	6,740	6,740	-	30,466	30,466
East Africa Re Limited	(1,331)	(230)	(1,561)	(1,138)	6,143	5,005

There were no provisions made or amounts written off on related party balances during the year (2017: KShs Nil).

	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
(iii) Bank deposits				
Credit Bank Deposits	12,737	11,729	12,737	11,729
(iv) Directors' emoluments				
Directors' fees (Note 6)	3,766	3,620	2,025	2,025
Other expenses	13,672	7,791	13,527	7,332
As executives	23,581	27,504	23,581	27,504
	41,019	**38,915**	**39,133**	**36,861**
Directors' loans	-	-	-	-
(v) Key management personnel				
Salaries and benefits	126,504	128,360	99,409	87,139
Social security benefit costs	23	22	23	22
Retirement benefit costs	8,020	8,672	5,310	4,750
	134,547	**137,054**	**104,742**	**91,911**

Key management personnel relate to top and middle level management (general managers and assistant general managers).

40. Insurance risk

The company's activities expose it to insurance risk. The company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, managing insurance risk through appropriate pricing, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers.

This section summarises the way the company manages key insurance risks:

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Group purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. The majority of proportional reinsurance is quota–share reinsurance which is taken out to reduce the overall exposure of the Group to certain classes of business. Non–proportional reinsurance is primarily excess– of–loss reinsurance designed to mitigate the group's net exposure to catastrophe losses. Retention limits for the excess–of–loss reinsurance vary by product line.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the reporting date.

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

40. Insurance risk (continued)

(a) Life assurance contracts

Life assurance contracts offered by the Group include whole life and term assurance. Whole life and term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability. Few contracts have a surrender value.

The main risks that the Group is exposed to are as follows:

Mortality risk – risk of loss arising due to policyholder death experience being different than expected.

Morbidity risk – risk of loss arising due to policyholder health experience being different than expected.

Longevity risk – risk of loss arising due to the annuitant living longer than expected.

Investment return risk – risk of loss arising from actual returns being different than expected. Expense risk – risk of loss arising from expense experience being different than expected.

Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the type of risk insured or by industry.

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

For contracts when death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Group wide reinsurance limits on any single life insured and on all high risk individuals insured are in place.

For annuity contracts, the most significant factor is Continued improvement in medical science and social conditions that would increase longevity. The Group reinsures its annuity contracts on a quota share basis to mitigate its risk.

The following table shows the concentration of life insurance contract liabilities by type of contract;

Life assurance contract liabilities	**2018 KShs'000**	**2017 KShs'000**
Ordinary Life and riders	1,728,520	1,486,690
Group Life	11,210	13,820
Capital Advantage	2,585,470	2,168,220
Bima Plans	1,573,890	1,085,820
Annuities	18,530	18,300
	5,917,620	**4,772,850**

Key assumptions and sensitivities

Refer to note 27 for key assumptions and sensitivities.

40. Insurance risk (continued)

(b) Non-life insurance contracts (which comprise of general insurance and healthcare)

The Group principally issues the following types of general insurance contracts: motor, household, commercial and business interruption. Healthcare contracts provide medical expense coverage to policyholders and are not guaranteed renewable. Risks under non–life insurance policies usually cover twelve months duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured and by industry.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Furthermore, strict claim review policies to assess all new and on-going claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities

The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. flood damage).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Group's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 50% of shareholders' equity on a gross basis and 10% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 2% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

Key assumptions

The principal assumption underlying the liability estimates is that the Group's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The non–life insurance claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

40. Insurance risk (continued)

(b) Non-life insurance contracts (which comprise of general insurance and healthcare) (continued)

Sensitivities

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear.

The assumptions are as follows:

	2018			2017		
Adjustments to claims incurred in prior accident years due to change in assumption	**Gross insurance liabilities KShs'000**	**Reinsurance/ reinsurers share of insurance liabilities KShs'000**	**Net insurance liabilities (gross insurance liabilities less re-insurance) KShs'000**	**Gross insurance liabilities KShs'000**	**Reinsurance/ reinsurers share of insurance liabilities KShs'000**	**Net insurance liabilities (gross insurance liabilities less re-insurance) KShs'000**
Average claim cost inclusive of average cost to process the claim settlement	392	(216)	176	330	(180)	150
Average number of claims	14	(14)	14	12	(12)	12
Average claims settlement period (days)	60	60	60	60	60	60

Insurance liabilities (Group)

31 December 2018	**Change in assumptions**	**Impact on gross insurance liabilities KShs'000**	**Impact on net insurance liabilities KShs'000**	**Impact on profit or loss before tax KShs'000**	**Impact on equity KShs'000**
Average claim cost	10%	479,440	218,025	(14,017)	(14,940)
Average number of claims	-10%	(479,440)	(218,025)	14,017	14,940
Average claims settlement period	Reduce from 60 days to 50 days	(799,067)	(363,374)	23,361	24,900
31 December 2017					
Average claim cost	10%	475,439	274,450	(30,507)	(21,761)
Average number of claims	-10%	(475,439)	(274,450)	30,507	21,761
Average claims settlement period	Reduce from 60 days to 50 days	(792,399)	(457,416)	50,845	36,269

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40. Insurance risk (continued)

(b) Non-life insurance contracts (which comprise of general insurance and healthcare) (continued)

Sensitivities (continued)

Reinsurance assets (Group)	Change in assumptions	Impact on gross insurance liabilities KShs'000	Impact on net insurance liabilities KShs'000	Impact on profit or loss before tax KShs'000	Impact on equity KShs'000
31 December 2018					
Average claim cost	10%	-	(261,416)	14,017	14,940)
Average number of claims	-10%	-	261,416	(14,017)	(14,940)
Average claims settlement period	Reduce from 60 days to 50 days	-	(435,693)	23,361	24,900
31 December 2017					
Average claim cost	10%	-	-274,450	30,507	21,761
Average number of claims	-10%	-	274,450	(30,507)	(21,761)
Average claims settlement period	Reduce from 60 days to 50 days	-	(116,049)	83,996	72,748
Insurance liabilities (Company)					
31 December 2018					
Average claim cost	10%	379,066	195,495	(16,031)	(16,817)
Average number of claims	-10%	(379,066)	(195,495)	16,031	16,817
Average claims settlement period	Reduce from 60 days to 50 days	(632,777)	(325,825)	26,718	28,028
31 December 2017					
Average claim cost	10%	390,552	177,775	(25,380)	(18,517)
Average number of claims	-10%	(390,552)	(177,775)	25,380	18,517
Average claims settlement period	Reduce from 60 days to 50 days	(650,920)	(269,292)	42,299	30,862
Reinsurance assets (Company)					
31 December 2018					
Average claim cost	10%	-	(183,572)	16,031	16,817
Average number of claims	-10%	-	183,572	(16,031)	(16,817)
Average claims settlement period	Reduce from 60 days to 50 days	-	(305,953)	(26,718)	28,028
31 December 2017					
Average claim cost	10%	-	(212,777)	25,380	18,517
Average number of claims	-10%	-	212,777	(25,380)	(18,517)
Average claims settlement period	Reduce from 60 days to 50 days	-	(116,049)	(83,996)	72,748

