WAICA REINSURANCE (KENYA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2022

WAICA REINSURANCE (KENYA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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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****	Retired on 21 June 2022
Dr. Habil Olaka, EBS****	
Jacqueline Oyuyo Githinji****	Appointed on 1 July 2022
Charles Edwin Etemesi ****	

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

PRINCIPAL OFFICER

Charles Edwin Etemesi	Chief Executive Officer

SECRETARY

FCS Lazarus Kimang'a, EBS
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
Stanbic Bank Kenya Limited
NCBA Bank Kenya PLC
Bank of Africa Kenya Limited
KCB Bank Kenya Limited
UBA Bank Kenya Limited
Co-operative Bank of Kenya Limited
Equity Bank Kenya Limited
I & M 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 2022

The Directors submit their report together with the audited financial statements of WAICA Reinsurance (Kenya) Limited (the "Company") for the year ended 31 December 2022, which discloses the state of affairs of the Company.

1. 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.

2. 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.

3. Directors

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

4. Results

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

5. Business review

During the year 2022, the Company performed well in the backdrop of an increasingly competitive business environment. The Company recorded gross premium written growth of 120% from KShs 1,484.37 million in 2021 to KShs 3,261.16 million in 2022 (Note 7). The growth is attributable to expansion to new markets and treaties. The Company posted profit before tax of KShs 809.99 million during the year reflecting a significant improvement of 195% on KShs 274.63 million profit before tax recorded in 2021. The total asset base of the Company also improved by 68%, growing from KShs 2.44 billion in 2021 to KShs 4.12 billion in 2022. Principal risks and uncertainties facing the Company are set out on Note 5 to the financial statements.

The outlook for 2023 looks positive post COVID-19 pandemic economic recovery amidst effects of Global inflation and Russia-Ukraine war. The company in 2023 will focus on increased marketing in the country and within the East Africa region. This is expected to yield significant growth in 2023 as the company seeks to increase its participation in Treaty businesses in addition to the Facultative businesses largely underwritten in 2022. The Directors are committed to achieving the laid down strategies and delivering value to the shareholders.

6. Dividend

The Directors do not recommend payment of a dividend for the period (2021 – Nil).

7. Share capital

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

8. Environmental, Social and Governance (ESG) statement

WAICA Reinsurance (Kenya) Limited is a forward-looking reinsurance and financial services organisation committed to developing its people, enhancing the environment, and maintaining sound investing and underwriting principles.

The Board and Management are committed to integrating ESG into its business decisions, operations, investments, underwriting, products and services. We are committed to aligning our operations with the UN Sustainable Development Goals.

Our key ESG objectives include the following:

(a) Incorporating environmental, social and governance (ESG) related issues into our business selection, in particular our underwriting, investment and financial analysis, and decision-making processes.
(b) Incorporate ESG into our corporate governance and compliance, employee wellbeing, and reduce stakeholders' inequality.
(c) Providing economic and social development to the countries where we operate.
(d) Leading the digital transformation change in Africa's insurance industry.

WAICA Re will continue to build on its ESG practices, annually strive to reduce its carbon footprint, improve its community impact through corporate social responsibility, and ensure a well-diversified workforce and Board.

The Company is also a signatory to the UN Principles for Responsible Investing (PRI) to ensure that it follow the same principles and actions for responsible investing while accepting local laws and regulations.

9. 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 salary increments made.

10. 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 has 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.

11. 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.

12. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Directors held on 28 February 2023.

BY ORDER OF THE BOARD

FCS Lazarus Kimang'a, EBS
Secretary

Date: 28 February 2023

WAICA REINSURANCE (KENYA) LIMITED

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

The Shareholders being the ultimate owners of the entity appoint a Board of Directors to conduct the business of the Company 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 and up to the date of approval of the financial statement are set out on Page 1. The current Board is made up of seven Directors inclusive of a non-executive Chairman.

The Board meets on a quarterly basis and for all meetings held in 2022, all members of the Board attended.

2. **Board committees**

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

Committee	Meeting date	Composition & membership		Main functions
Strategy and Operations Committee	01.03.2022 20.06.2022 05.09.2022 07.11.2022	George Otieno (Chairman) William Brownfield Coker Eric Ato Botchway 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	02.03.2022 21.06.2022 06.09.2022 08.11.2022	Eric Ato Botchway (Chairman) Dr. Habil Olaka, EBS George Otieno	Non-Executive Non-Executive Non-Executive	Enhancing financial reporting and maximizing investment returns.
HR and Remuneration Committee	01.03.2022 20.06.2022 05.09.2022 07.11.2022	William Brownfield Coker (Chairman) Dr. Habil Olaka, EBS Jacqueline Oyuyo Githinji**	Non-Executive Non-Executive Non-Executive	Management & development of human resources.
Audit and Risk Committee	01.03.2022 20.06.2022 05.09.2022 07.11.2022	Dr. Habil Olaka, EBS (Chairman) William Brownfield Coker Jacqueline Oyuyo Githinji ** William Olotch *	Non-Executive Non-Executive Non-Executive	Strengthening the control environment and ensuring compliance with all regulatory bodies.

* *Retired on 21 June 2022*

** *Appointed on 1 July 2022*

The Board and Management Committees meet on a quarterly basis. The Director who retired on 21 June 2022 attended quarter 1 and 2 meetings while the Director appointed on 1 July 2022 attended quarter 3 and 4 meetings. The Chief Executive Officer attends all Board committees, and the Company Secretary is the Secretary of all the Board committees.The Chief Finance Officer attends the meetings by invitation.

Charles Edwin Etemesi
Principal Officer

Dr. Habil Olaka, EBS
Director

Ezekiel Abiola Ekundayo
Chairman

Date: 28 February 2023

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2022

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 72 which comprise the statement of financial position as at 31 December 2022, 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.

The Directors' responsibilities include determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS 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 IFRS 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 28 February 2023.

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

Date: 28 February 2023

WAICA REINSURANCE (KENYA) LIMITED

REPORT OF THE CONSULTING ACTUARY
FOR THE YEAR ENDED 31 DECEMBER 2022

I have conducted an actuarial valuation of the reinsurance liabilities of WAICA Reinsurance (Kenya) Limited (the "Company") as at 31 December 2022.

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 2022.

Abed Mureithi, FIA

Actuarial Services East Africa Ltd
PO Box 10472 – 00100
Nairobi

Date: 28 February 2023

KPMG

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
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INDEPENDENT AUDITOR'S 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 72, which comprise the statement of financial position as at 31 December 2022, 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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *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.

