WAICA REINSURANCE (KENYA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2020

WAICA REINSURANCE (KENYA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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WAICA REINSURANCE (KENYA) LIMITED

COMPANY INFORMATION

DIRECTORS

Ezekiel Abiola Ekundayo*	Chairman
William Brownfield Coker**	
Eric Ato Botchway***	
George Otieno****	
William Olotch****	
Dr. Habil Olaka****	
Charles Edwin Etemesi ****	(Appointed on 22 March 2019)

* Nigerian
** Gambian
*** Ghanaian
**** Kenyan

PRINCIPAL OFFICER

Charles Edwin Etemesi — Chief Executive Officer

SECRETARY

FCS Lazarus Kimang'a
PO Box 25426 – 00100
Nairobi

REGISTERED OFFICE

3rd Floor, Real Towers Annex
Hospital Road, Upper Hill
PO Box 20495 – 00100
Nairobi

BANKERS

Ecobank Kenya Limited
Standard Chartered Bank Kenya Limited
Stanbic Bank Kenya Limited
NCBA Bank Kenya PLC
Bank of Africa Kenya Limited
KCB Bank Kenya Limited
UBA Bank Kenya Limited
The Co-operative Bank of Kenya Limited
Equity Bank Kenya Limited

AUDITOR

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

WAICA REINSURANCE (KENYA) LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors submit their report together with the audited financial statements of WAICA Reinsurance (Kenya) Limited for the year ended 31 December 2020.

1. Directors' responsibilities statement

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

2. Incorporation

The Company was incorporated on 3 November 2017 under the Kenyan Companies Act, 2015 as a private company limited by shares, and is domiciled in Kenya.

3. Principal activity

The principal activities of the Company are to provide reinsurance services and technical assistance to insurance and reinsurance institutions from around the world.

4. Directors

The Directors who served during the year up to the date of this report are set out on page 1.

5. Results

The results for the year are set out on page 12.

6. Business overview

During the year 2020, the Company performed relatively well despite the effects of the COVID 19 pandemic in the backdrop of an increasingly competitive business environment. The Company recorded gross premium written growth of 111% from KShs 341.77 million in 2019 to KShs 721.25 million in 2020. The total asset base of the Company also improved by 32%, growing from KShs 1.34 billion in 2019 to KShs 1.77 billion in 2020. The Company posted profit before tax of KShs 133.63 million during the year compared to KShs 36.75 million loss before tax recorded in 2019. Principal risks and uncertainties facing the Company as per Note 5 to the financial statements.

The outlook for 2021 looks positive despite the effects of COVID 19 pandemic. The company in 2021 will focus on increased marketing in the country and within the East Africa region. This is expected to yield significant growth in 2021 as the company seeks to increase its participation in Treaty businesses in addition to the Facultative businesses largely underwritten in 2020. The Company directors are committed to achieving the laid down strategies and delivering value to the shareholders.

7. Dividend

The Directors do not recommend payment of a dividend for the period. (2019 – Nil).

8. Share capital

Details of the Company's share capital are shown in Note 25 to these financial statements.

9. (a) Employment of disabled people

WAICA Reinsurance (Kenya) Limited does not discriminate against disabled persons as it is clearly stated in the Company's staff handbook, Section 1.2(j) 'The Company shall not discriminate against a qualified individual with disability with regards to recruitment, advancement, training, compensation, discharge or other terms, conditions or privileges of employment'.

There were no disabled persons in the employment of the Company during the year.

(b) Health, safety and welfare at work

WAICA Reinsurance (Kenya) Limited has a medical scheme for all employees of the Company and a conducive office environment is maintained for staff and visitors, with adequate lighting and ventilation.

10. Employee involvement and training

There are various forums where the staff meet and discuss issues that relate to them and their progress at the workplace, these include unit meetings and regular general meetings.

There is an approved training schedule for staff and the Company also has a staff performance appraisal process through which staff are appraised and promotions and/or increments made.

11. Relevant audit information

The Directors confirm that with respect to each director at the time of approval of this report:

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

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

12. Auditor

The Company's auditor, KPMG Kenya continues in the office in accordance with the provisions of the Kenya Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

13. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Directors held on 5 March 2021.

BY ORDER OF THE BOARD

FCS Lazarus Kimang'a
Secretary

Date: 5 March 2021

WAICA REINSURANCE (KENYA) LIMITED

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The Shareholders being the ultimate owners of the entity appoint a Board of Directors to conduct the business of reinsurance on their behalf. The Board executes its responsibilities through Management and Board Committees that it creates from time to time. The responsibilities for daily operations are delegated to a management team appointed by the Board. A clear segregation of responsibilities between the Board and management is always maintained. The Board makes all policy decisions while management implements the decisions of the Board.

1. Board of Directors

The directors who served during the year are set out on Page 1. The current Board is made up of seven directors inclusive of a non-executive chairman.

2. Board Committees

Tabulated below are Board and Management Committees, their composition and membership and functions.

Committee	Composition & Membership		Main functions
Strategy and Operations & Enterprise Risk Management Committee	George Otieno (Chairman) William Brownfield Coker William Olotch	Non Executive Non Executive Non Executive	Strategic decision making and strengthening the Enterprise risk management environment of the Company.
Finance and investment Committee	Eric Ato Botchway (Chairman) Dr. Habil Olaka George Otieno	Non Executive Non Executive Non Executive	Enhancing financial reporting and maximizing investment returns.
Remuneration Committee	William Brownfield Coker (Chairman) Dr. Habil Olaka Eric Ato Botchway	Non Executive Non Executive Non Executive	Management & development of human resources.
Audit and Risk Committee	Dr. Habil Olaka (Chairman) William Brownfield Coker William Olotch	Non Executive Non Executive Non Executive	Strengthening the control environment and ensuring compliance with all regulatory bodies.

The Chief Finance Officer and the Secretary attend the meetings by invitation.

Charles Edwin Etemesi
Principal Officer

Dr. Habil Olaka
Director

Ezekiel Abiola Ekundayo
Chairman

Date: 5 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors are responsible for the preparation and presentation of the financial statements of WAICA Reinsurance (Kenya) Limited (the "Company") set out on pages 12 to 50 which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statement including a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 5 March 2021.

Charles Edwin Etemesi	Dr. Habil Olaka	Ezekiel Abiola Ekundayo
Principal Officer	*Director*	*Chairman*

Date: 5 March 2021

WAICA REINSURANCE (KENYA) LIMITED

REPORT OF THE CONSULTING ACTUARY FOR THE YEAR ENDED 31 DECEMBER 2020

I have conducted an actuarial valuation of the reinsurance liabilities of WAICA Reinsurance (Kenya) Limited (the "Company") as at 31 December 2020.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act, Cap 487 of the Laws of Kenya. Those principles require that prudent principles for 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, the reinsurance liabilities reserves of the Company were adequate at 31 December 2020.