40. Insurance risk (continued)

(b) Non-life insurance contracts (which comprise of general insurance and healthcare) (continued)

Concentrations

The following table shows the concentration of non-life insurance contract liabilities by type of contract:

Non-life insurance contract liabilities

	Group		Company	
	2018	**2017**	**2018**	**2017**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Engineering	1,243,360	1,235,824	1,208,108	1,187,059
Fire Domestic	20,009	22,098	20,009	22,098
Fire Industrial	1,076,643	1,051,318	493,707	684,932
Liability	86,027	96,608	86,027	96,608
Marine	139,241	174,173	82,551	127,486
Motor Private	387,670	405,279	206,900	208,997
Motor Commercial	490,831	388,495	490,831	388,495
Personal Accident	89,316	87,318	89,316	87,318
Theft	226,168	345,407	226,198	345,407
Workmen Compensation	838,316	728,585	838,316	728,585
Medical	45,501	25,336	45,501	25,336
Aviation	398	415	-	-
Miscellaneous	150,921	193,535	3,229	3,197
At 31 December	**4,794,401**	**4,754,391**	**3,790,693**	**3,905,518**

41. Financial risk management objectives and policies

Financial risk

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, foreign currency exchange risks, interest rate risks, market price risks and the effect of changes in property values risk.

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, price risk, currency risk, liquidity risk and credit risk.

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

This section summarises the way the Group manages key risks:

41. Financial risk management objectives and policies (continued)

(i) Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

(a) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The group has a large portion of its investments in interest (fixed) earning deposits and government securities and variable interest investments such as bank balances. Interest rate risk arises primarily from the group's investments in fixed an variable income securities, which are exposed to fluctuations in interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk. The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable interest rate instruments.

The sensitivity analysis on interest rate risk over insurance participating and assets backing life shareholders is shown in Note 27.

Appraisal of investment portfolio is done on a regular basis and the investment spread reviewed depending on the existing interest rates. The group has also placed significant balances in fixed deposits. However, the Group has no loans and borrowings and therefore is not exposed to interest rate risk as far as loans and borrowings are concerned.

The impact of Group's liabilities to interest rates is shown in Note 27 (under 'sensitivity analysis on actuarial assumptions'). Short term non-life insurance liabilities are not impacted by interest rate risk since discounting of future cash flows of claims is not carried out. Non-life claims are stated on actual basis.

The quantitative exposure to interest rate risk as required by IFRS 7 is shown below:

Changes in interest rates (for assets with fixed and variable interest rates) will have the following impact in the statement of profit or loss :-

		Group		Company	
Financial assets	**% change in base**	**2018 KShs'000**	**2017 KShs'000**	**2018 KShs'000**	**2017 KShs'000**
Variable interest rates					
Bank balances	+(-)10.00%	+(-)37,689	+(-)35,350	+(-)23,784	+(-)17,114
Fixed interest rates					
Government securities (Held to maturity)	+(-)10.00%	+(-)3,227,838	+(-)2,827,783	+(-)3,219,903	+(-)2,822,769
Deposits with financial institutions	+(-)10.00%	+(-)91,184	+(-)103,787	+(-)70,555	+(-)85,925
Mortgage loans	+(-)10.00%	+(-)481	+(-)481	+(-)481	+(-)481
Policy loans	+(-)10.00%	+(-)16,403	+(-)9,066	+(-)16,403	+(-)9,066
Government securities (Available-for-sale)	+(-)10.00%	+(-)68,274	+(-)76,431	+(-)67,323	+(-)73,240

The group has no significant concentration of interest rate risk other than what is currently disclosed. The method used for derivin sensitivity information and significant variables did not change from the previous period.

41. Financial risk management objectives and policies (continued)

(i) Market risk (continued)

(b) Currency rate risk

Currency rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because off changes in foreign exchange rates. The company predominantly transacts in the local currency (Kenya shillings). The risk associated with transactions in other currency (US Dollar) is considered nominal. Except for an amount of negative USD 6,242.84 (Negative KShs 610,739.35) equivalent, held as bank balances, all other balances are originally denominated in the local currency. If the US Dollar was to appreciate against the Kenya Shilling by 5%, with all other factors remaining constant, the post-tax profit would be lower by KShs 30,537. About 84% of the group's business is generated in Kenya, 16% from the subsidiary (Tanzindia Assurance Company Limited) whose transactions are originally denominated in Tanzindia Shillings (TShs). The foreign currency translation of the subsidiary was negative KShs 13,219,000 (2017: KShs 12,423,000). The group has no significant concentration of currency risk.

(c) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than arising from interest rate risk or currency risk), whether those changes are carried by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

The capital is invested in equities and interest-bearing instruments (government securities) that are valued at fair value and are therefore susceptible to market fluctuations. Management assesses the trend in the market prices and the interest rates and ensures a smoothening effect by balancing the portfolios, without contravening investment mandates, in order to ensure investment income growth as well as stability in equities. The Group has no significant concentration of price risk.

At 31 December 2018, if the prices of listed equities at the Nairobi Stock Exchange had appreciated by 5% with all other variables held constant, the profit for the year for the Company would have increased by KShs 6,710,200 (2017: KShs 8,900,750) for long- term business and KShs 1,891,650 (2017: KShs 2,917,350) for short-term business respectively. The method used for deriving sensitivity information and significant variables did not change from the previous period.

Changes in prices of Government Securities (Available-for-sale investments) for the Group and Company will have the following impact in statement of profit or loss and equity.