Report on the audit of the financial statements (Continued)

Key audit matters (continued)

Reinsurance contract liabilities	
See Notes 3(a), 4(i) and 33 to the financial statements	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2022, the Company recognized reinsurance contract liabilities amounting to KShs 903,401,971 which represents 40% of the Company's total liabilities. 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)). The estimates in respect of IBNR are generally subject to a greater degree of estimation uncertainty than that for reported claims. The main assumptions applied in the estimation of the ultimate reinsurance claims liability is the standard factors, loss adjustment factors and the expectation that the Company's past claims experience can be used to project future claims development and hence ultimate claims costs. Actuarial methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by event years. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future. A margin for adverse deviation may also be included in the liability valuation. These assumptions have a high estimation uncertainty and changes in the estimates may lead to material impact on the valuation of the liabilities. We have determined the valuation of re-insurance contract liabilities to be a key audit matter due to the significant judgements, assumptions and high estimation uncertainty applicable in their valuation.	Our audit procedures in this area included: — Evaluating key controls around the determination of reinsurance contract liabilities by assessing the design and operating effectiveness of controls over the claims handling and reserve setting processes of the Company; — Using our internal actuarial specialists to assist us in assessing the appropriateness of the methodology and the reasonableness of the assumptions used by management in the estimation of reserves at 31 December 2022 by comparing economic assumptions such as discount rates and inflation to market observable data and non-economic assumptions such initial loss ratio and claims retention proportion against the Company's historical experience, current trends and our own industry knowledge; — Evaluating the reasonableness of management's liability adequacy testing by evaluating the actual vs expected analysis on prior years' reserves and analysis of surplus for any over or under utilization; — Re-performing reconciliations between the data recorded in the financial systems and the data used in the actuarial reserving calculations including selecting a sample of the data and comparing to the policy documents to ensure its complete and accurate; — Obtaining samples of outstanding claims reserves at 31 December 2022 and comparing the estimated amount of the reserve to reports from loss adjusters; and — Assessing the adequacy of disclosures in the financial statements in accordance with the requirements of IFRS 4 *Insurance contracts*.

KPMG

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

Report on the audit of the financial statements (Continued)

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 for the year ended 31 December 2022,* 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, other than that prescribed by the Kenyan Companies Act, 2015 as set out below.

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.

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 IFRS Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal controls, 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.

KPMG

INDEPENDENT AUDITOR'S 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)

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

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

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

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

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

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 engagement partner responsible for the audit resulting in this independent auditor's report is CPA Dr. Alexander Mbai, practicing certificate No. P/2172.

For and on behalf of:

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

Date: 27 March 2023

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 KShs	2021 KShs
Gross earned premium	7	2,942,184,399	1,327,912,026
Less retrocession premiums	7	(405,739,498)	(231,545,053)
Net earned premium		**2,536,444,901**	**1,096,366,973**
Investment income	8	110,919,295	62,621,764
Commissions earned	9	138,483,622	71,246,677
Total income		**2,785,847,818**	**1,230,235,414**
Net claims incurred	10	(819,231,716)	(337,973,821)
Personnel expenses	11(a)	(126,166,156)	(99,032,152)
Other expenses	11(b)	(115,710,311)	(91,458,306)
Impairment of assets	11(c)	(133,369,924)	(91,905,335)
Commissions expense	12	(942,510,118)	(365,854,901)
Results from operating activities		**648,859,593**	**244,010,899**
Net finance income	13	161,128,624	30,623,490
Profit before income tax	14	**809,988,217**	**274,634,389**
Income tax charge	15(a)	(241,965,769)	(81,407,706)
Profit for the year		**568,022,448**	**193,226,683**
Other comprehensive income		-	-
Total comprehensive income		**568,022,448**	**193,226,683**

The notes set out on pages 16 to 72 form an integral part of these financial statements.

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

ASSETS	Note	2022 KShs	2021 KShs
Cash and cash equivalents	16	54,263,824	23,741,363
Investments	17	2,492,588,019	1,676,632,043
Other receivables	18	75,355,250	15,548,746
Reinsurance premium receivables	19	904,573,432	374,285,833
Retrocessionaires share of technical liabilities	20	231,213,733	129,925,607
Deferred acquisition costs	21	258,565,019	148,026,634
Deferred tax asset	22	51,578,309	52,781,745
Property and equipment	23	55,905,145	21,691,074
Intangible assets	24	1,137,835	1,647,880
TOTAL ASSETS		**4,125,180,566**	**2,444,280,925**
EQUITY AND LIABILITIES			
EQUITY (Page 14)			
Share capital	25	1,102,550,000	1,102,550,000
Retained earnings		803,411,469	235,389,021
TOTAL EQUITY		**1,905,961,469**	**1,337,939,021**
LIABILITIES			
Tax payable	15(b)	107,767,328	87,305,654
Other payables	26	106,586,972	92,481,266
Payables arising from reinsurance arrangements	27	295,059,091	156,698,236
Provision for unearned premium	28	806,403,735	459,691,321
Reinsurance contract liabilities	33	903,401,971	310,165,427
TOTAL LIABILITIES		**2,219,219,097**	**1,106,341,904**
TOTAL EQUITY AND LIABILITIES		**4,125,180,566**	**2,444,280,925**

The financial statements set out on pages 16 to 72 were approved and authorised for issue by the Board of Directors on 28 February 2023 and were signed on its behalf by:

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

The notes set out on pages 16 to 72 form an integral part of these financial statements.

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

2022:	Share capital KShs	Retained earnings KShs	Total KShs
At 1 January 2022	1,102,550,000	235,389,021	1,337,939,021
Comprehensive income for the year			
Profit for the year	-	568,022,448	568,022,448
Balance as at 31 December 2022	**1,102,550,000**	**803,411,469**	**1,905,961,469**
2021:			
At 1 January 2021	1,102,550,000	42,162,338	1,144,712,338
Comprehensive income for the year			
Profit for the year	-	193,226,683	193,226,683
Balance as at 31 December 2021	**1,102,550,000**	**235,389,021**	**1,337,939,021**

The notes set out on pages 16 to 72 form an integral part of these financial statements.

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

2022:	Share capital KShs	Retained earnings KShs	Total KShs
At 1 January 2022	1,102,550,000	235,389,021	1,337,939,021
Comprehensive income for the year			
Profit for the year	-	568,022,448	568,022,448
Balance as at 31 December 2022	**1,102,550,000**	**803,411,469**	**1,905,961,469**
2021:			
At 1 January 2021	1,102,550,000	42,162,338	1,144,712,338
Comprehensive income for the year			
Profit for the year	-	193,226,683	193,226,683
Balance as at 31 December 2021	**1,102,550,000**	**235,389,021**	**1,337,939,021**

The notes set out on pages 16 to 72 form an integral part of these financial statements.

WAICA REINSURANCE (KENYA) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 KShs	2021 KShs
Net cash flows from operating	29(a)	871,827,191	436,753,648
Investing activities			
Acquisition of property and equipment, net of right-of-use assets	23	(25,430,959)	(174,000)
Purchase of government securities	17	(513,525,737)	(134,215,226)
Additional investments in fixed deposits	17	(322,432,441)	(297,965,501)
Net cash flow used in investing activities		**(861,389,137)**	**(432,354,727)**
Financing activities			
Payment of principal lease liabilities	32(d)	(1,336,682)	(435,195)
Net cash flow used in financing activities		**(1,336,682)**	**(435,195)**
Net increase in cash and cash equivalents		**9,101,372**	**3,963,726**
Cash and cash equivalents at the beginning of the year		43,743,565	39,097,922
Effect of exchange rate fluctuations on cash and cash equivalent held		1,418,887	681,917
Cash and cash equivalents at the end of the year	29(b)	**54,263,824**	**43,743,565**

The notes set out on pages 16 to 72 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, 2015 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 IFRS Standards as issued by the International Accounting Standard Board (IFRS Standards) and in the 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 significant 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 and rounded to the nearest Kenya Shilling.

(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) Reinsurance contracts

A reinsurance contract 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.

(i) Classification

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 compensate 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 retrocessionnaires 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) Recognition and measurement

The results of the reinsurance business are determined on an annual basis as follows:

Premium income

General reinsurance written premiums and related expenses are accounted for in profit or loss when earned or incurred. Gross earned premiums comprise gross premiums relating to risks assumed in the year after accounting for any movement in gross unearned premiums. Net earned premium comprise of gross earned premium less the retrocession premiums in the year.