Abed Mureithi

Actuarial Services East Africa Ltd
PO Box 10472 - 00100
Nairobi, Kenya

Date: 5 March 2021

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Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WAICA REINSURANCE (KENYA) LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of WAICA Reinsurance (Kenya) Limited (the "Company") as set out on pages 12 to 50, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of WAICA Reinsurance (Kenya) Limited as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

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

Key audit matters

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

Reinsurance contract liabilities	
See Notes 3(i), 4(i) and 33 to the financial statements	
The key audit matter	**How the matter was addressed**
Valuation of reinsurance contract liabilities requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported to the Company (incurred but not reported (IBNR)).	Our audit procedures in this area included: — Evaluating key controls around the determination of reinsurance contract liabilities. This included assessing the design and operating effectiveness of controls over the claims handling and reserve setting processes of the Company;

KPMG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WAICA REINSURANCE (KENYA) LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

Key audit matter (continued)

Reinsurance contract liabilities – continued	
See Notes 3(i), 4(i) and 33 to the financial statements	
The key audit matter	**How the matter was addressed**
The company used Insurance Regulatory Authority (IRA) prescribed method of standard development method combined with the industry based method to compute the IBNR. The company involved an actuarial expert in the computation of IBNR provision. The estimates in respect of IBNR are generally subject to a greater degree of estimation uncertainty than that for reported claims. Significant assumptions such as the standard factors and loss adjustment factors are used to determine reinsurance contract liabilities. These assumptions, particularly those relating to the amount and timing of future claims, are highly sensitive and a slight change in the assumption can lead to a material change in the valuation of reinsurance contract liabilities. As a result of the significant assumptions and complexity in estimating reinsurance contract liabilities, we have considered this to be a key audit matter.	— Evaluating samples of claims reserves by comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters; — Re-performing reconciliations between the data recorded in the financial systems and the data used in the actuarial reserving calculations; — Using our internal actuarial specialists to evaluate the reserving methodology applied and analyze the valuation results presented and movements in IBNR since the previous year end. — Evaluating the appropriateness of management's liability adequacy testing by assessing the historical IBNR sufficiency as well as the unexpired risk reserve and; — Assessing the adequacy of disclosures in the financial statements in accordance with the requirements of IFRS 4 Insurance contracts.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the *WAICA Reinsurance (Kenya) Limited, Annual Report and Financial Statements at 31 December 2020* 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 that 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.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WAICA REINSURANCE (KENYA) LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

Directors' responsibilities for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Kenyan Companies Act, 2015 and for such internal control, as the Directors determine is necessary to enable the preparation of 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

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

KPMG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
WAICA REINSURANCE (KENYA) LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

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

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

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you based on our audit that in our opinion, the information given in the report of the Directors on pages 2 to 4 is consistent with the financial statements.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha – P/1610.

KPMG Kenya

KPMG Kenya
Certified Public Accountants
PO Box 40612 – 00100
Nairobi, Kenya

Date: 30 March 2021

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs	2019 KShs
Gross earned premium	7	592,587,738	250,413,863
Less Retrocession premiums		(186,114,116)	(119,810,985)
Net earned premium		**406,473,622**	**130,602,878**
Investment income	8	47,745,877	39,759,579
Commissions earned	9	67,013,767	39,159,872
Total income		**521,233,266**	**209,522,329**
Net claims incurred	10	(50,269,654)	(18,088,372)
Personnel expenses	11(a)	(84,507,589)	(67,260,446)
Other expenses	11(b)	(76,126,213)	(68,018,735)
Impairment of assets	11(c)	(50,479,313)	(24,330,844)
Commissions expense	12	(180,142,699)	(44,696,435)
Results from operating activities		**79,707,798**	**(12,872,503)**
Net finance income/(cost)	13	53,925,441	(23,882,277)
Profit/(loss) before income tax	14	**133,633,239**	**(36,754,780)**
Income tax (charge)/credit	15(a)	(39,149,664)	10,059,573
Profit/(loss) for the year/period		**94,483,575**	**(26,695,207)**
Other comprehensive income		-	-
Total comprehensive income		**94,483,575**	**(26,695,207)**

The notes set out on pages 16 to 50 form an integral part of these financial statements.

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	Note	2020 KShs	Restated 2019 KShs
ASSETS			
Cash and cash equivalent	16	39,097,922	21,029,792
Investments	17	1,224,449,114	1,011,560,635
Deferred acquisition costs	21	90,673,985	55,552,704
Other receivables	18	35,988,204	15,010,351
Tax recoverable	15(b)	-	4,572,627
Reinsurance premium receivables	19	220,059,130	107,130,387
Retrocessionaires share of technical liabilities	20	106,307,757	55,237,006
Deferred tax asset	22	13,509,978	22,495,234
Intangible asset	24	2,157,925	2,236,282
Property and equipment	23	34,424,761	47,123,981
TOTAL ASSETS		**1,766,668,776**	**1,341,948,999**
EQUITY AND LIABILITIES			
EQUITY (Page 14)			
Share capital	25	1,102,550,000	1,102,550,000
Retained earnings		42,162,338	(52,321,238)
TOTAL EQUITY		**1,144,712,338**	**1,050,228,762**
LIABILITIES			
Tax payable	15(b)	25,230,242	-
Other payables	26	87,788,481	66,553,195
Payables arising from reinsurance arrangements	27	121,145,272	56,331,949
Provision for unearned premium	28	290,981,653	156,260,839
Reinsurance contract liabilities	33	96,810,790	12,574,254
TOTAL LIABILITIES		**621,956,438**	**291,720,237**
TOTAL EQUITY AND LIABILITIES		**1,766,668,776**	**1,341,948,999**

The financial statements set out on pages 12 to 50 were approved and authorised for issue by the Board of Directors on 5 March 2021 and were signed on its behalf by:

Charles Edwin Etemesi	Dr. Habil Olaka	Ezekiel Abiola Ekundayo
Principal Officer	*Director*	*Chairman*

The notes set out on pages 16 to 50 form an integral part of these financial statements.

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital KShs	Retained earnings KShs	Total KShs
2020:			
At 1 January 2020	1,102,550,000	(52,321,238)	1,050,228,762
Comprehensive income for the year			
Profit for the year	-	94,483,576	94,483,576
Balance as at 31 December 2020	**1,102,550,000**	**42,162,338**	**1,144,712,338**
2019:			
Balance as at 1 January 2019	1,000,000,000	(25,626,031)	974,373,969
Comprehensive income for the year			
Loss for the year	-	(26,695,207)	(26,695,207)
Transaction with owners of company			
Issued and paid up shares	102,550,000	-	102,550,000
Balance as at 31 December 2019	**1,102,550,000**	**(52,321,238)**	**1,050,228,762**

The notes set out on pages 16 to 50 form an integral part of these financial statements.

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs	2019 KShs
Net cash flows from operating	29(a)	235,786,709	(5,009,233)
Investing activities			
Acquisition of property and equipment	23	(316,158)	(4,681,806)
Acquisition of computer software	24	(418,943)	(2,236,282)
Purchase of government securities	17	(58,299,594)	-
Purchase of fixed deposit, net of IFRS 9	17	(154,588,885)	(74,064,245)
Net cash out flow from investing activities		**(213,623,579)**	**(80,982,333)**
Financing activities			
Payment of principal lease liabilities	32(d)	(4,095,000)	(3,127,500)
Proceeds from issue of capital	25	-	102,550,000
Net cash flow from financing activities		**(4,095,000)**	**(99,422,500)**
Net increase in cash and cash equivalents		**18,068,130**	**13,430,934**
Cash and cash equivalents at the beginning of the year		21,029,792	7,598,858
Cash and cash equivalents at the end of the year	16	**39,097,922**	**21,029,792**

The notes set out on pages 16 to 50 form an integral part of these financial statements.

1. REPORTING ENTITY

The Company is incorporated as a limited company in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The entity was incorporated on 3 November 2017 and was licensed to offer reinsurance services in accordance with the regulations on 9 October 2018. The address of the Company's registered office is set out on page 1.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in a manner required by the Kenyan Companies Act, 2015.

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

Details of the entity's accounting policies are included on Note 3.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis of accounting unless otherwise stated.

(c) Functional and presentation currency

The financial statements are presented in Kenya shillings (KShs), which is the Company's functional currency. Except as otherwise indicated, financial information presentation is in Kenya shillings.