	% change in base	2018 KShs'000	2017 KShs'000
Group-Short term business			
Government securities (Available-for-sale)	+(-)5%	34,137	38,216
Company-Short term business			
Government securities (Available-for-sale)	+(-)5%	33,661	37,570

41. Financial risk management objectives and policies (continued)

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation

The following policies and procedures are in place to mitigate the group's exposure to credit risk.

- The group trades only with recognised, creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the management. In addition, receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the group.
- Credit risk in respect to re-insurance is managed by placing the group's reinsurance only with companies that have high international or similar ratings.

The amount that best represents the Group's and the company's maximum exposure to credit risk at 31 December is made up as follows:

		Group		Company	
Financial instruments	**Note**	**2018 KShs'000**	**2017 KShs'000**	**2018 KShs'000**	**2017 KShs'000**
Held-to-maturity financial assets	25	32,248,383	28,277,831	32,199,025	28,227,691
Loans receivable	20	170,409	96,534	170,409	96,534
Investment in the Kenya Motor Insurance Pool	24	98,089	97,011	98,089	97,011
Available-for-sale financial assets (Government securities)	25	682,741	764,314	673,225	751,408
Investment in unquoted shares	18	679,774	601,150	624,427	547,660
Financial assets at fair value through profit or loss	19	185,396	252,712	172,037	236,362
Deposits with financial institutions	33	914,588	1,037,868	705,553	859,248
Commercial paper	33	-	161,990	-	161,990
Bonds and debentures	33	105,050	105,560	105,050	105,560
Receivables arising out of reinsurance arrangements	21	1,371,520	1,326,349	829,313	923,700
Reinsurers' share of insurance liabilities	36	3,110,588	3,317,895	2,141,814	2,478,472
Receivables arising out of direct insurance arrangements	22	637,817	551,862	581,973	481,672
Bank and cash balances	32	376,894	353,502	238,842	171,142
Other receivables	24	286,769	302,468	284,916	322,313
Total credit risk exposure		**40,868,018**	**37,247,046**	**38,824,673**	**35,460,763**

Information regarding the credit quality of 'not past due' and 'not impaired' monetary assets is disclosed in Note 22 and Note 41.

41. Financial risk management objectives and policies (continued)

(ii) Credit risk (continued)

Age analysis of Group's financial assets neither past due nor impaired and past due but not impaired:-

31 December 2018

	<30days KShs'000	Neither past due nor impaired KShs'000	31 to 60 days KShs'000	61 to 90 days KShs'000	Over 90 days KShs'000	Total past due but not impaired KShs'000	Total KShs'000
Loans receivable	393	**393**	400	396	162,842	**163,638**	**164,031**
Reinsurance assets	-	**-**	-	-	-	**-**	**-**
Insurance receivables	(126,484)	**(126,484)**	77,427	109,935	576,939	**764,301**	**637,817**
Total	**(126,091)**	**(126,091)**	**77,827**	**110,331**	**739,781**	**927,939**	**801,848**

Age analysis of Group's financial assets neither past due nor impaired and past due but not impaired:-

31 December 2017

	<30days KShs'000	Neither past due nor impaired KShs'000	31 to 60 days KShs'000	61 to 90 days KShs'000	Over 90 days KShs'000	Total past due but not impaired KShs'000	Total KShs'000
Loans receivable	447	**447**	840	714	94,533	**96,087**	**96,534**
Reinsurance assets	367,975	**367,975**	13,247	7,570	937,557	**958,374**	**1,326,349**
Insurance receivables	(117,926)	**(117,926)**	72,043	102,480	495,265	**669,788**	**551,862**
Total	**250,496**	**250,496**	**86,130**	**110,764**	**1,527,355**	**1,724,249**	**1,974,745**

Age analysis of Company's financial assets neither past due nor impaired and past due but not impaired:-

31 December 2018

	<30days KShs'000	Neither past due nor impaired KShs'000	31 to 60 days KShs'000	61 to 90 days KShs'000	Over 90 days KShs'000	Total past due but not impaired KShs'000	Total KShs'000
Loans receivable	393	**393**	400	396	162,842	**163,638**	164,031
Reinsurance assets	-	**-**	-	-	-	**-**	-
Insurance receivables	(116,220)	**(116,220)**	68,397	464,283	165,513	**698,193**	581,973
Total	**(115,827)**	**(115,827)**	**68,797**	**464,679**	**328,355**	**861,831**	**746,004**
31 December 2017							
Loans receivable	447	**447**	840	714	94,533	**96,087**	96,534
Reinsurance assets	367,975	**367,975**	13,247	7,570	534,908	**555,725**	923,700
Insurance receivables	(113,504)	**(113,504)**	76,465	106,902	411,809	**595,176**	481,672
Total	**254,918**	**254,918**	**90,552**	**115,186**	**1,041,250**	**1,246,988**	**1,501,906**

41. Financial risk management objectives and policies (continued)

(ii) Credit risk (continued)

Impaired financial assets

At 31 December 2018, the Group and Company had impaired insurance assets of KShs 33,189,000 and KShs 29,382,000 respectively (2017: Group and Company KShs 53,549,000 and KShs 53,549,000 respectively). For assets to be classified as 'past-due and impaired', contractual payments must be in arrears for more than 90 days.

Collateral is held for loans receivables. For reinsurance assets and insurance receivables, no collateral is held as security for any past due or impaired assets.

The Group and Company records impairment allowances for loans and receivables in a separate impairment allowance account. A reconciliation of the allowance for impairment losses for loans and receivables is as shown in note 22.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty, in meeting obligations associated with its financial liabilities. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk: A Group liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk committee. The policy is regularly reviewed and for changes in the risk environment. Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The Group is exposed to daily calls on its available cash for claims settlement and other administration expenses. The Group does maintain cash resources to meet all these needs and experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of stability.

- The Group holds a large portion of its assets in short term deposits and investments that are easily convertible to cash.
- The cash flow position of the Group is reviewed on a weekly basis.

Maturity profiles

The table that follows summarises the maturity profile of the financial assets and financial liabilities of the Group based on remaining undiscounted contractual obligations, including interest payable and receivable. Liabilities and payables represent non-discounted cash flows.