Unearned premiums represent the proportion of the premiums written in the year that are attributable to the subsequent accounting period and are estimated using 1/24ths method for facultative businesses and 1/8ths method for treaty businesses.

For single premium business, revenue is recognised on the date on which the policy is effective. Outward retrocession premiums are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Reinsurance contracts (continued)

(ii) Recognition and measurement – continued

Claims incurred

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

Net outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date less retrocession recoveries. Outstanding claims are computed on the basis of the best information available at the time the records for the period are closed and include provisions for claims incurred but not reported ("IBNR").

The approach adopted in estimation of IBNR was a combination of chain-ladder and "Bornhuetter-Fergurson" ("B-F") methods.

The Unallocated Loss Adjustment Expenses (ULAE) estimate is based on the claims department salaries as a proportion of the total salaries multiplied by management expenses excluding underwriting and acquisition costs as a proportion of net earned premium.

Cedant acquisition costs and deferred acquisition costs

A proportion of cedant acquisition costs is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent the proportion of cedant acquisition costs and other acquisition costs that relate to the unexpired term of the policies that are in force at the year end. The deferred acquisition costs are estimated using 1/24ths method for facultative businesses and 1/8ths method for treaty businesses.

Acquisition cost recoveries are recognised as income in the period in which they are earned. Commission income is recognised as income in the period the related retrocessionnaire premium is booked

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Reinsurance contracts (continued)

(ii) Recognition and measurement – continued

Retrocession contracts held – continued

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.

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.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) Other income

Dividends receivable are recognised as income in the period in which the right to receive payment is established. Interest income is recognized on a time proportion basis that considers the effective yield on the asset.

(f) 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.

(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 Fair Value through Profit or Loss (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.

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;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (continued)

(ii) Classification and subsequent measurement – continued

Business model assessment – continued

- 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (continued)

(ii) Classification and subsequent measurement – continued

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

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 Other Comprehensive Income (OCI) are reclassified to profit or loss.
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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (continued)

(iii) De-recognition – continued

Financial assets – continued

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.

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.

(g) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (continued)

(i) Non-derivative financial assets – continued

Financial instruments and contract assets – continued

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.

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;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (continued)

(i) Non-derivative financial assets – continued

Measurement of ECLs – continued

- 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.

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.

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.

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 cash generating units (CGUs).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (continued)

(ii) Non-financial assets – continued

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 to reduce the carrying amounts of the assets in the CGU on a pro-rata basis.

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.

(h) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Income tax (continued)

(i) Deferred tax – continued

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.

(i) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

(j) 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Provisions

(iv) 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.

(l) Property and equipment

(i) Recognition and measurement

All property and equipment are initially recorded at cost. These are subsequently measured at cost, less accumulated depreciation and any accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset.

(ii) Depreciation

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

(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.

(m) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Intangible assets (continued)

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 (5 years).

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

(n) 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. To assess whether a contract conveys the right to control the use of an identified asset the Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into (or changed) on or after I January 2019.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Leases (continued)

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 and equipment" and lease liabilities are presented in other payables 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.

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 standalone 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Leases (continued)

Short-term leases and leases of low-value assets – continued

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.

(o) New standards, amendments and interpretations

(i) New Standards and interpretations effective and early adopted during the year

The Company adopted the following new standards and amendments during the year ended 31 December 2022, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2022.

New standard or amendments	Effective for annual periods beginning on or after
— COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 Apr 2021
— Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 Jan 2022
— Annual Improvements to IFRS Standards 2018-2020	1 Jan 2022
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 Jan 2022
— Reference to the Conceptual Framework (Amendments to IFRS 3)	1 Jan 2022

The above standards adopted in 2022 did not have a significant impact on the Company's financial statements for the year.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022

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

New standard or amendments	Effective for annual periods beginning on or after
— Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 Jan 2023
— Definition of Accounting Estimate (Amendments to IAS 8)	1 Jan 2023

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

New standard or amendments	Effective for annual periods beginning on or after
— Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes	1 Jan 2023
— Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 Jan 2024
— Non-current Liabilities with Covenants (Amendments to IAS 1)	1 Jan 2024
— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Optional

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

The Company will apply IFRS 17 for the first time on 1 January 2023. This standard will bring significant changes to the accounting for insurance and reinsurance contracts and financial instruments, and is expected to have a material impact on the Company's financial statements in the period of initial application.

A. Estimated impact of the adoption of IFRS 17

The Company is still assessing the impact that the application of IFRS 17 will have on its financial statements. The Company will restate comparative information on adoption of IFRS 17. The actual impact is yet to be determined as certain milestones within the implementation roadmap are yet to be met.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

IFRS 17 Insurance Contracts – continued

A. Estimated impact of the adoption of IFRS 17 – continued

The actual impact of adopting IFRS 17 is yet to be determined because:

- the Company is continuing to refine the new accounting processes and internal controls required for applying IFRS 17;
- although parallel runs were carried out in the second half of 2022, the new systems and associated controls in place have not been operational for a more extended period;
- the Company has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalises its first financial statements that include the date of initial application.

B. IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 Insurance Contracts and is effective for annual periods beginning on or after 1 January 2023, with early adoption permitted.

(i) Identifying contracts in the scope of IFRS 17

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts.

When identifying contracts in the scope of IFRS 17, in some cases the Company will have to assess whether a set or series of contracts needs to be treated as a single contract and whether embedded derivatives, investment components and goods and services components have to be separated and accounted for under another standard. For insurance and reinsurance contracts, the Company does not expect significant changes arising from the application of these requirements.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. IFRS 17 Insurance Contracts (continued)

(o) New standards, amendments and interpretations – continued

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts - continued

(i) Identifying contracts in the scope of IFRS 17 – continued

For investment contracts with Discretionary Participation Features (DPF), under IFRS 4 the Company separately identifies and classifies part of the DPF as equity. Under IFRS 17, the Company will consider all of the discretionary benefits in the measurement of the liabilities. In addition, these contracts are currently subject to the disclosure requirements of IFRS 7 Financial Instruments: Disclosures and some of the presentation requirements of IAS 32 Financial Instruments: Presentation.

On transition to IFRS 17, they will no longer be subject to those requirements because the presentation and disclosure requirements of IFRS 17 will apply to them. WAICA Reinsurance (Kenya) Limited is a non-life reinsurer and hence none of the products would be classified as Investment Contracts with DPF. The standard also does not allow for classification of reinsurance contracts as investment with DPF. Therefore, there would be no impact for WAICA Reinsurance (Kenya) Limited.

(ii) Level of aggregation

Under IFRS 17, insurance contracts and investment contracts with DPF are aggregated into cohorts for measurement purposes. Cohorts of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in different product lines or issued by different entities are expected to be in different portfolios.

Each portfolio is then divided into annual cohorts (i.e. by year of issue) and each annual cohort further splits based on the expected profitability of the contract as described below:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts - continued

(ii) Level of aggregation – continued

Contracts within a portfolio that would fall into different cohorts only because of law or regulation specifically constrains the Company's practical ability to set a different price or level of benefits for policyholders with different characteristics are included in the same cohort.

When a contract is recognised, it is added to an existing cohort of contracts or, if the contract does not qualify for inclusion in an existing cohort, it forms a new cohort to which future contracts may be added. Cohorts of reinsurance contracts are established such that each cohort comprises a single contract.