(d) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Note 4 - *Critical accounting estimates and judgements.*

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Revenue recognition

Revenue is recognised as follows:

Revenue arising from underwriting and other related services offered by the Company are recognised in the accounting period in which the services are rendered.

(i) The underwriting result is net of reinsurance, provisions for unearned reinsurance premium and outstanding claims.
(ii) Investment income is shown gross before the deduction of income tax and is accounted for on an accrual basis.

(b) Translation of foreign currencies

Transactions in foreign currencies during the period are converted into Kenya shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Resulting exchange differences are recognised in the profit or loss for the period.

Non-monetary assets and liabilities denominated in foreign currency are translated at the exchange rate ruling at the date of the transaction.

(c) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with the banks net of bank overdrafts and investments government securities and bank deposits with maturities of three months or less from the date of acquisition.

(d) Finance income and expenses

Finance income and expenses comprises net foreign currency gains and losses and interest expenses. Interest expenses are recognised on a time proportion basis in profit or loss using the effective interest method.

Foreign currency gains and losses are recognised on a net basis.

(e) Financial instruments

Financial instruments include balances with banks, Reinsurance and other receivables, balances due to related parties, and Reinsurance and other payables.

(i) Recognition and initial measurement

Reinsurance receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus in the case of an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A reinsurance receivable without a significant financing component is initially measured at the transaction price.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial assets

A financial instrument is a contract that gives rise to both a financial asset for one enterprise and a financial liability of another enterprise. On initial recognition, a financial asset is classified as measured at: amortised cost; Fair value through the comprehensive income (FVOCI) – debt investment; (FVOCI) – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

(ii) Classification and subsequent measurement - continued

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

— contingent events that would change the amount or timing of cash flows;
— terms that may adjust the contractual coupon rate, including variable-rate features;
— prepayment and extension features; and
— terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additionally, for a financial asset acquired at a discount or premium to its contractual paramount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

(ii) Classification and subsequent measurement - continued

Assessment whether contractual cash flows are solely payments of principal and interest - continued

Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) De-recognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

(iii) De-recognition - continued

Financial liabilities - continued

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

(iv) Offsetting of financial assets and liabilities

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

(v) Fair value of financial assets and liabilities

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

(f) Impairment of assets

(i) Non-derivative financial assets

Financial instruments and contract assets

The Company recognises loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost. The Company measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 365 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 365 days past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of assets (continued)

(i) Non-derivative financial assets - continued

Financial instruments and contract assets - continued

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

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at Fair Value Through Other Comprehensive Income (FVOCI) are credit impaired.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 365 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in Other Comprehensive Income (OCI).

Write off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of assets (continued)

(i) Non-derivative financial assets - continued

Write off - continued

The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(ii) Non-financial Assets

At each reporting date, the company reviews the carrying amounts of its non-financial assets (other than insurance and reinsurance contract assets, deferred tax asset and employee benefits assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset of CGU exceeds its recoverable amount.

Impairment losses are recognised in profit and loss. Impairment losses recognised for a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Income tax

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

(i) Current tax

Current tax assets and liabilities for the current period 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income tax (continued)

(i) Current tax - continued

Current tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in 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.

(ii) Deferred tax

Deferred tax is provided in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

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 period 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 directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

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

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(i) Reinsurance contracts

A reinsurance contracts is a contract under which the Company accepts significant insurance risks from a cedant by agreeing to compensate the cedant or other beneficiary if a specified uncertain future event (the insured event) occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Reinsurance contracts (continued)

(i) Short-term reinsurance contracts

These contracts are casualty, property and personal accident reinsurance contracts. Casualty reinsurance contracts protect the cedants against ceded risk of claims made by primary policyholders for causing harm to third parties as a result of the legitimate activities of the primary policyholder.

Under property reinsurance contracts, the Company mainly compensates cedants of a portion of claims payable to primary policyholders for damage suffered to their properties or for the value of property lost or the loss of earnings caused by the inability of the primary policyholder to use the insured properties in their business activities (business interruption cover).

Personal accident reinsurance contracts compensates the cedants for a portion of claims made by primary policyholders for bodily injuries suffered by the primary policyholder or his/her family members or employees

Contracts entered into by the Company with retrocessionaires under which the Company is compensated for losses which meet the classification requirement for reinsurance contracts are classified as retrocession insurance contracts held. Contracts that do not meet these classifications are classified as financial assets.

(ii) Retrocession contracts held

The Company uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce its risk of catastrophic loss on reinsurance assumed. The ceding of risk to retrocessionaires does not relieve the Company of its obligation to its cedants. The Company regularly reviews the financial condition of its retrocessionaires. Premiums and losses ceded to retrocessionaires are reported as reductions in gross premium and claims incurred.

Amounts recoverable from or due to retrocessionaires are measured consistently with the amounts associated with the retroceded reinsurance contracts and in accordance with the terms of each retrocession contract. Retrocession liabilities are primarily premiums payable for retrocession contracts and are recognised as an expense when due.

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

The Company gathers the objective evidence that a retrocession asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Reinsurance contracts (continued)

(iii) Receivables and payables related to reinsurance contracts

Receivables and payables are recognised when due. These include amounts due to and from cedants, brokers and retrocessionaires. If there is objective evidence that a cession/retrocession receivable is impaired, the Company reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the statement of comprehensive income.

The Company gathers the objective evidence that a cession/retrocession receivable is impaired using the same process adopted for loans and receivables.

(j) Claims

Claims incurred comprise of claims paid in the period and changes in the provision for outstanding claims. Claims paid represent all payment made during the period, whether arising from events during that or earlier years.

Provision is made by management for the estimated cost of claims notified but not settled at the date of the financial position date using all the information available at that time. Provision is also made by management for claims incurred but not yet reported (IBNR) at financial position date. The IBNR claims are computed at as per the Insurance Regulatory Authority (IRA) guidelines where there is no data of reported claims at the financial position date.

(k) Employee benefits

(i) Pension obligations

The Company operates a defined contribution scheme. The scheme is generally funded through payments to the National Social Security Fund. A defined contribution is a pension plan under which the company pays fixed contribution into the separate entity. The Company has no legal or constructive obligations to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefit relating to employees' service in the current and prior period.

The Company makes contribution for all staff at the rate prescribed by the pension laws of Kenya.

(ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Employee benefits (continued)

(iii) Gratuity

Gratuity provisions are made for both permanent and contracted staff. Gratuity on permanent staff is based on the current basic salary multiplied by the number of years the employee has served the company whereas for the contracted staff it is calculated at 15% of annual basic pay.

(l) Provisions

(i) Restructuring costs and legal claims

Provisions for restructuring costs and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Restructuring provisions comprise those termination penalties and employee termination payments.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(m) Property and equipment

(i) Recognition and measurement

All property and equipment are initially recorded at cost. Buildings are subsequently carried at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation. All other property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Any revaluation increase arising on the revaluation of such buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

(ii) Depreciation

Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight-line basis to write down the cost of each asset, or the revalued amount to its residual value over its estimated useful life, as follows:

Motor vehicle	4 years
Furniture, fixtures and equipment	5 years
Computer equipment	3 years

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Property and equipment (continued)

(iii) Subsequent costs

The cost of replacing a component of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iv) Disposal of property and equipment

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

(n) Intangible assets

An intangible asset arises from the purchases of accounting software. Acquired intangible assets are measured on initial recognition at cost.

The Company recognises an intangible asset at cost if, and only if, it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. 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.