For insurance contracts liabilities in short term business and reinsurance assets, maturity profiles are shown on undiscounted basis. Unearned premiums and the reinsurers' share of unearned premiums have been included in the analysis although they are not contractual obligations, since insurance items are included in IFRS 7 disclosures as if the insurance items were financial instruments. Re payments which are subject to notice are treated as if notice were to be given immediately.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. Reinsurance assets have been presented on the same basis as insurance liabilities. Loans and receivables include contractual interest receivable (if any).

41. Financial risk management objectives and policies (continued)

(iii) Liquidity risk (continued)

Group 31 December 2018	**Up to a year KShs '000**	**1-2 years KShs'000**	**2-3 years KShs '000**	**Above 3 years KShs '000**	**On demand/ No maturity KShs '000**	**Total KShs '000**
Insurance liabilities	4,933,662	212	144	21	-	4,934,039
Payable under deposit administration contracts	-	-	-	-	23,238,228	23,238,228
Payable under annuities	-	-	-	-	1,226,564	1,226,564
Provision for unearned premium	1,250,330	-	-	-	-	1,250,330
Tax liability	79,106	-	-	-	-	79,106
Reinsurance payables	1,752,747	87	29	21	-	1,752,884
Insurance payables	228,369	-	-	-	-	228,369
Bank overdraft	124,122	-	-	-	-	124,122
Other payables	505,608	-	-	-	-	505,608
Total liabilities	8,873,944	299	173	42	24,464,792	33,339,250

Group 31 December 2017	**Up to a year KShs '000**	**1-2 years KShs '000**	**2-3 years KShs '000**	**Above 3 years KShs '000**	**On demand/ No maturity KShs '000**	**Total KShs '000**
Insurance liabilities	4,844,310	316	189	27	-	4,844,842
Payable under deposit administration contracts	-	-	-	-	21,760,403	21,760,403
Payable under annuities	-	-	-	-	727,514	727,514
Provision for unearned premium	1,337,218	-	-	-	-	1,337,218
Tax liability	81,045	-	-	-	-	81,045
Reinsurance payables	1,915,478	69	-	-	-	1,915,547
Insurance payables	260,156	-	-	-	-	260,156
Bank overdraft	71,107	-	-	-	-	71,107
Other payables	380,017	-	-	-	-	380,017
Total liabilities	8,889,331	385	189	27	22,487,917	31,377,849

41. Financial risk management objectives and policies (continued)

(iii) Liquidity risk (continued)

Company 31 December 2018	**Up to a year KShs '000**	**On demand/ No maturity KShs '000**	**Total KShs '000**
Insurance liabilities	3,930,301	-	3,930,301
Payable under deposit administration contracts	-	23,238,228	23,238,228
Payable under annuities	-	1,226,564	1,226,564
Provision for unearned premium	967,930	-	967,930
Tax liability	79,106	-	79,106
Reinsurance payables	1,309,789	-	1,309,789
Insurance payables	228,369	-	228,369
Bank overdraft	124,122	-	124,122
Other payables	458,476	-	458,476
Total liabilities	**7,098,093**	**24,464,792**	**31,562,885**

Company 31 December 2017	**Up to a year KShs '000**	**On demand/ No maturity KShs '000**	**Total KShs '000**
Insurance liabilities	3,995,969	-	3,995,969
Payable under deposit administration contracts	-	21,760,403	21,760,403
Payable under annuities	-	727,514	727,514
Provision for unearned premium	1,030,140	-	1,030,140
Tax liability	75,135	-	75,135
Reinsurance payables	1,615,413	-	1,615,413
Insurance payables	260,156	-	260,156
Bank overdraft	71,107	-	71,107
Other payables	331,889	-	331,889
Total liabilities	**7,379,809**	**22,487,917**	**29,867,726**

41. Financial risk management objectives and policies (continued)

(iii) Liquidity risk (continued)

Group
31 December 2018

	Up to a year KShs '000	1-3 years KShs '000	3-5 years KShs '000	5-15 years KShs '000	Over 15 years KShs '000	On demand/ No maturity KShs '000	Total KShs '000
Held to maturity financial assets	137,993	2,245,559	3,928,501	21,305,054	4,631,276	-	32,248,383
Loans receivable	7,891	30,120	19,674	112,724	-	-	170,409
Available-for-sale financial assets	-	91,210	245,563	58,120	287,848	679,774	1,362,515
Financial assets at fair value through profit and loss	-	-	-	-	-	185,396	185,396
Cash and cash equivalents and short term investments	1,291,482	-	-	-	-	-	1,291,482
Commercial paper, bonds and debentures	-	105,050	-	-	-	-	105,050
Reinsurance assets	4,482,108	-	-	-	-	-	4,482,108
Insurance receivables	637,817	-	-	-	-	-	637,817
Investment in the Kenya Motor Insurance Pool	-	-	-	-	-	98,089	98,089
Tax recoverable	56,202	-	-	-	-	-	56,202
Other receivables	286,769	-	-	-	-	-	286,769
Total assets	6,900,262	2,471,939	4,193,738	21,475,898	4,919,124	963,259	40,924,220

41. Financial risk management objectives and policies (continued)

(iii) Liquidity risk (continued)

Group

31 December 2017

	Up to a year KShs '000	1-3 years KShs '000	3-5 years KShs '000	5-15 years KShs '000	Over 15 years KShs '000	On demand/ No maturity KShs '000	Total KShs '000
Held to maturity financial assets	1,064,528	2,127,266	3,217,232	20,499,047	1,369,758	-	28,277,831
Loans receivable	9,835	26,677	17,784	42,238	-	-	96,534
Available-for-sale financial assets	103,132	89,806	111,678	183,980	275,718	601,150	1,365,464
Financial assets at fair value through profit and loss	-	-	-	-	-	252,712	252,712
Cash and cash equivalents and short term investments	1,391,370	-	-	-	-	-	1,391,370
Commercial paper, bonds and debentures	161,990	-	105,560	-	-	-	267,550
Reinsurance assets	4,644,244	-	-	-	-	-	4,644,244
Insurance receivables	551,862	-	-	-	-	-	551,862
Investment in the Kenya Motor Insurance Pool	-	-	-	-	-	97,011	97,011
Tax recoverable	55,352	-	-	-	-	-	55,352
Other receivables	302,468	-	-	-	-	-	302,468
Total assets	**8,284,781**	**2,243,749**	**3,452,254**	**20,725,265**	**1,645,476**	**950,873**	**37,302,398**