The level of aggregation requirements of IFRS 17 limit the offsetting of gains on cohorts of profitable contracts, which are generally deferred as a Contractual Service Margin (CSM), against losses on cohorts of onerous contracts, which are recognised immediately (see (v) and (vi)). Compared with the level at which the liability adequacy test is performed under IFRS 4 (i.e., portfolio of contracts level), the level of aggregation under IFRS 17 is more granular and is expected to result in more contracts being identified as onerous and losses on onerous contracts being recognised sooner.

(iii) Contract boundaries

Under IFRS 17, the measurement of a cohort of contracts includes all of the future cash flows within the boundary of each contract in the cohort. Compared with the current accounting, the Company expects that for certain contracts the IFRS 17 contract boundary requirements will change the scope of cash flows to be included in the measurement of existing recognised contracts, as opposed to future unrecognised contracts. The period covered by the premiums within the contract boundary is the 'coverage period', which is relevant when applying a number of requirements in IFRS 17.

Insurance contracts

For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and investment services).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts - continued

(iii) Contract boundaries – continued

A substantive obligation to provide services ends when:

- the Company has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

Investment contracts with DPF

For investment contracts with DPF, the cash flows are within the contract boundary if they result from a substantive obligation of the Company to deliver cash at a present or future date. The Company has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks. Being a reinsurance company none of the contracts for WAICA Reinsurance (Kenya) Limited would be impacted.

Reinsurance contracts

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

Some of the Company's quota share reinsurance contracts cover underlying contracts issued within the annual term on a risk-attaching basis and provide unilateral rights to both the Company and the reinsurer to terminate the attachment of new underlying contracts at any time by giving three months' notice to the other party.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts - continued

(iii) Contract boundaries – continued

Reinsurance contracts – continued

Currently, the measurement of these reinsurance contracts generally aligns with that of the underlying contracts and considers only underlying contracts already ceded at the measurement date. However, under IFRS 17 cash flows arising from underlying contracts expected to be issued and ceded after the measurement date, in addition to those arising from underlying contracts already ceded, may be within the boundaries of the reinsurance contracts and may have to be considered and estimated in their measurement.

(iv) Measurement - overview

IFRS 17 introduces a measurement model based on the estimates of the present value of future cashflows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM. For an explanation of how the Company will apply the measurement model, see (v).

Contracts are subject to different requirements depending on whether they are classified as direct participating contracts or contracts without direct participation features.

Direct participating contracts are contracts that are substantially investment-related service contracts under which the Company promises an investment return based on underlying items; they are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Company expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Company expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

All insurance contracts and investment contracts with DPF in the Participating segment are expected to be classified as direct participating contracts. Shadow accounting will no longer be applied to these contracts.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts – continue

(iv) Measurement – overview – continued

To avoid accounting mismatches between these contracts and their underlying items, the Company will:

- apply the risk mitigation option in IFRS 17, to the extent eligible, to recognise certain changes in these contracts in profit or loss and not to adjust the CSM for those changes when it uses derivatives, non-derivative financial instruments measured at FVTPL or reinsurance contracts to mitigate the financial risk from interest rate guarantees in traditional participating contracts and equity guarantees in variable annuity contracts; and take advantage of the consequential amendments introduced by IFRS 17 to other standards to measure owner-occupied properties and the Company's own financial liabilities and own shares held that are underlying items as assets at FVTPL. Currently:
  - the repurchase of own financial liabilities results in their derecognition; and
  - the costs of purchasing own shares are accumulated in the treasury share reserve in equity.

All other insurance contracts and all reinsurance contracts are expected to be classified as contracts without direct participation features.

Premium Allocation Approach (PAA)

The PAA is an optional simplified measurement model in IFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria. For an explanation of how the Company will apply the PAA, see B(v).

The Company expects that it will apply the PAA to all contracts because the following criteria are expected to be met at inception.

- Insurance contracts and loss-occurring reinsurance contracts: The coverage period of each contract in the Company is one year or less.
- Risk-attaching reinsurance contracts: The Company reasonably expects that the resulting measurement of the asset for remaining coverage would not differ materially from the result of applying the accounting policies described above.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts - continued

(iv) Measurement

On initial recognition of each cohort of reinsurance contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition. The Company has elected to amortise insurance acquisition cash flows rather than recognize them as expenses when they are incurred.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any further premiums received and decreased by the amount recognised as insurance revenue for services provided. The Company expects that the time between providing each part of the services and the related premium due date will be no more than a year. Accordingly, as permitted under IFRS 17. the Company will not adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

If at any time before and during the coverage period, facts and circumstances indicate that a Company of contracts is onerous, then the Company will recognise a loss in profit or loss and increase the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. The fulfilment cash flows will be discounted (at current rates) if the liability for incurred claims is also discounted (see below).

The Company will recognise the liability for incurred claims of a Company of contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows will be discounted (at current rates) unless they are expected to be paid in one year or less from the date the claims are incurred.

The Company will apply the same accounting policies to measure a Company of reinsurance contracts, adapted where necessary to reflect features that differ from those of insurance contracts.

Impact assessment

Although the PAA is similar to the Company's current accounting treatment when measuring liabilities for remaining coverage, the following changes are expected in the accounting for non-life contracts.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts - continued

(iv) Measurement (continued)

Changes from IFRS 4	Expected impact on equity on transition to IFRS 17
Under IFRS 17, the Company will discount the future cash flows when measuring liabilities for incurred claims, unless they are expected to occur in one year or less from the date on which the claims are incurred. The Company does not currently discount such future cash flows.	Increase
IFRS 17 requires the fulfilment cash flows to include a risk adjustment for non- financial risk. This is not explicitly allowed for currently.	Decrease
The Company's accounting policy under IFRS 17 to expense eligible insurance acquisition cash flows when they are incurred differs from the current practice under which these amounts are recognised separately as deferred acquisition costs.	Decrease

The company is still assessing the full impact of adoption of IFRS 17.

(v) Measurement - Significant judgements and estimates

Estimates of future cash flows

In estimating future cashflows, the Company will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows will reflect the Company's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Company will take into account current expectations of future events that might affect those cash f lows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts will not be taken into account until the change in legislation is substantively enacted.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts - continued

(v) Measurement - Significant judgements and estimates – continued

Estimates of future cash flows – continued

Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows will be attributed to acquisition activities, other fulfilment activities and other activities at local entity level using activity-based costing techniques. Cash flows attributable to acquisition and other fulfilment activities will be allocated to Company's of contracts using methods that are systematic and rational and will be consistently applied to all costs that have similar characteristics. The Company will generally allocate insurance acquisition cash flows to cohorts of contracts based on the total premiums for each cohort, claims handling costs based on the number of claims for each cohort, and maintenance and administration costs based on the number of in-force contracts in each cohort.

Discount rates

The Company will generally determine risk-free discount rates using the observed mid-price swap yield curves for us government bonds (adjusted for the bank's credit risk). The yield curve will be interpolated between the last available market data. To reflect the liquidity characteristics of the contracts, the risk-free yield curves will be adjusted by an illiquidity premium.

The Company does not currently discount future cash flows and expects that discounting would result in a decrease in the liability amounts.