The intangible assets are amortised on a straight-line basis over their useful lives (3 years).

Amortisation method, useful lives and residual values are reviewed at each reporting date, and adjusted prospectively, if appropriate.

(o) Leases

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

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its stand-alone prices.
The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Leases (continued)

(i) As a lessee - continued

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right of use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Company determines the incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

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

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

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

The Company presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities are presented separately in the statement of financial position.

Short-term leases and leases of low-value assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Leases (continued)

(ii) As a lessor

At inception or on modification of a contract that companies contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements of IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other revenue".

(p) New standards, amendments and interpretations

(i) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2020

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

New standards or amendments	Effective date
— Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16)	1 January 2021
— Onerous contracts – Costs of fulfilling a contract (Amendments to IAS 37)	1 January 2022
— Annual Improvements to IFRS Standards 2018–2020 Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture	1 January 2022

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2020 - continued

(a) Those not expected to have any impact on the financial statements of the Company - continued

New standards or amendments	Effective date
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
— Reference to Conceptual Framework (Amendments to IFRS 3 *Business Combinations*)	1 January 2022
— Classification of Liabilities as Current or Non-current (Amendments IAS 1)	1 January 2023
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

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

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

IFRS 17 Insurance Contracts

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2020 - continued

(b) Those expected to have a significant impact on the financial statements of the Company - continued

IFRS 17 Insurance Contracts - continued

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

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

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

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable.

A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes is expected to have a material impact on the amounts and disclosures of the Company's financial statements.

Classification of Liabilities as Current or Non-current (Amendments IAS 1)

The amendments clarify one of the criteria for classifying a liability as non-current—that is the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 but may be applied earlier. The Company is assessing the potential impact on its financial statements resulting from the application of this amendment.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Claims reserving and determination of IBNR

The estimation of future contractual cash flows in relation to reported losses and losses incurred but not reported is the company's most critical accounting estimate. Case estimates are computed on the basis of the best information available at the time the records for the year are closed.

Further details on the process used to estimate claims incurred but not reported and amounts recorded as liabilities at the end of the current and previous year are set out in Note 33 of these financial statements.

(ii) Income taxes

The Company is subject to income taxes in Kenya. Significant judgment is required in determining the Company's provision for income taxes.

The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Impairment losses

At the end of each reporting period, the Company reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. The Company uses an Expected Credit Loss (ECL) model to assess any need for impairment of financial assets. In determining the Expected Credit Loss (ECL), the Company first determines the Historical Loss Rate (HLR) of a financial asset. The HLR is then evaluated and adjusted for expected future events and circumstances to determine the ECL that will be applied at each date.

(iv) Deferred tax

Critical estimates are made by the directors in determining the recoverability of the deferred tax asset. The company is expected to make taxable profit in the future enabling it to utilise the deferred tax asset against the tax payable.

5. FINANCIAL RISK MANAGEMENT

The company has exposure to the following risks from its use of financial instruments:

—credit risk
—liquidity risk
—market risk.

5. FINANCIAL RISK MANAGEMENT (Continued)

This section provides details of the company's exposure to risk and describes the methods used by management to control risk.

The most important types of financial risk to which the company is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the trading activities as well as placement and balances with other counterparties, security deposits, staff expense advances, other receivables, prepayments, and bank balances. The board of directors has the responsibility of managing the company's credit risk.

For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure.

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

Classification of credit risk bearing assets:	**2020 KShs**	**2019 KShs**
Cash and cash equivalents (Note 16)	39,049,462	20,982,852
Due from related party (Note 18)	34,030,266	12,266,640
Deposits with financial institutions (Note 17)	975,450,994	818,631,042
Investment in Government securities (Note 17)	248,998,120	192,929,594
Reinsurance premium receivable (Note 19)	220,059,130	107,130,387
	1,517,587,972	**1,151,940,515**

The company only places significant amounts of funds with recognised financial institutions with strong credit ratings and does not consider the credit risk exposure arising from cash and cash equivalents and treasury bills to be significant.

(b) Liquidity risk

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

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

The table below shows the contractual maturity of financial liabilities at the reporting date:

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

2020:	Due on demand KShs	Up to 1 month KShs	1-3 months KShs	3-12 months KShs	1-5 Years KShs	Total KShs
Liabilities						
Other creditors	-	-	3,009,247	27,094,858	-	30,104,105
Due to related parties	-	-	-	19,262,419	-	19,262,419
Lease liabilities	-	254,268	500,090	2,122,977	22,504,294	25,381,629
Claims provisions	-	-	-	84,236,536	12,574,254	96,810,790
Reinsurance payable	-	-	-	121,145,272	-	121,145,272
Total financial liabilities	-	**254,268**	**3,509,337**	**253,862,062**	**35,078,548**	**292,704,215**

2019:	Due on demand KShs	Up to 1 month KShs	1-3 months KShs	3-12 months KShs	1-5 Years KShs	Total KShs
Liabilities						
Other creditors	-	-	2,738,319	-	16,338,116	19,076,435
Due to related parties	-	-	-	2,246,373	10,047,666	12,294,039
Lease liabilities	-	254,268	500,390	2,122,977	23,250,064	26,127,699
Claims provisions	-	-	-	-	12,574,254	12,574,254
Reinsurance payable	-	-	-	56,331,949	-	56,331,949
Total financial liabilities	-	**254,268**	**3,238,709**	**60,701,299**	**62,210,100**	**126,404,376**

(c) Market risk

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

Currency risk

The Company is exposed to currency risk on cash balances, fixed deposits, related party balances, underwriting income and expenses and management expenses that are denominated in a currency other than the respective functional currency. The currencies in which these transactions primarily are denominated are KShs.

The following exchange rates were applied during the period:

	Average rate		Closing rates	
	2020 KShs	2019 KShs	2020 KShs	2019 KShs
USD Dollar	106.03	102.08	109.17	101.35

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Currency risk - continued

The Company's exposure to foreign currency risk was as follows: based on notional amounts

All figures are in Kenya shillings (KShs)

	2020 USD	2019 USD
Assets		
Cash and cash equivalents	18,464,380	12,701,710
Fixed deposits	943,034,161	824,576,576
Related party receivable	34,030,266	12,266,640
	995,528,807	**849,544,926**
Liabilities		
Amounts due to related party	(19,262,419)	(12,294,039)
Reinsurance Payable	(121,145,272)	(56,441,136)
Net position	**855,121,116**	**780,809,751**

Sensitivity analysis on exchange rates

A 10 percent strengthening of the shilling against the following currencies at 31 December 2020 and 2019 would have decreased profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant.

Effect in Kenya shillings	**Profit or loss/equity before tax**	
	2020 KShs	**2019 KShs**
USD	**(85,512,112)**	**(78,080,975)**

On the same basis, a 10 percent weakening of the shilling against the above currencies at 31 December 2020 would have had equal but opposite effect on the currencies to the amounts shown above.