41. Financial risk management objectives and policies (continued)

(iii) Liquidity risk (continued)

Company
31 December 2018

	Up to a year KShs '000	1-3 years KShs '000	3-5 years KShs '000	5-15 years KShs '000	Over 15 years KShs '000	On demand/ No maturity KShs '000	Total KShs '000
Held to maturity financial assets	88,635	2,245,559	3,928,501	21,305,054	4,631,276	-	32,199,025
Loans receivable	7,891	30,120	19,674	112,724	-	-	170,409
Available-for-sale financial assets	-	91,210	240,184	53,983	287,848	624,427	1,297,652
Financial assets at fair value through profit and loss	-	-	-	-	-	172,037	172,037
Cash and cash equivalents and short term investments	944,395	-	-	-	-	-	944,395
Commercial paper, bonds and debentures	-	105,050	-	-	-	-	105,050
Reinsurance assets	2,971,127	-	-	-	-	-	2,971,127
Insurance receivables	581,973	-	-	-	-	-	581,973
Investment in the Kenya Motor Insurance Pool	-	-	-	-	-	98,089	98,089
Tax recoverable	52,536	-	-	-	-	-	52,536
Other receivables	284,916	-	-	-	-	-	284,916
Total assets	**4,931,473**	**2,471,939**	**4,188,359**	**21,471,761**	**4,919,124**	**894,553**	**38,877,209**

41. Financial risk management objectives and policies (continued)

(iii) Liquidity risk (continued)

Company
31 December 2017

	Up to a year	1-3 years	3-5 years	5-15 years	Over 15 years	On demand/ No maturity	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Held to maturity financial assets	1,014,388	2,127,266	3,217,232	20,499,047	1,369,758	-	28,227,691
Loans receivable	9,835	26,677	17,784	42,238	-	-	96,534
Available-for-sale financial assets	99,380	89,807	111,678	174,826	275,717	547,660	1,299,068
Financial assets at fair value through profit and loss	-	-	-	-	-	236,362	236,362
Cash and cash equivalents and short term investments	1,030,390	-	-	-	-	-	1,030,390
Commercial paper, bonds and debentures	161,990	-	105,560	-	-	-	267,550
Reinsurance assets	3,402,172	-	-	-	-	-	3,402,172
Insurance receivables	481,672	-	-	-	-	-	481,672
Investment in the Kenya Motor Insurance Pool	-	-	-	-	-	97,011	97,011
Tax recoverable	55,062	-	-	-	-	-	55,062
Other receivables	322,313	-	-	-	-	-	322,313
Total assets	6,577,202	2,243,750	3,452,254	20,716,111	1,645,475	881,033	35,515,825

41. Financial risk management objectives and policies (continued)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. The Group mitigates this risk through its culture and values, a comprehensive system of internal controls and other measures such as back-up facilities, contingency planning and insurance. The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions.

Compliance risk

Laws and regulations:

The Group considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Group's management facilitates the compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

Compliance with Investment mandates:

Management reviews compliance with Investment mandates on a monthly basis. When a possible breach is detected, management ensure that immediate remedial action is taken.

Property risk:

The capital portfolio has limited exposure to investment properties and accordingly the related property risk. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

42. Capital management

Externally imposed capital requirements are set and regulated by the Insurance Regulatory Authority (IRA). These requirements are put in place to ensure solvency margins are maintained in the insurance industry. Further objectives are set by the group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders value.

Further, the company currently has a paid up capital of KShs 161,388,000 million in the long term business which exceeds the minimum (KShs 150 million) requirement as per the Insurance Act. In the short term business, the company's paid up capital should not be less than 10% of the total gross premium written in the short term business during the year. The paid up capital is KShs 400,000,000 while 10% of gross premium written is KShs 285,468,616 (2017: KShs 301,453,226).

The company's objectives when managing capital are to safeguard its 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 adjust the amount of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

43. Company's capital adequacy

As per the new Insurance Act requirements, the company's capital adequacy ratios are as follows:

	Short term insurance business 2018 KShs'000	Short term insurance business 2017 KShs'000
Minimum required capital	1,387,540	1,282,000
Total capital available	2,939,060	2,483,000
Capital adequacy ratio	**212%**	**194%**
Capital adequacy ratio minimum	**100%**	**100%**

	Long term assurance business 2018 KShs'000	Long term assurance business 2017 KShs'000
Minimum required capital	1,512,301	1,397,000
Total capital available	1,842,651	1,652,000
Capital adequacy ratio	**122%**	**118%**
Capital adequacy ratio minimum	**100%**	**100%**

44. Incorporation and registered office

The company is incorporated in Kenya under the Companies Act. The address of the registered office is given on page 1.

company long term assurance business revenue account

for the year ended 31 december 2018

	Ordinary life business KShs'000	Group life business KShs'000	Annuities KShs'000	Retirement benefit fund KShs'000	Total 2018 KShs'000
Gross premium income	1,448,127	47,787	472,061	-	1,967,975
Premiums ceded to reinsurers	(4,369)	(40,711)	-	-	(45,080)
Contributions received	-	-	-	3,578,788	3,578,788
Net premium income	**1,443,758**	**7,076**	**472,061**	**3,578,788**	**5,501,683**
Investment income	1,090,500	3,146	124,401	2,562,556	3,780,603
Other income	2,555	-	-	-	2,555
Commissions income	-	8,665			8,665
	1,093,055	**11,811**	**124,401**	**2,562,556**	**3,791,823**
Claims incurred	354,863	11,031	88,987	475,591	930,472
Surrenders and annuity incurred	242,829	-	-	3,924,843	4,167,672
Net claims and policyholder benefits expense	**597,692**	**11,031**	**88,987**	**4,400,434**	**5,098,144**
Operating expenses	205,698	2,204	-	85,952	293,854
Other expenses	16,695	-	-	38,956	55,651
Allowance for credit losses on commercial paper	-	-	-	76,889	76,889
Allowance for credit losses on deposits with financial institutions	135	-	-	104	239
Allowance for expected credit losses on bonds and debentures	-	-	-	264	264
Allowance for credit losses on rental and other receivables	17,228	(14,077)	-	14,077	17,228
Write back of credit losses on rental and other receivables	-	-	-	(629)	(629)
Allowance for credit losses on deposits with financial institutions	6,009	(8,930)	-	(2,921)	-
Commissions expense	94,433	2,723	8,425	44,551	150,132
Premium levy	3,447	-	-	-	3,447
Contribution to policy holders' compensation fund	990	-	-	260,164	990
Total expenses	**344,635**	**(18,080)**	**8,425**	**263,085**	**598,065**
Results of operating activities	**1,594,486**	**25,936**	**499,050**	**1,477,825**	**3,597,297**
Transfer to statutory reserve	(60,000)	-	-	-	(60,000)
Transfer to general reserve	(112,774)	-	-	-	(112,774)
Increase in funds	**1,421,712**	**25,936**	**499,050**	**1,477,825**	**3,424,523**
Funds at the beginning of the year	6,884,358	26,716	727,514	21,760,403	29,398,991
Funds at the end of the year	**8,306,070**	**52,652**	**1,226,564**	**23,238,228**	**32,823,514**
Long term funds at the end of the year comprise amounts attributable to:					
Policyholders:					
-Actuarial liabilities	5,906,400	11,210	-	-	5,917,610
-Annuities	-	-	1,303,870	-	1,303,870
-Deposit administration fund	-	-	-	20,989,360	20,989,360
-Bonus to policy holders	1,534,670	-	-	1,752,890	3,287,560
-Statutory reserves	-	-	-	-	-
	7,441,070	**11,210**	**1,303,870**	**22,742,250**	**31,498,400**