Risk adjustments for non-financial risk

Risk adjustments for non-financial risk will be determined to reflect the compensation that the Company would require for bearing non-financial risk and its degree of risk aversion. They will be determined separately for the Life and Non-life contracts and allocated to Company's of contracts based on an analysis of the risk profiles of the Company's. They reflect the effects of the diversification benefits between Company entities, which will be determined using a correlation matrix technique.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts - continued

(v) Measurement - Significant judgements and estimates – continued

The risk adjustments for non-financial risk will be determined using the following techniques. Liabilities for incurred claims of insurance contracts using confidence level technique.

To determine the risk adjustments for non-financial risk the Company will apply a value at risk methodology.

Applying a confidence level technique, the Company will estimate the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculate the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level will be 75 percent for liabilities for incurred claims of Non-life contracts.

(vi) Presentation and disclosure

IFRS 17 will significantly change how insurance contracts and reinsurance contracts are presented and disclosed in the Company's financial statements.

Under IFRS 17, portfolios of insurance contracts and investment contracts with DPF that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on a net basis; therefore, balances such as insurance receivables and payables and policyholder loans will no longer be presented separately. Any assets or liabilities recognised for cash flows arising before the recognition of the related Company of contracts (including any assets for insurance acquisition cash flows) will also be presented in the same line item as the related portfolios of contracts.

Under IFRS 17, amounts recognised in the statement of profit or loss and OCI are disaggregated into;

(a) an insurance service result, comprising insurance revenue and insurance service expenses; and
(b) insurance finance income or expenses. Amounts from reinsurance contracts will be presented separately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts – continued

(vi) Presentation and disclosure – continued

The separate presentation of underwriting and financial results under IFRS 17 will provide added transparency about the sources of profits and quality of earnings.

Insurance service result

For contracts measured using the PAA, insurance revenue is recognised based on an allocation of expected premium receipts to each period of coverage, which is based on the expected timing of incurred insurance service expenses for certain property contracts and the passage of time for other contracts. The requirements in IFRS 17 to recognise insurance revenue over the coverage period will result in slower revenue recognition compared with the Company's current practice of recognising revenue when the related premiums are written.

Expenses that relate directly to the fulfilment of contracts will be recognised in profit or loss as insurance service expenses, generally when they are incurred. Expenses that do not relate directly to the fulfilment of contracts will be presented outside the insurance service result.

Investment components will not be included in insurance revenue and insurance service expenses under IFRS 17. However, this change will not affect the company since it does not issue any investment products.

Amounts recovered from reinsurers and reinsurance expenses will no longer be presented separately in profit or loss, because the Company will present them on a net basis as 'net expenses from reinsurance contracts' in the insurance service result, but information about these will be included in the disclosures.

The Company will choose not to disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk recognised in profit or loss will be included in the insurance service result.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts – continued

(vi) Presentation and disclosure – continued

Insurance finance income and expenses

Under IFRS 17, changes in the carrying amounts of contracts arising from the effects of the time value of money, financial risk and changes therein are generally presented as insurance finance income or expenses. They include changes in the measurement of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

Disclosure

IFRS 17 requires extensive new disclosures about amounts recognised in the financial statements, including detailed reconciliations of contracts, effects of newly recognised contracts and information on the expected CSM emergence pattern, as well as disclosures about significant judgements made when applying IFRS 17 There will also be expanded disclosures about the nature and extent of risks from insurance contracts, reinsurance contracts and investment contracts with DPF (see (i)). Disclosures will generally be made at a more granular level than under IFRS 4, providing more transparent information for assessing the effects of contracts on the financial statements.

(vii) Transition

Changes in accounting policies resulting from the adoption of IFRS 17 will be applied using a full retrospective approach to the extent practicable, except as described below. Under the full retrospective approach, at 1 January 2023 the Company will:

— identify, recognise and measure any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, except that they will not be tested for recoverability before 1 January 2023;
— derecognise previously reported balances that would not have existed if IFRS 17 had always been applied (including some deferred acquisition costs, provisions for levies attributable to existing insurance contracts and customer-related intangible assets related to acquired insurance contracts"); and
— recognise any resulting net difference in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022 – continued

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

B. IFRS 17 Insurance Contracts – continued

(vii) Transition – continued

If it is impracticable to apply a full retrospective approach to a Company of contracts or to an asset for insurance acquisition cash flows, then the Company will choose between the modified retrospective approach and the fair value approach. However, if the Company cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it will apply the fair value approach.

Irrespective of the transition approach used, the following items will not be applied retrospectively.

- The risk mitigation option in IFRS 17 will be applied prospectively from 1 January 2022. Certain cohorts of contracts to which the risk mitigation option is applied will be measured under the fair value approach at 1 January 2022.
- The consequential amendments to IFRS 3 introduced by IFRS 17 require the Company to classify contracts acquired as insurance contracts based on the contractual terms and other factors at the date of acquisition. This requirement will not be applied to business combinations before 1 January 2023, for which the Company classified contracts acquired as insurance contracts based on the conditions at contract inception.
- Most of the contracts issued by the Company will be measured based on the PAA methodology and the company will therefore apply the full retrospective approach at transition. A loss component will be established for any onerous contracts at transition.

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 2023 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.

The main assumption applied in the estimation of the ultimate reinsurance claims liability is the standard factors, loss adjustment factors and the expectation that the Company's past claims experience can be used to project future claims development and hence ultimate claims costs. Actuarial methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by event years. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future. A margin for adverse deviation may also be included in the liability valuation

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) 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.

(iii) 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 charge.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

— Notes 4(ii) and 3(g) – impairment of financial assets: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL;

— Notes 3(f) (ii) – classification of financial assets: assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest (SPPI) on the principal amount outstanding;

— Notes 19,20,27,28, 33 and 3(a) – classification of reinsurance, retrocessionaires and investment contracts: assessing whether the contract transfers significant insurance risk.

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT

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

- credit risk
- liquidity risk
- market risk

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.

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

The amount that best represent the company's maximum exposure to the credit risk as at 31 December 2022 and 31 December 2021 are made up as follows:

	2022			2021		
	Gross KShs	ECL KShs	Net KShs	Gross KShs	ECL KShs	Net KShs
Classification of credit risk bearing assets:						
Cash and cash equivalent (Note 16)	54,217,528	-	54,217,528	23,695,848	-	23,695,848
Due from related party (Note 18)	57,658,379	-	57,658,379	4,177,827	-	4,177,827
Sundry receivables (Note 18)	17,696,871	-	17,696,871	11,370,919	-	11,370,919
Deposits with financial institutions (Note 17)	1,615,086,255	18,302,287	1,596,783,968	1,308,468,653	15,049,956	1,293,418,697
Investment in Government securities (Note 17)	898,502,853	2,698,803	895,804,050	384,359,660	1,146,314	383,213,346
Reinsurance premium receivable (Note 19)	1,176,898,822	272,325,390	904,573,432	531,648,256	157,362,423	374,285,833
	3,809,967,088	**293,326,480**	**3,516,640,608**	**2,263,721,163**	**173,558,693**	**2,090,162,470**

5. FINACIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Impairment approach

The expected credit loss for each asset was determined by estimating the probability of default, loss given default and the exposure at default. The probability of default for each of the assets was determined using the following approaches:

Low risk financial assets

- Reference to external credit ratings published by Standards & Poor. The default rates based on the tier of the banks was used for cash and bank deposits.
- For unrated banks in the same tier as a rated bank, a similar rating has been applied to banks in the same tier. For example, Standards & Poor has given a B+ rating to a Bank – all other unrated banks in the same tier have been rated as B+.
- For Government T-bills, Standards & Poor B+ Sovereign grade was used to determine the default rate based on Kenya's rating obtained from S&P.
- The government's bond rating was taken as the maximum rating for all other financial institutions.
- The loss given default was derived from the Moody's analytical global LGD tables for banking institutions.