The company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table are the company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Currency risk - continued

Sensitivity analysis on exchange rates - continued

2020:	**On demand KShs**	**Due within 3 months KShs**	**Due within 3 and 12 months KShs**	**Due between 1 and 5 years KShs**	**Over 5 years KShs**	**Non-interest bearing KShs**	**Total KShs**
Government securities	-	14,935,900	236,521,331	-	-	-	251,457,231
Deposits with financial institutions	-	120,806,241	864,278,320	-	-	-	985,084,561
Impairment of investment	-	-	(12,092,678)	-	-	-	(12,092,678)
Total assets	-	**135,742,141**	**1,088,706,973**	-	-	-	**1,224,449,114**
2019:							
Government securities	-	-	193,505,666	-	-	-	193,505,666
Fixed deposits	-	-	828,407,839	-	-	-	828,407,839
Impairment of investment	-	-	(10,352,870)	-	-	-	(10,352,870)
Total assets	-	-	**1,011,560,635**	-	-	-	**1,011,560,635**

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Fair value

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

2020:	Other liabilities KShs	Loans and receivables KShs	Total carrying value KShs	Fair value KShs
Financial assets				
Reinsurance receivable	-	220,059,130	220,059,130	220,059,130
Due from related party	-	34,030,266	34,030,266	34,030,266
Other receivables	-	1,957,938	1,957,938	1,957,938
Investments	-	1,224,449,114	1,224,449,114	1,224,449,114
Cash and bank balances	-	39,097,922	39,097,922	39,097,922
	-	**1,519,594,370**	**1,519,594,370**	**1,519,594,370**
Financial liabilities				
Payables arising from reinsurance arrangement	121,145,272	-	121,145,272	121,145,272
Other liabilities	74,748,154	-	74,748,154	74,748,154
Provision for unearned premiums	290,981,653	-	290,981,653	290,981,653
Reinsurance contract liabilities	96,810,790	-	96,810,790	96,810,790
	583,685,869	**-**	**583,685,869**	**583,685,869**

2019:	Other liabilities KShs	Loans and receivables KShs	Total carrying value KShs	Fair value KShs
Financial assets				
Reinsurance receivable	-	107,130,387	107,130,387	107,130,387
Due from related party	-	12,266,640	12,266,640	12,266,640
Other receivables	-	15,010,351	15,010,351	15,010,351
Investments	-	1,011,560,635	1,011,560,635	1,011,560,635
Cash and bank balances	-	21,029,792	21,029,792	21,029,792
	-	**1,166,997,805**	**1,166,997,805**	**1,166,997,805**
Financial liabilities				
Payables arising from reinsurance arrangement	56,331,949	-	56,331,949	56,331,949
Other liabilities	57,498,173	-	57,498,173	57,498,173
Provision for unearned premiums	156,260,839	-	156,260,839	156,260,839
Claims provision	12,574,254	-	12,574,254	12,574,254
	282,665,215	**-**	**282,665,215**	**282,665,215**

5. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management

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

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

The Kenyan Insurance Act requires each reinsurance company to hold the minimum level of paid up capital as follows for general business:

- One billion shillings; or
- Risk based capital determined by the Authority from time to time; or
- 20% of the net earned premium or the preceding financial year

During the year the Company held the minimum paid up capital required.

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Company.

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including reinsurance whether this is effective.

6. OPERATING SEGMENTS

(a) Basis of segmentation

The Company has the following five strategic divisions, which are reportable segments. These divisions offer different products and are managed separately based on the Company's management and internal reporting structure.

Reportable segment

- Aviation
- Engineering
- Fire Domestic
- Fire Industrial
- Liability
- Marine
- Motor Private
- Motor Commercial
- Personal Accident
- Theft
- Workmens' compensation
- Medical
- Miscellaneous

The Company's Management Committee reviews internal management reports from each division at least monthly.

(b) Information about reportable segments

Information relating to each reportable segment is set out in Appendix 1 on page 55. Segment profit before tax, as included in management reports reviewed by the Company's management, is used to measure performance because management believes that such information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries. Inter-segment pricing is determined on an arm's length basis.

7. GROSS PREMIUM EARNED

	2020 KShs	2019 KShs
Gross premium written	721,245,166	341,770,242
Less: Unearned premium reserve (Note 28)	(128,657,428)	(91,356,379)
Gross premium earned	**592,587,738**	**250,413,863**

8. INTEREST INCOME

	2020 KShs	2019 KShs
Deposits with financial institutions	30,043,583	26,261,903
Government securities	17,702,294	13,497,676
	47,745,877	39,759,579

9. OTHER INCOME

	2020 KShs	2019 KShs
Commission income	67,013,767	39,159,872

10. CLAIMS

Class of insurance	Gross claims paid KShs	Change in net outstanding claims KShs	Reinsurance recoveries on paid claims KShs	31.12.2020 Net claims incurred KShs	31.12.2019 Net claims incurred KShs
Aviation	8,784	441,991	-	450,775	18,696
Engineering	6,312,797	2,660,485	10,875	8,962,407	2,137,468
Fire Domestic	-	84,815	-	84,815	-
Fire Industrial	11,926,539	11,253,753	5,285,370	17,894,922	550,931
Liability	3,357,041	7,400,240	3,938,266	6,819,015	1,778,372
Marine	2,099,477	6,650,305	1,801,020	6,948,763	707,761
Motor private	311,478	683,463	180,888	814,052	3,922,663
Motor Commercial	1,482,254	2,868,240	-	4,350,494	34,153
Personal Accident	1,587,384	(2,089,438)	-	(502,054)	304,768
Theft	-	(1,112,841)	-	(1,112,841)	71,654
Workmens' compensation	706,531	900,190	-	1,606,721	7,773
Medical	377,542	1,014,939	-	1,392,481	-
Miscellaneous	148,521	2,411,583	-	2,560,104	8,554,133
Total	**28,318,348**	**33,167,725**	**11,216,419**	**50,269,654**	**18,088,372**

11. MANAGEMENT EXPENSES

(a) Staff cost

	2020 KShs	2019 KShs
Salaries and wages	81,066,785	62,805,034
Other employee benefits	2,459,874	2,503,593
Other staff costs	980,930	1,951,819
	84,507,589	**67,260,446**

	2020	2019
Number of staff	8	7

Other employee benefits comprise of provisions made for the period for staff gratuity for staff on contract basis at 15% of annual basic pay and staff travelling allowances. During the period, there were no outstanding leave days.

(b) Other expenses

	2020 KShs	2019 KShs
Auditors' fees	2,902,500	2,700,000
Advertising	213,918	5,364,332
Depreciation on fixed assets (Note 23)	10,732,800	10,327,952
Amortisation of Intangible assets (Note 24)	497,300	-
Depreciation on lease (Note 23)	2,353,620	2,353,619
Legal and professional fees	7,928,675	6,412,729
Motor running expenses	466,735	302,775
Directors' remuneration	13,356,858	11,283,755

11. MANAGEMENT EXPENSES (Continued)

(b) Other expenses (continued)

	2020 KShs	2019 KShs
Board expenses	2,955,699	15,187,856
Travelling and marketing	4,390,590	2,453,939
Communication	4,237,244	874,894
Insurance	1,511,728	1,105,933
Short term lease payments	2,252,300	2,749,850
Printing and stationery	32,325	98,027
Meetings, conferences, and trainings	737,471	4,462,166
Repairs and maintenance	150,467	206,048
Management fee	17,311,346	-
Other operating costs	4,094,637	2,134,860
	76,126,213	**68,018,735**

(c) Impairment of assets

	2020 KShs	2019 KShs
Impairment of reinsurance receivables	48,739,507	23,163,469
Impairment of investments	1,739,806	1,167,375
	50,479,313	**24,330,844**

12. BUSINESS ACQUISITION COST

	2020 KShs	2019 KShs
Gross business acquisition cost	215,263,980	98,146,881
Deferred acquisition cost (Note 21)	(35,121,281)	(53,450,446)
	180,142,699	**44,696,435**

13. NET FINANCE INCOME/(COST)

	2020 KShs	2019 KShs
Forex exchange gain/(loss)	57,274,371	(20,529,777)
Interest expense on lease liability	(3,348,930)	(3,352,500)
	53,925,441	**(23,882,277)**