company long term assurance business revenue account
for the year ended 31 december 2017

KENINDIA

	Ordinary life business KShs'000	Group life business KShs'000	Annuities KShs'000	Retirement benefit fund KShs'000	Total 2017 KShs'000
Gross premium income	1,235,077	74,379	377,252	-	1,686,708
Premiums ceded to reinsurers	(4,159)	(37,064)		-	(41,223)
Contributions received	-	-		2,954,607	2,954,607
Net premium income	**1,230,918**	**37,315**	**377,252**	**2,954,607**	**4,600,092**
Investment income	855,589	6,492	70,929	2,486,010	3,419,020
Other income	5,130	-	-	-	5,130
	860,719	**6,492**	**70,929**	**2,486,010**	**3,424,150**
Claims incurred	354,177	8,755	55,973	644,835	1,063,740
Surrenders and annuity incurred	256,980	-	-	2,040,861	2,297,841
Net claims and policyholder benefits expense	**611,157**	**8,755**	**55,973**	**2,685,696**	**3,361,581**
Operating expenses	188,675	2,021	-	78,840	269,536
Other expenses	16,042	-	-	37,432	53,474
Allowance for credit losses on rental and other receivables	-	14,077	-	-	14,077
Allowance for credit losses on deposits with financial institutions	-	8,930	-	-	8,930
Commissions expense	93,890	3,324	7,479	31,195	135,888
Premium levy	4,141	-	-	-	4,141
Contribution to policy holders' compensation fund	1,028	-	-	-	1,028
Total expenses	**303,776**	**28,352**	**7,479**	**147,467**	**487,074**
Results of operating activities	**1,176,704**	**6,700**	**384,729**	**2,607,454**	**4,175,587**
Transfer to statutory reserve	(30,000)	(30,000)	-	-	(60,000)
Transfer to general reserve	(72,870)	-	-	-	(72,870)
Increase/(decrease) in funds	**1,073,834**	**(23,300)**	**384,729**	**2,607,454**	**4,042,717**
Funds at the beginning of the year	5,810,524	50,016	342,785	19,152,949	25,356,274
Funds at the end of the year	**6,884,358**	**26,716**	**727,514**	**21,760,403**	**29,398,991**
Long term funds at the end of the year comprise amounts attributable to:					
Policyholders:					
-Actuarial liabilities	4,759,030	13,820	-	-	4,772,850
-Annuities	-	-	774,210	-	774,210
-Deposit administration fund	-	-	-	19,769,330	19,769,330
-Bonus to policy holders	1,260,330	-	-	1,599,620	2,859,950
-Statutory reserves	-	-	-	-	-
	6,019,360	**13,820**	**774,210**	**21,368,950**	**28,176,340**

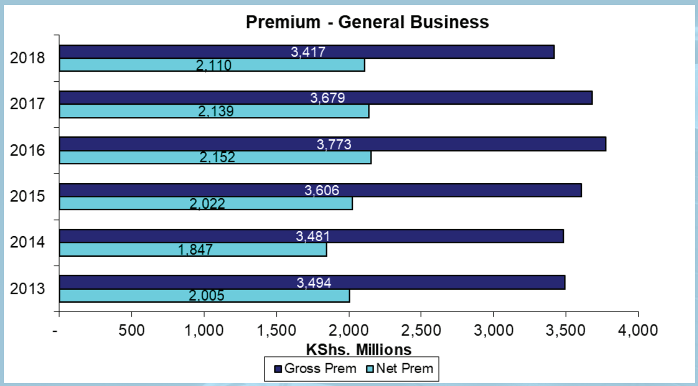
company short-term business revenue account
for the year ended december 2018