Reinsurance receivables

- Analysis of historical ageing of premium receivables, with the assumption that receivables that are outstanding for over 365 days are defaulted. The assumed the minimum default rate for receivables is 0.1%. The historic default rates are determined based on the movements between March 2019 and December 2022.
- The loss given default was derived from the Moody's analytical global LGD tables for insurance counterparties.

Sundry and other receivables

- No impairment was assessed for the sundry receivables as they relate mostly intercompany balances with WAICA Reinsurance Corporation PLC with insignificantly low risk of default.

(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.

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

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

2022:	Up to 1 month KShs	1-3 Months KShs	3-12 Months KShs	1-5 Years KShs	More than 5 Years KShs	Total KShs
Liabilities						
Other payables	-	7,980,492	9,825,730	50,578,631	-	67,988,946
Lease liabilities	564,058	1,692,171	3,558,876	44,746,163	11,011,961	61,573,229
Reinsurance contract liabilities	-	468,398	568,831,830	334,101,743	-	903,401,971
Reinsurance payables	-	15,496,711	200,437,075	79,125,305	-	295,059,091
Total financial liabilities	**564,058**	**25,637,772**	**782,653,511**	**508,551,842**	**11,011,961**	**1,328,023,237**

2021:	Up to 1 month KShs	1-3 Months KShs	3-12 Months KShs	1-5 Years KShs	More than 5 Years KShs	Total KShs
Liabilities						
Other payables	-	4,803,435	50,534,993	12,196,404	-	67,534,832
Lease liabilities	229,704	674,446	1,695,485	25,577,362	13,434,225	43,118,287
Reinsurance contract liabilities	8,444,503	84,875,560	141,637,667	75,207,697	-	310,165,427
Reinsurance payables	1,096,437	19,570,967	47,911,019	88,119,813	-	156,698,236
Total financial liabilities	**9,770,644**	**109,924,408**	**241,779,164**	**201,101,276**	**13,435,225**	**577,516,782**

(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	
	2022 KShs	2021 KShs	2022 KShs	2021 KShs
USD Dollar	117.55	109.57	123.37	113.15

5. FINANCIAL AND REINSURANCE 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 USD foreign currency expressed in Kenya shillings (KShs)

	2022 KShs	2021 KShs
Assets		
Cash and cash equivalents	27,038,245	14,743,987
Fixed deposits	1,414,222,697	1,126,940,668
	1,441,260,942	**1,141,684,655**
Liabilities		
Reinsurance payables	(295,059,091)	(156,698,236)
Net position	**1,146,201,851**	**984,986,419**

Sensitivity analysis on exchange rates

A 10 percent strengthening of the shilling against US Dollar at 31 December 2022 and 31 December 2021 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

	2022 KShs	2021 KShs
USD	**(114,620,185)**	**(98,498,642)**

On the same basis, a 10 percent weakening of the shilling against the above currencies at 31 December 2021 and 31 December 2022 would have had equal but opposite effect on the currencies to the amounts shown above.

Interest risk

The Company's has fixed interest rate financial instruments which are government securities and deposits with financial institutions. Included in the table below are the company's assets at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Interest risk – continued

2022:	**Due within 3 months KShs**	**Due after 3 months but within 12 months KShs**	**Due between 1 and 5 years KShs**	**Over 5 years KShs**	**Non-interest bearing KShs**	**Total KShs**
Government securities	14,917,901	453,350,380	-	430,234,572	-	898,502,853
Deposits with financial institutions	185,304,519	1,429,781,737	-	-	-	1,615,086,256
Impairment of investment	-	(21,001,090)	-	-	-	(21,001,090)
Total assets	**200,222,420**	**1,862,131,027**	**-**	**430,234,572**	**-**	**2,492,588,019**

2021:	**Due within 3 months KShs**	**Due after 3 months but within 12 months KShs**	**Due between 1 and 5 years KShs**	**Over 5 years KShs**	**Non-interest bearing KShs**	**Total KShs**
Government securities	14,922,649	369,437,011	-	-	-	384,359,660
Deposits with financial institutions	226,405,800	1,082,062,853	-	-	-	1,308,468,653
Impairment of investment	-	(16,196,270)	-	-	-	(16,196,270)
Total assets	**241,328,449**	**1,435,303,594**	**-**	**-**	**-**	**1,676,632,043**

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Interest risk – continued

The Company's approach to managing interest rate risk is the maintenance of highly liquid short-term investment portfolio. The Company monitors the investment portfolio closely to redirect to investment vehicles with high returns.

The Company does not account for any fixed rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss. The Company did not have any variable-rate instruments at the year-end (2021 – Nil).

(d) Fair value

Except for government securities at amortized cost, the fair values of financial assets and financial liabilities not measured at fair value approximate to the carrying amounts due to their short term nature.

2022:	Other liabilities KShs	Loans and receivables KShs	Total carrying value KShs	Fair value KShs
Financial assets				
Reinsurance premium receivable	-	904,573,432	904,573,432	904,573,432
Due from related party	-	47,564,759	47,564,759	47,564,759
Other receivables	-	17,696,871	17,696,871	17,696,871
Investments	-	2,492,588,019	2,492,588,019	2,442,372,062
Cash and bank balances	-	54,263,824	54,263,824	54,263,824
	-	**3,526,780,525**	**3,526,780,525**	**3,746,564,568**
Financial liabilities				
Payables arising from reinsurance arrangement	295,059,091	-	295,059,091	295,059,091
Lease liability	38,598,026	-	38,598,026	38,598,026
Other liabilities	67,988,946	-	67,988,946	67,988,946
Provision for unearned premiums	806,403,735	-	806,403,735	806,403,735
Reinsurance contract liabilities	903,401,971	-	903,401,971	903,401,971
	2,111,451,769	-	**2,111,451,769**	**2,111,451,769**

6. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(d) Fair value (continued)

2021:	Other liabilities KShs	Loans and receivables KShs	Total carrying value KShs	Fair value KShs
Financial assets				
Reinsurance premium receivable	-	374,285,833	374,285,833	374,285,833
Due from related party	-	4,177,827	4,177,827	4,177,827
Other receivables	-	11,370,919	11,370,919	11,370,919
Investments	-	1,676,632,043	1,676,632,043	1,692,814,434
Cash and bank balances	-	23,741,363	23,741,363	23,741,363
	-	**2,090,207,985**	**2,090,207,985**	**2,106,390,376**
Financial liabilities				
Payables arising from reinsurance arrangement	156,698,236	-	156,698,236	156,698,236
Lease Liability	24,946,434	-	24,946,434	24,946,434
Other liabilities	67,534,832	-	67,534,832	67,534,832
Provision for unearned premiums	459,691,321	-	459,691,321	459,691,321
Reinsurance contract liabilities	310,165,427	-	310,165,427	310,165,427
	1,019,036,250	**-**	**1,019,036,250**	**1,019,036,250**

(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 a minimum level of paid up capital determined as the higher of the following 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 and Capital Adequacy Ratio (CAR) of 166% (2021 – 125%).

(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.

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(f) Operational risk (continued)

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.

(g) Reinsurance risk

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

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

Experience shows that the larger the portfolio of similar reinsurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its reinsurance underwriting strategy to diversify the type of risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate reinsurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The Company minimizes its exposure by purchasing retrocession protection from credible counter parties.