14. PROFIT/LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

	2020 KShs	2019 KShs
Depreciation (Note 23)	13,086,420	12,681,571
Amortisation of intangible assets (Note 24)	497,300	-
Directors' remuneration (Note 31(a))	13,356,858	11,283,755
Auditor's remuneration (Note 11 (b))	2,902,500	2,700,000

15. TAXATION

(a) Income tax charge/(credit)

	2020 KShs	2019 KShs
Current tax charge	30,164,408	1,314,687
Prior year period deferred tax adjustment	-	(887,678)
Deferred tax movement (Note 22)	8,985,256	(10,486,582)
Total current tax charge	**39,149,664**	**10,059,573**

15. TAXATION (Continued)

(a) Income tax charge/(credit) (continued)

The tax on the company's loss before tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2020 KShs	2019 KShs
Accounting profit/(loss) before taxation	133,633,239	36,754,780
Tax at the applicable rate of 25% (2019 – 30%)	33,408,310	11,026,434
Prior year over provision – current tax	-	(887,678)
Tax effect of expenses not deductible for tax purposes	1,992,149	(79,183)
Tax effect of differential in tax rate	3,749,205	-
	39,149,664	10,059,573

(b) Current tax (recoverable)/payable

	2020 KShs	2019 KShs
Balance brought forward	(4,572,627)	2,032,395
Current period charge	30,164,408	1,314,687
Tax paid	(361,539)	(7,919,709)
Tax (recoverable)/payable	25,230,242	(4,572,627)

16. CASH AND CASH EQUIVALENTS

	2020 KShs	2019 KShs
Bank balance	39,049,462	20,982,852
Cash at hand	48,460	46,940
	39,097,922	21,029,792

17. FINANCIAL INVESTMENTS

	2020 KShs	2019 KShs
Deposits with financial institutions	985,084,559	828,407,839
Government securities	251,457,231	193,505,666
Impairment provision	(12,092,676)	(10,352,870)
	1,224,449,114	1,011,560,635

The treasury bills (Government securities) are invested with the Central Bank of Kenya. The term deposits are held to maturity with other commercial banks incorporated in Kenya and governed by the Central Bank of Kenya. The investments are measured at amortised cost.

18. OTHER RECEIVABLES

	2020 KShs	2019 KShs
Due from related party (Note 31(b))	34,030,266	12,266,640
Sundry receivables	1,957,938	2,743,711
	35,988,204	15,010,351

19. NET REINSURANCE PREMIUM RECEIVABLES

	2020 KShs	2019 KShs
Due from cedants and brokers	429,097,228	189,190,152
Commission payable	(136,337,275)	(58,892,799)
Impairment provision	(72,700,823)	(23,166,966)
	220,059,130	**107,130,387**

Ageing of net reinsurance premium receivables

	2020 KShs	2019 KShs
0-90 days	130,816,420	16,009,523
91-180 days	51,158,646	40,337,134
181-270 days	10,172,375	32,193,039
271- 365 days	26,225,402	18,590,691
Over 366 days	1,686,287	-
	220,059,130	**107,130,387**

20. RETROCESSIONAIRES SHARE OF TECHNICAL LIABILITIES

	2020 KShs	2019 KShs
Balance as at 1 January	55,237,006	1,408,291
Additional retrocession provision	51,070,751	53,828,715
Balance as at 31 December	**106,307,757**	**55,237,006**

21. DEFERRED ACQUISITION COST

	2020 KShs	2019 KShs
Balance as at 1 January	55,552,704	2,102,258
Deferred during the year	35,121,281	53,450,446
Balance as at 31 December	**90,673,985**	**55,552,704**

22. DEFERRED TAX ASSET

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

2020	**Balance at 1 January 2020 KShs**	**Through profit or loss KShs**	**Balance at 31 December 2020 KShs**
Property and equipment	(1,363,188)	(689,135)	(2,052,323)
Provisions	(15,289,809)	(10,486,440)	(25,776,249)
Unrealised exchange gain/(loss)	(5,842,237)	20,160,831	14,318,594
	(22,495,234)	**8,985,256**	**(13,509,978)**

2019	**Balance at 1 January 2019 KShs**	**Prior period adjustment provision KShs**	**Through retained earnings KShs**	**Through profit or loss KShs**	**Balance at 31 December 2019 KShs**
Property and equipment	(467,469)	-	-	(895,719)	(1,363,188)
Provisions	(566,900)		(3,003,927)	(11,718,982)	(15,289,809)
Tax losses	(14,257,935)	(887,678)	-	15,145,613	-
Unrealised exchange gain/ (loss)	7,175,257	-	-	(13,017,494)	(5,842,237)
	(8,117,047)	**(887,678)**	**(3,003,927)**	**(10,486,582)**	**(22,495,234)**

23. PROPERTY AND EQUIPMENT

2020:	Right of use lease asset KShs	Motor vehicle KShs	Computer equipment KShs	Furniture and equipment KShs	Total KShs
Cost					
At 1 January 2020	25,902,699	17,301,375	2,135,042	22,239,593	67,578,709
Additions	-	-	316,158	-	316,158
At 31 December 2020	25,902,699	17,301,375	2,451,200	22,239,593	67,894,867
Depreciation					
At 1 January 2020	2,353,619	6,882,586	946,594	10,200,887	20,383,686
Charge for the year	2,353,620	4,325,344	800,202	5,607,254	13,086,420
At 31 December 2020	4,707,239	11,207,930	1,746,796	15,808,142	33,470,106
Net book amount					
At 31 December 2020	**21,195,460**	**6,093,445**	**704,404**	**6,431,451**	**34,424,761**

2019:	Right of use lease asset KShs	Motor vehicle KShs	Computer equipment KShs	Furniture and equipment KShs	Total KShs
Cost					
At 1 January 2019	-	12,796,875	1,957,736	22,239,593	36,994,204
Recognition of right-of-use lease asset on initial application of IFRS 16	25,902,699	-	-	-	25,902,699
Adjusted balance At 1 January 2019	25,902,699	12,796,875	1,957,736	22,239,593	62,896,903
Additions	-	4,504,500	177,306	-	4,681,806
At 31 December 2019	25,902,699	17,301,375	2,135,042	22,239,593	67,578,709
Depreciation					
At 1 January 2019	-	2,932,617	246,906	4,593,634	7,773,157
Charge for the year	2,353,619	3,949,969	699,688	5,678,295	12,681,571
At 31 December 2019	2,353,619	6,882,586	946,594	10,271,929	20,454,728
Net book amount					
At 31 December 2019	**23,549,080**	**10,418,789**	**1,188,448**	**11,967,664**	**47,123,981**

24. INTANGIBLE ASSETS

	2020 KShs	2019 KShs
Cost		
At 1 January	2,236,282	-
Additions	418,943	2,236,282
At 31 December	2,655,225	2,236,282
Depreciation		
At 1 January	71,044	-
Charge for the year	426,256	-
At 31 December	497,300	-
Net book value		
At 31 December	**2,157,925**	**2,236,282**

25. SHARE CAPITAL

	KShs
2020:	
Authorised, issued and fully paid:	
1,102,550 Ordinary shares of KShs 1,000 each	
Balance at 1 January 2020 and 31 December 2020	**1,102,550,000**
2019:	
Authorised, issued and fully paid:	
Balance at 1 January 2019-	
1,000,000 Ordinary shares of KShs 1,000 each	1,000,000,000
Issued shares (102,550 shares of Ksh 1,000 each) during the year	102,550,000
Balance at 31 December 2019 - 1,102,550 shares of Ksh 1,000 each	**1,102,550,000**

The holders of ordinary shares are entitled to receive dividends when declared and are entitled to one vote per share at general meetings of the company. All shares rank equally with regards to residual assets.