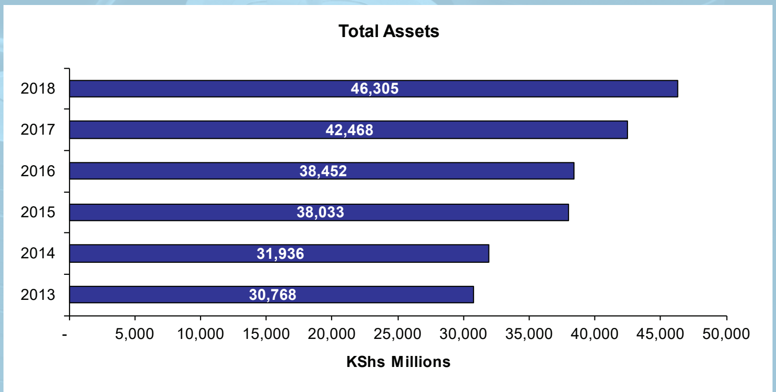
KENINDIA

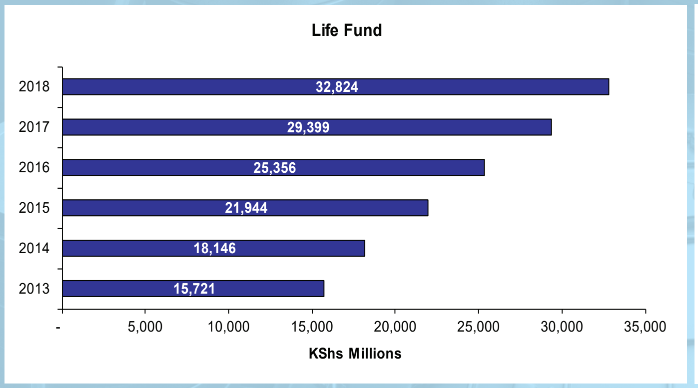
	Aviation KShs'000	Engineering KShs'000	Fire Domestic KShs'000	Fire Industrial KShs'000	Public Liability KShs'000	Marine KShs'000	Motor Private KShs'000	Motor Commercial KShs'000	Personal Accident KShs'000	Medical KShs'000	Theft KShs'000	Workmen Compensation KShs'000	Miscellaneous KShs'000	Total 2018 KShs'000	Total 2017 KShs'000
Gross Premium Written	35	169,459	53,621	582,059	56,700	282,773	343,759	586,789	39,759	137,540	201,158	376,535	24,502	2,854,686	3,014,532
Reinsurance Premium	(32)	(142,929)	(16,432)	(503,081)	(30,446)	(58,814)	(5,416)	(20,445)	(27,403)	(4,572)	(113,784)	(6,489)	(16,972)	(946,814)	(1,088,336)
Net Premium Written	3	26,530	37,188	78,977	26,254	223,960	338,343	566,344	12,356	132,967	87,374	370,046	7,530	1,907,872	1,926,196
Unearned Premium at the beginning of the year	15	15,220	12,078	52,599	9,832	89,784	125,209	127,513	10,519	58,275	35,550	138,702	4,141	679,437	737,705
Unearned Premium at the end of the year	(1)	(6,980)	(13,087)	(21,966)	(7,778)	(98,107)	(131,804)	(171,704)	(4,347)	(56,873)	(25,921)	(119,629)	(3,634)	(661,831)	(679,437)
Net Earned Premium	17	34,770	36,179	109,610	28,308	215,637	331,747	522,152	18,528	134,369	97,003	389,119	8,037	1,925,478	1,984,463
Claims Paid	-	20,473	14,188	48,277	15,791	70,733	165,136	311,743	5,732	107,551	71,952	357,769	(1,708)	1,187,638	1,247,891
Claims o/s 31-12-2018	-	71,815	15,948	77,891	47,668	66,010	204,343	481,214	27,501	44,074	84,144	832,668	1,672	1,954,948	1,777,749
Claims o/s 01-01-2018	-	(61,248)	(17,354)	(85,723)	(53,138)	(103,312)	(208,028)	(375,561)	(18,504)	(25,236)	(104,101)	(723,832)	(1,712)	(1,777,749)	(1,688,089)
Incurred Claims	-	31,040	12,782	40,445	10,321	33,430	161,451	417,396	14,729	126,390	51,995	466,606	(1,748)	1,364,837	1,337,550
Commissions	2	(13,878)	4,425	(44,810)	1,156	33,519	33,054	55,979	(2,677)	12,540	(22,722)	74,118	(3,392)	127,313	158,388
Expenses of Management	8	37,123	11,747	127,512	12,421	61,947	75,307	128,548	8,710	30,131	44,068	82,488	5,368	625,377	615,012
Premium Tax	-	1,519	481	5,216	508	2,534	3,081	5,259	356	1,233	1,803	3,374	220	25,583	22,121
Policy holders' Compensation Fund	-	418	132	1,436	140	698	848	1,448	98	339	496	929	60	7,042	6,996
Total Outgo	11	25,182	16,784	89,354	14,225	98,698	112,290	191,233	6,488	44,243	23,645	160,909	2,256	785,315	802,517
Underwriting Surplus/ (Deficit) transferred to P&L A/c	6	(21,451)	6,612	(20,188)	3,761	83,509	58,006	(86,477)	(2,689)	(36,263)	21,363	(238,396)	7,531	(224,675)	(155,605)