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(g) Reinsurance risk (continued)

The tables below provide disclosure of the concentration of reinsurance exposure by the main classes of business in which the Company operates.

Concentration of reinsurance exposure by the main classes of business in which the Company operates (gross and net of retrocession):

Year ended 31 December 2022		Total exposure				
Class of business		0-20 Million KSh'000	20-250 Million KSh'000	250-1000 Million KSh'000	Over 1,000 Million KSh'000	Totals K KSh'000
Aviation	Gross	41,829	588,800	4,589,871	1,299,929	**6,520,429**
	Net	41,829	588,800	4,081,257	1,299,929	**6,011,815**
Engineering	Gross	1,047,408	24,035,876	55,632,154	77,682,853	**158,398,291**
	Net	1,042,802	23,949,358	53,989,906	70,377,136	**149,359,202**
Fire domestic	Gross	-	771,576	252,642	-	**1,024,218**
	Net	-	771,576	252,642	-	**1,024,218**
Fire industrial	Gross	1,392,258	34,833,420	145,891,903	478,853,345	**660,970,926**
	Net	1,337,261	34,070,228	139,522,004	423,952,814	**598,882,307**
Liability	Gross	1,566,218	18,383,003	22,859,889	316,186,530	**358,995,640**
	Net	1,561,033	18,307,804	21,600,113	316,186,530	**357,655,480**
Marine	Gross	729,373	10,564,087	22,781,376	10,852,126	**44,926,962**
	Net	729,373	10,564,087	22,608,162	10,294,482	**44,196,104**
Motor private	Gross	318,142	326,784	-	-	**644,926**
	Net	318,142	326,784	-	-	**644,926**
Motor commercial	Gross	520,006	1,317,965	-	5,868,222	**7,706,193**
	Net	520,006	1,020,191	-	5,868,222	**7,408,419**
Personal accident	Gross	416,354	3,127,887	977,639	-	**4,521,880**
	Net	416,354	3,043,563	977,639	-	**4,437,556**
Theft	Gross	121,627	1,990,142	5,389,638	6,293,357	**13,794,764**
	Net	121,627	1,668,917	4,683,812	6,293,357	**12,767,713**
Workmen's' compensation	Gross	142,168	4,048,590	4,038,287	5,536,969	**13,766,014**
	Net	116,919	4,032,904	4,038,287	5,536,969	**13,725,079**

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(g) Reinsurance risk (continued)

Concentration of reinsurance exposure by the main classes of business in which the Company operates (gross and net of retrocession):

Year ended 31 December 2022		Total exposure				
Class of business		0-20 Million KSh'000	20- 250 Million KSh'000	250 -1000 Million KSh'000	Over 1,000 Million KSh'000	Totals K KSh'000
Medical	Gross	9,368	-	-	-	**9,368**
	Net	9,368	-	-	-	**9,368**
Miscellaneous	Gross	1,179,123	11,702,351	37,361,958	971,943,594	**1,022,187,026**
	Net	1,143,643	9,452,181	23,997,834	486,717,943	**521,311,601**
Total	**Gross**	**7,483,874**	**111,690,481**	**299,775,357**	**1,874,516,925**	**2,293,466,637**
Total	**Net**	**7,358,357**	**107,796,393**	**275,751,656**	**1,326,527,382**	**1,717,433,788**

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(g) Reinsurance risk (continued)

Concentration of reinsurance exposure by the main classes of business in which the Company operates (gross and net of retrocession):

Year ended
31 December 2021

		Total exposure				
Class of business		**0-20 Million KSh'000**	**20-250 Million KSh'000**	**250-1000 Million KSh'000**	**Over 1,000 Million KSh'000**	**Totals K KSh'000**
Aviation	Gross	6,263	872,029	-	-	**878,292**
	Net	6,263	872,029	-	-	**878,292**
Engineering	Gross	319,612	7,284,608	32,088,447	46,399,128	**86,091,795**
	Net	319,612	7,242,191	30,576,979	35,958,541	**74,097,323**
Fire domestic	Gross	3,537	198,021	-	-	**201,558**
	Net	3,537	198,021	-	-	**201,558**
Fire industrial	Gross	543,873	15,874,930	87,435,422	261,961,221	**365,815,446**
	Net	517,478	15,443,590	79,633,182	230,363,407	**325,957,657**
Liability	Gross	1,088,021	11,653,714	11,529,913	5,031,887	**29,303,535**
	Net	1,088,021	11,653,714	11,255,813	4,429,142	**28,426,690**
Marine	Gross	138,549	7,054,151	9,267,936	-	**16,460,636**
	Net	138,549	7,037,478	9,267,936	-	**16,443,963**
Motor private	Gross	20,518	265,413	-	-	**285,931**
	Net	20,518	265,413	-	-	**285,931**
Motor commercial	Gross	125,775	373,227	-	-	**499,002**
	Net	125,775	240,996	-	-	**366,771**
Personal accident	Gross	42,935	978,785	250,624	-	**1,272,344**
	Net	42,935	978,785	250,624	-	**1,272,344**
Theft	Gross	45,112	189,663	-	-	**234,775**
	Net	39,783	189,663	-	-	**229,446**

5. FINANCIAL AND REINSURANCE RISK MANAGEMENT (Continued)

(g) Reinsurance risk (continued)

Year ended 31 December 2021		Total exposure				
Class of business		**0-20 Million KSh'000**	**20-250 Million KSh'000**	**250-1000 Million KSh'000**	**Over 1,000 Million KSh'000**	**Totals K KSh'000**
Workmen's' compensation	Gross	34,978	1,248,815	570,374	-	**1,854,167**
	Net	26,482	1,228,588	570,374	-	**1,825,444**
Medical	Gross	969	-	-	-	**969**
	Net	969	-	-	-	**969**
Miscellaneous	Gross	396,659	3,117,478	2,487,960	2,741,000	**8,743,097**
	Net	396,659	3,111,850	2,049,401	1,315,680	**6,873,590**
Total	Gross	**2,766,801**	**49,110,834**	**143,630,676**	**316,133,236**	**511,641,547**
Total	Net	**2,726,581**	**48,462,318**	**133,604,309**	**272,066,770**	**456,859,978**

Sensitivity analysis

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

6. OPERATING SEGMENTS

(a) Basis of segmentation

The Company has the following 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
- Accidents and others
- Theft
- Workmens' compensation (WIBA)
- 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 Appendices on pages 73 to 74. 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. NET EARNED PREMIUM

	2022 KShs	2021 KShs
Gross premium written	3,261,156,646	1,484,374,127
Less: Unearned premium reserve (Note 28)	(318,972,247)	(156,462,101)
Gross premium earned	**2,942,184,399**	**1,327,912,026**
Less retrocession premiums	(405,739,498)	(231,545,053)
Net earned premiums	**2,536,444,901**	**1,096,366,973**

8. INVESTMENT INCOME

	2022 KShs	2021 KShs
Deposits with financial institutions	53,844,501	40,120,021
Government securities	56,951,221	22,433,589
Other income	123,573	68,154
	110,919,295	**62,621,764**