As at 31 December 2020, the company has complied with the Insurance Act on the minimum capital required for an insurance company carrying out reinsurance business in Kenya.

26. OTHER PAYABLES

	2020 KShs	2019 KShs
Other creditors*	30,104,105	19,076,435
Due to related party (Note 31(b))	19,262,419	12,294,039
Lease liabilities	25,381,629	26,127,699
Other liabilities	13,040,328	9,055,022
	87,788,481	**66,553,195**

*Includes all payroll and other accrued expenses.

The estimated fair values of accounts due to other trading parties and trade payables are the amounts repayable on demand except for lease liabilities which are both current and non-current liabilities.

27. NET REINSURANCE PAYABLES

	2020 KShs	2019 KShs
Due to Retrocessionaires	196,870,037	91,641,459
Retro Commission receivable	(75,724,765)	(35,309,510)
	121,145,272	56,331,949

28. PROVISION FOR UNEARNED PREMIUM

	2020	2019
Gross unearned premium 1 January	156,260,839	11,075,745
Gross unearned premium 31 December	(290,981,653)	(156,260,839)
Gross unearned premium movement (A)	**(134,720,814)**	**(145,185,094)**
Deferred gross retrocessions at 1 January	55,237,006	1,408,291
Deferred gross retrocessions at 31 December	(61,300,392)	(55,237,006)
Deferred gross retrocessions movement (B)	**6,063,386**	**53,828,715**
Net unearned premium movement (A-B)	**(128,657,428)**	**(91,356,379)**

The gross unearned premium provision represents the liability for reinsurance business contracts where the Company's obligations are not expired at the period end.

29. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/(loss) to net cash flows from operating activities	2020 KShs	2019 KShs
Profit/(loss) before taxation	133,633,239	(36,754,780)
Adjusted for:		
Depreciation (Note 23)	13,512,676	12,681,571
Reinsurance receivables (Note 19)	(112,928,742)	(180,369,462)
Retrocessionaires share of technical provision (Note 20)	(51,070,751)	(53,828,715)
Deferred acquisition cost (Note 21)	(35,121,281)	(53,450,446)
Other receivables (Note 18)	(20,977,853)	(12,296,577)
Reinsurance payable (Note 27)	64,813,323	142,966,062
Other payables, net lease liabilities (Note 32)	21,981,357	26,977,340
Provision for unearned premium (Note 28)	134,720,813	145,185,094
Interest on lease liability (Note 13)	3,348,930	3,352,500
Reinsurance contract liabilities (Note 33)	84,236,537	11,800,389
Net cash flows from operating activities before tax	**236,148,248**	**6,262,976**
Payment of lease interest	-	(3,352,500)
Income tax paid (Note 15(b))	(361,539)	(7,919,709)
Net cash flows from operating activities	**235,786,709**	**(5,009,233)**

29. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(b) Analyses of cash and cash equivalents	2020 KShs	2019 KShs
Cash in the bank (Note 16)	39,049,462	20,982,852
Cash at hand (Note 16)	48,460	46,940
	39,097,922	21,029,792

30. CONTINGENT LIABILITIES

The Company has no legal matters either for or against pending in any courts.

Government securities of KShs 110 million (2019 – KShs 50 million) are held under lien with the Central Bank of Kenya as security deposit in favor of the Commissioner of Insurance as required under the provisions of Section 32 of the Insurance Act (Cap 487).

31. RELATED PARTY TRANSACTIONS

(a) Directors' and key management remuneration	2020 KShs	2019 KShs
Directors' fees	7,239,532	7,285,962
Directors' sitting allowance	6,117,326	3,997,793
	13,356,858	11,283,755
Key management remuneration	39,618,623	37,833,216
(b) Balances due from and to parent company		
Due from related party	34,030,266	12,266,640
Due to related party	19,262,419	12,294,039

The Company's majority owner and holding company is WAICA Reinsurance Corporation PLC, a company incorporated in Sierra Leone.

(c) Reinsurance transactions

The following reinsurance transactions were carried out with WAICA Reinsurance Corporation PLC:

	2020 KShs	2019 KShs
(i) Gross premium ceded out		
Gross premium ceded out	161,437,820	72,627,013
(ii) Commission earned		
Commission earned by WAICA Reinsurance (Kenya) limited	48,431,346	26,140,653
(iii) Outstanding commission balance		
Balance receivable by WAICA Reinsurance (Kenya) limited	50,109,030	24,274,708
(iv) Outstanding premium balance		
Balance receivable from WAICA Reinsurance (Kenya) limited	99,880,310	67,317,559

Transactions are in the ordinary course of business. The amounts due from related parties are non-interest bearing.

32. LEASES

The Company leases its office premises. The lease runs for an initial period of six years and three months with an option to renew the lease at the expiry of the lease.

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

(a) Right-of-use assets

Right-of-use assets relate to its leased office premises that are presented within property and equipment under Note 23.

	2020 KShs	2019 KShs
At 1 January	23,549,080	25,902,699
Depreciation charge for the year	(2,353,620)	(2,353,619)
At 31 December	**21,195,460**	**23,549,080**

As at 31 December 2020, the future minimum lease payments under non-cancellable operating leases were payable as follows

Maturity analysis – Contractual undiscounted cash flows	2020 KShs	2019 KShs
Tenancy		
Less than one year	3,659,175	3,510,000
Later than one year and not later than five years	18,201,818	21,860,993
Later than five years	24,916,462	24,916,469
Total undiscounted lease liability at 31 December	**46,777,455**	**50,287,462**

(b) Lease liabilities

The movement in lease liabilities during the year 2020 is as follows:

	2020 KShs	2019 KShs
At January	26,127,699	25,402,699
Additions	-	-
Lease interest charge	3,348,930	3,352,500
Lease rental payments	(4,095,000)	(3,127,100)
Balance at 31 December	**25,381,629**	**26,127,699**

(c) Amount recognised in profit or loss

	2020	2019
Finance cost on lease liabilities (Note 13)	3,348,930	3,352,500
Expensed relating to short term lease (Note 11(b)	2,242,850	2,749,850
Expensed relating to low value assets and other related Expenses (Note 11(b))	9,450	-
Balance at 31 December	5,601,230	6,102,350

Statement with respect to operating leases.

32. LEASES (Continued)

(d) Amounts recognised in statement of cash flows	2020 KShs	2019 KShs
Payment of principal lease liabilities (Note 32 (b))	4,095,000	3,127,500
Payment of lease interest	3,348,930	3,352,500
Total lease payment	**7,443,930**	**6,480,000**

33. INSURANCE CONTRACT LIABILITIES

Opening balance	(12,574,254)	(773,865)
Additional Incurred But Not Reported (IBNR) provision	(44,826,791)	(6,997,531)
Additional claims outstanding provision	(37,979,044)	(3,346,646)
Unallocated Loss Adjustment Expense (UALE)	(1,430,701)	(1,456,212)
Insurance contract liabilities at 31 December	**(96,810,790)**	**(12,574,254)**

34. PRIOR YEAR ADJUSTMENT

During the financial year 2020, the directors reviewed the reinsurance receivables and reinsurance payable and recommended that they should be disclosed on a net basis. The change did not have an impact on the statement of profit of loss and other comprehensive income and net cash flows in the statement of cash flows. Management has since reclassified the balances by restating each of the affected financial statements line items for the prior year as follows:

Financial statement caption	As previously reported KShs	Adjustments KShs	As restated KShs
Reinsurance receivables (Note 19)	201,332,696	(94,202,309)	107,130,387
Reinsurance payables (Note 27)	(150,534,258)	94,202,309	(56,331,949)
Totals	**50,798,438**	**-**	**50,798,438**

35. SUBSEQUENT EVENTS

Events subsequent to the financial position date are disclosed only to the extent that they relate directly to the financial statements and their effect is material. There were no such events post the date the financial statements were signed.