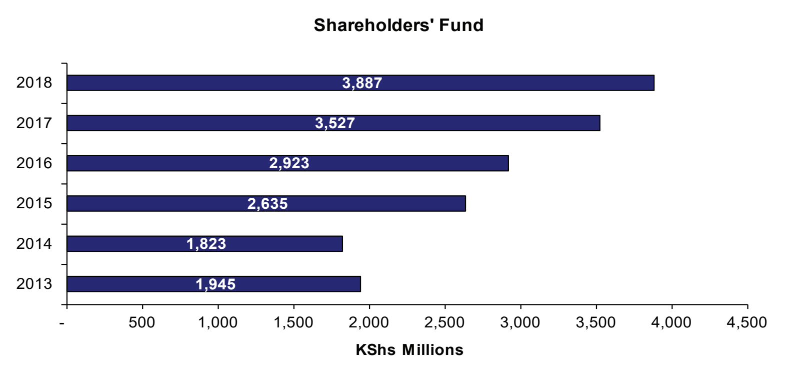
group financial indicators

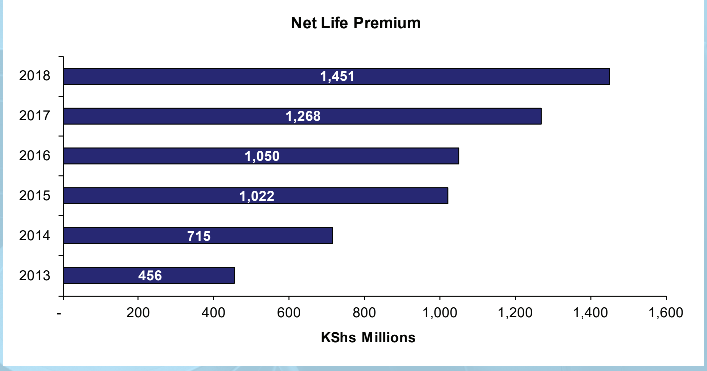
KENINDIA

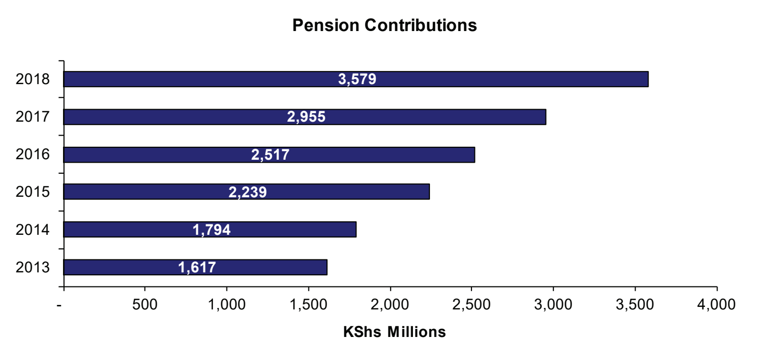












company financial summary for 10 years

for the year ended 31 december 2018

YEAR	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
(i) NON-LIFE	Figures in KShs Millions									
Gross Premium Written	2,855	3,015	2,996	2,864	2,646	2,776	3,377	3,566	3,342	2,834
% Growth	**(5.31)**	**0.63**	**4.61**	**8.24**	**(4.68)**	**(17.80)**	**(5.30)**	**6.70**	**17.93**	**0.07**
Net Premium Written	1,908	1,926	1,881	1,734	1,552	1,725	2,066	2,305	2,215	1,803
% Growth	**(0.93)**	**2.39**	**8.48**	**11.73**	**(10.03)**	**(16.51)**	**(10.37)**	**4.06**	**22.85**	**1.58**
Change in Unearned Premium Reserve	(18)	58	43	67	(76)	(152)	(103)	29	204	1
Net Earned Premium	1,925	1,984	1,838	1,667	1,628	1,877	2,170	2,276	2,011	1,802
Net Incurred Claims	1,365	1,338	1,241	1,141	1,452	1,040	1,706	1,925	1,292	1,122
Net Inc.Claim ratio to net prem. (%)	**71.54**	**69.47**	**66.00**	**65.84**	**93.52**	**60.31**	**82.58**	**83.51**	**58.33**	**62.23**
Net Commission	127	158	144	62	122	165	208	186	134	92
Management/Other Expenses	705	774	623	616	651	503	474	487	453	410
Premium tax/Others	33	29	35	33	28	31	36	38	39	41
Underwriting (Deficit)/Surplus	(225)	(156)	(125)	(109)	(530)	174	(254)	(361)	93	136
(ii) LIFE BUSINESS										
Gross Premium Written (Including Pension Fund)	5,547	4,641	3,947	3,284	2,533	2,118	2,051	1,800	1,487	1,256
% Growth	**19.52**	**17.58**	**20.18**	**29.65**	**19.59**	**3.27**	**13.94**	**21.05**	**18.39**	**10.95**
Net Premium Written (including Pension Fund)	5,502	4,600	3,911	3,261	2,509	2,073	2,026	1,719	1,438	1,224
% Growth	**19.61**	**17.62**	**19.93**	**29.97**	**21.03**	**2.32**	**17.86**	**19.54**	**17.48**	**12.19**
Total Benefits	5,098	3,362	2,766	1,677	1,861	1,706	1,008	806	937	490
Commission	141	136	133	137	117	91	83	77	71	55
Management/Other Expenses	444	346	345	314	228	148	115	133	107	91
Premium tax/Others	4	5	5	8	6	4	5	4	4	4
Increase in Fund (after distribution to shareholders)	3,425	4,043	3,412	3,798	2,425	2,151	2,634	1,801	1,501	1,361
Life Fund	32,824	29,399	25,356	21,944	18,146	15,721	13,570	10,936	9,135	7,634
(iii) LIFE AND NON-LIFE										
Investment Income	4,259.73	3,923.81	3,159.79	3,987.68	2,440.66	2,459.73	2,231.62	1,311.16	1,626.36	1,008.98
% Yield	**10.92**	**11.51**	**10.89**	**14.73**	**11.19**	**12.86**	**13.50**	**9.40**	**12.39**	**11.29**
Profit/(Loss) Before Tax	352.16	386.67	282.68	804.68	(300.63)	508.02	143.25	(213.20)	489.13	325.50
Profit/(Loss) After Tax	329.16	245.26	277.06	790.91	(137.04)	402.87	101.90	(188.91)	429.64	325.50
Share Capital	561	561	561	561	561	561	561	561	473.40	362.01
Total Assets	44,322.79	40,724.25	36,422.52	36,278.62	30,281.96	29,048.76	22,137.40	19,405.56	14,898.55	12,699.48
Shareholders' Fund	3,758.73	3,375.77	2,809.04	2,555.16	1,760.75	1,891.19	1,473.27	1,223.65	1,585.22	963.28
Dividend Per Share (KShs)	10	10	10	10	-	10	5	5	10	0
	KShs	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**
Earnings/(Loss) Per Share	56.39	43.69	49.35	140.88	(24.41)	71.76	22.70	-	76.53	68.75

your notes

KENINDIA

proxy form

I/We____ of_____

____

being a member(s) of **KENINDIA ASSURANCE COMPANY LIMITED** hereby appoint________________

____

of____

or failing him____

of____

or failing him the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at the Registered Office of the Company, Kenindia House, 12th Floor, Loita Street, Nairobi on Wednesday, 26th June 2019 and at any adjournment thereof.

Please indicate how you wish to cast your vote.

		FOR	AGAINST
1	To receive the financial statements		
2	To declare a dividend		
3	To approve Directors' fees		
4	To re-elect M N Mehta		
5	To authorize to appoint auditors		

Dated this_________________________ day of_________________________ 2019

Signature_________________________

Notes

1 *A proxy need not be a member of the Company.*

2 *Unless otherwise instructed the proxy will vote or abstain as he thinks fit in respect of the member's total shareholding.*

3 *In case of a corporation this form must be under its common seal or under the hand of some officer or attorney duly authorized in that behalf.*

4 *Proxies must be lodged at the Registered Office, Kenindia House, Loita Street, P O Box 44372, GPO, 00100, Nairobi, not less than 24 hours before the time for holding the meeting or adjourned meeting.*

KENINDIA

FOLD 2

STAMP

Kenindia Assurance Company Limited
Registered Office
Kenindia House, Loita Street
P.O. Box 44372, 00100 - GPO
Nairobi, Kenya

FOLD 1

KENINDIA ASSURANCE COMPANY LIMITED

KENINDIA

KENINDIA ASSURANCE COMPANY LIMITED