WAICA REINSURANCE (KENYA) LIMITED

APPENDIX 1- REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2020

Class of insurance	Aviation	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor private	Motor commercial	Accident & others	Theft	WIBA	Medical	Miscellaneous	2020 Total
Gross premium written	6,265,274	105,938,783	1,656,313	329,562,536	92,808,711	72,869,506	6,127,645	4,452,848	24,035,975	5,056,297	10,529,821	6,081,837	55,859,620	721,245,166
Change in gross UPR	(29,498)	(11,833,154)	(461,326)	(67,094,186)	(16,413,486)	(7,604,477)	(1,517,105)	1,890,650	(4,237,005)	(2,890,335)	(6,999,811)	(753,808)	(10,713,887)	(128,657,428)
Gross earned premium	6,235,776	94,105,629	1,194,987	262,468,350	76,395,225	65,265,029	4,610,540	6,343,498	19,798,970	2,165,962	3,530,010	5,328,029	45,145,733	592,587,738
Less: Reinsurance premium	(6,027,870)	(29,234,556)	-	(113,195,897)	(11,936,934)	(13,764,060)	-	(3,251,214)	(595,062)	(754,069)	-	-	(7,354,454)	(186,114,116)
Net earned premiums	**207,906**	**64,871,073**	**1,194,987**	**149,272,453**	**64,458,291**	**51,500,969**	**4,610,540**	**3,092,284**	**19,203,908**	**1,411,893**	**3,530,010**	**5,328,029**	**37,791,279**	**406,473,622**
Gross Claims paid	(8,784)	(6,312,797)	-	(11,926,539)	(3,357,041)	(2,099,477)	(311,478)	(1,482,254)	(1,587,384)	-	(706,531)	(377,542)	(148,521)	(28,318,348)
Change in gross o/s claims	(441,991)	(2,660,485)	(84,815)	(11,253,753)	(7,400,240)	(6,650,305)	(683,463)	(2,868,240)	2,089,438	1,112,841	(900,190)	(1,014,939)	(2,411,583)	(33,167,725)
Claims recoveries	-	10,875	-	5,285,370	3,938,266	1,801,020	180,889	-	-	-	-	-	-	11,216,419
Net claims incurred	**(450,775)**	**(8,962,407)**	**(84,815)**	**(17,894,922)**	**(6,819,015)**	**(6,948,762)**	**(814,052)**	**(4,350,494)**	**502,054**	**1,112,841**	**(1,606,721)**	**(1,392,481)**	**(2,560,104)**	**(50,269,654)**
Commissions income	2,273,422	9,343,850	-	42,300,644	2,671,986	4,680,647	-	1,172,286	-	-	-	-	4,570,932	67,013,767
Commission expense	(784,163)	(21,216,193)	(243,657)	(97,189,799)	(13,879,116)	(20,790,841)	(2,451,058)	(1,781,139)	(3,865,050)	(5,292,814)	(2,235,781)	(1,505,168)	(8,907,921)	(180,142,699)
Net Commission	**1,489,259**	**(11,872,343)**	**(243,657)**	**(54,889,155)**	**(11,207,130)**	**(16,110,194)**	**(2,451,058)**	**(608,853)**	**(3,865,050)**	**(5,292,814)**	**(2,235,781)**	**(1,505,168)**	**(4,336,989)**	**(113,128,932)**
Management expenses	(114,140)	(33,689,361)	(620,590)	(77,541,357)	(33,474,994)	(26,745,893)	(2,394,382)	(1,605,910)	(9,973,126)	(733,236)	(1,833,233)	(2,766,994)	(19,619,900)	(211,113,115)
Underwriting profit/(loss)	**1,132,250**	**10,346,961**	**245,925**	**(1,052,982)**	**12,957,152**	**1,696,120**	**(1,048,952)**	**(3,472,973)**	**5,867,786**	**(3,501,315)**	**(2,145,725)**	**(336,615)**	**11,274,287**	**31,961,921**

WAICA REINSURANCE (KENYA) LIMITED

APPENDIX 1- REVENUE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Class of insurance	Aviation	Engineering	Fire industrial	Liability	Marine	Motor private	Motor commercial	Accident & others	Theft	WIBA	Miscellaneous	2019 Total
Gross premium written	934,776	73,363,696	114,371,284	34,719,391	37,642,356	8,532,415	4,426,804	3,196,601	2,469,169	440,457	61,673,293	341,770,242
Change in gross UPR	-	(21,825,490)	(24,564,462)	(11,607,238)	(14,043,062)	(67,067)	(2,362,344)	(2,052,297)	(513,872)	(32,387)	(14,288,160)	(91,356,379)
Gross earned premium	934,776	51,538,206	89,806,822	23,112,153	23,599,294	8,465,348	2,064,460	1,144,304	1,955,297	408,070	47,385,133	250,413,863
Less: Reinsurance premiums	(6,696)	(20,533,202)	(60,137,975)	(3,434,763)	(9,064,768)	(61,122)	(31,711)	(815,547)	(1,046,353)	(286,117)	(24,392,731)	(119,810,985)
Net earned premiums	**928,080**	**31,005,004**	**29,668,847**	**19,677,390**	**14,534,526**	**8,404,226**	**2,032,749**	**328,757**	**908,944**	**121,953**	**22,992,402**	**130,602,878**
Gross claims paid	-	(66,470)	-	(2,002)	(38,643)	-	-	(177,133)	-	-	(19,076,488)	(19,360,736)
Change in gross o/s claims	(18,696)	(2,070,998)	(550,931)	(1,776,370)	(669,118)	(3,922,663)	(34,153)	(127,635)	(71,654)	(7,773)	(1,094,186)	(10,344,177)
Claims recoveries	-	-	-	-	-	-	-	-	-	-	11,616,541	11,616,541
Net claims incurred	**(18,696)**	**(2,137,468)**	**(550,931)**	**(1,778,372)**	**(707,761)**	**(3,922,663)**	**(34,153)**	**(304,768)**	**(71,654)**	**(7,773)**	**(8,554,133)**	**(18,088,372)**
Commissions earned	-	6,924,914	19,374,894	1,048,865	3,233,685	-	-	260,944	431,794	-	7,884,776	39,159,872
Commissions expense	(212,393)	(8,863,796)	(14,270,910)	(4,232,477)	(4,563,714)	(1,864,538)	(532,487)	(381,642)	(293,034)	(52,272)	(9,429,172)	(44,696,435)
Net commission	**212,393**	**1,938,882**	**(5,103,984)**	**3,183,612**	**1,330,029**	**1,864,538**	**532,487**	**120,698**	**(138,760)**	**52,272**	**1,544,396**	**5,536,563**
Management expenses	(1,134,208)	(37,891,274)	(36,258,354)	(24,047,776)	(17,762,672)	(10,270,821)	(2,484,226)	(401,775)	(1,110,822)	(149,039)	(28,099,058)	(159,610,025)
Underwriting loss	**(437,217)**	**(10,962,620)**	**(2,036,454)**	**(9,332,370)**	**(5,265,936)**	**(7,653,796)**	**(1,018,117)**	**(498,484)**	**(134,772)**	**(87,131)**	**(15,205,185)**	**(52,632,082)**