9. COMMISSIONS EARNED

	2022 KShs	2021 KShs
Commission income	**138,483,622**	**71,246,677**

10. CLAIMS

Class of insurance	Gross claims paid KShs	Change in net outstanding claims KShs	Reinsurance recoveries on paid claims KShs	31.12.2022 Net claims incurred KShs	31.12.2021 Net claims incurred KShs
Aviation	3,515,712	1,446,292	385,041	5,347,045	3,347,568
Engineering	67,720,126	3,615,276	-	71,335,402	98,940,996
Fire domestic	-	30,319	-	30,319	51,276
Fire industrial	134,241,906	385,263,944	(111,676,483)	407,829,367	139,585,961
Liability	59,342,334	26,875,902	(706,147)	85,512,089	10,997,376
Marine	118,197,699	28,359,868	(86,494,260)	60,063,307	8,824,905
Motor private	-	(166,819)	-	(166,819)	3,424,795
Motor commercial	16,678,568	58,973,224	-	75,651,792	2,969,473
Accident and others	-	(9,975,718)	-	(9,975,718)	49,943,181
Theft	12,341,412	8,377,049	-	20,718,461	43,349
Workmens' compensation	-	8,497,882	-	8,497,882	7,699,516
Medical	7,405,048	1,013,112	-	8,418,160	6,586,037
Miscellaneous	80,119,594	7,469,812	(1,618,977)	85,970,429	5,559,388
Total	**499,562,399**	**519,780,143**	**(200,110,826)**	**819,231,716**	**337,973,821**

11. MANAGEMENT EXPENSES

(a) Personnel expenses

	2022 KShs	2021 KShs
Salaries and wages	117,559,855	94,840,980
Other employee benefits	5,539,343	3,436,883
Other staff costs	3,066,958	754,289
	126,166,156	**99,032,152**

	2022	2021
Number of staff	10	8

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. As at 31 December 2022, there were no outstanding leave days (2021 - Nil).

11. MANAGEMENT EXPENSES (Continued)

(b) Other expenses

	2022 KShs	2021 KShs
Travelling and marketing	26,167,266	10,304,380
Directors' remuneration	24,187,323	15,309,113
Board expenses	18,510,681	4,960,638
Other operating costs	11,530,657	22,149,047
Legal and professional fees	9,365,101	8,338,428
Depreciation on property and equipment (Note 23)	6,205,162	12,907,687
Communication	5,149,624	4,000,330
Meetings, conferences, and trainings	4,005,124	4,205,620
Auditors' fees	3,300,000	3,000,000
Short term lease payments	2,779,901	2,311,135
Insurance	2,040,152	1,988,953
Repairs and maintenance	714,429	547,366
Motor running expenses	610,087	478,236
Advertising	524,018	402,316
Amortisation of intangible assets (Note 24)	510,045	510,045
Printing and stationery	110,741	45,002
	115,710,311	**91,458,306**

(c) Impairment of assets

	2022 KShs	2021 KShs
Impairment of reinsurance receivables	128,565,104	87,801,741
Impairment of investments	4,804,820	4,103,594
	133,369,924	**91,905,335**

12. BUSINESS ACQUISITION COST

	2022 KShs	2021 KShs
Gross business acquisition cost	1,053,048,503	423,207,550
Deferred acquisition cost (Note 21)	(110,538,385)	(57,352,649)
	942,510,118	**365,854,901**

13. NET FINANCE INCOME

	2022 KShs	2021 KShs
Forex exchange gain	173,667,213	33,946,920
Finance cost on investment	(8,656,596)	-
Interest expense on lease liability (Note 32(b))	(3,881,993)	(3,323,430)
	161,128,624	**30,623,490**

14. PROFIT BEFORE TAX

Profit before tax is arrived at after charging the following:

	2022 KShs	2021 KShs
Depreciation on property and equipment (Note 23)	6,205,162	12,907,687
Amortisation of intangible assets (Note 24)	510,045	510,045
Directors' remuneration (Note 31(a))	24,187,323	15,309,113
Auditor's remuneration (Note 11(b))	3,300,000	3,000,000

15. TAXATION

(a) Income tax charge

	2022 KShs	2021 KShs
Current income tax		
Current tax charge	240,762,333	120,679,473
Deferred income tax (Note 22)		
Prior year deferred tax adjustment	355,335	(2,701,996)
Current year movement	848,101	(36,569,771)
Total current tax charge	**241,965,769**	**81,407,706**

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

	2022 KShs	2021 KShs
Accounting profit before taxation	809,988,217	274,634,389
Tax at the applicable rate of 30% (2021 – 30%)	242,996,465	82,390,317
Tax effect of expenses not deductible and exempt income for tax purposes	(1,386,031)	1,719,385
Prior year deferred tax adjustment	355,335	(2,701,996)
	241,965,769	81,407,706

(b) Current tax payable

	2022	2021
Balance brought forward	87,305,654	25,230,242
Current period charge	240,762,333	120,679,473
Tax paid	(220,300,659)	(58,604,061)
Tax payable	**107,767,328**	**87,305,654**

16. CASH AND CASH EQUIVALENTS

	2022	2021
Cash in the bank	54,217,528	23,695,848
Cash at hand	46,296	45,515
	54,263,824	23,741,363

17. INVESTMENTS

	2022	2021
Balance 1 January	1,676,632,043	1,224,449,114
Purchase of government securities	513,525,737	134,215,226
Additional fixed deposits with financial institutions:		
– Classified as cash and cash equivalent in the statement of cash flows	-	20,002,202
– Classified as investment in statement of cash flows	302,430,239	297,965,501
Balance 31 December	**2,492,588,019**	**1,676,632,043**

17. INVESTMENTS (Continued)

	2022 KShs	2021 KShs
Maturity analysis:		
Due within 3 months of placement	-	20,002,202
Due after 3 months but within 12 months of placement	2,492,588,019	1,656,629,841
	2,492,588,019	**1,676,632,043**

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

	2022 KShs	2021 KShs
Due from related party (Note 31(b))	57,658,379	4,177,827
Sundry receivables	17,696,871	11,370,919
	75,355,250	**15,548,746**

19. NET REINSURANCE RECEIVABLES

	2022 KShs	2021 KShs
Due from cedants and brokers	1,495,634,435	781,946,476
Due from retrocessionaires	199,357,727	-
Commission payable	(518,093,340)	(250,298,220)
Impairment provision	(272,325,390)	(157,362,423)
	904,573,432	**374,285,833**

Ageing of net reinsurance premium receivables

	2022 KShs	2021 KShs
0 – 90 days	396,627,246	79,893,562
91– 180 days	248,354,655	170,212,377
181– 270 days	136,353,708	26,976,623
271 – 365 days	61,483,245	56,022,458
Over 365 days	61,754,578	41,180,813
	904,573,432	**374,285,833**

Allowances for impairment:

	2022 KShs	2021 KShs
As at 1 January	157,362,423	72,700,823
Impairment loss for the year Note (11 (c)	128,565,104	87,801,741
Write offs	(13,602,137)	(3,140,141)
As at 31 December	**272,325,390**	**157,362,423**

20. RETROCESSIONAIRES SHARE OF TECHNICAL LIABILITIES

	2022 KShs	2021 KShs
Balance as at 1 January	129,925,607	106,307,757
Additional retrocession provision	101,288,126	23,617,850
Balance as at 31 December	**231,213,733**	**129,925,607**

21. DEFERRED ACQUISITION COSTS

	2022 KShs	2021 KShs
Balance as at 1 January	148,026,634	90,673,985
Net movement during the year	110,538,385	57,352,649
Balance as at 31 December	**258,565,019**	**148,026,634**

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:

2022	Balance at 1 January 2022 KShs	Prior year adjustment KShs	(Credited)/ charged to profit or loss KShs	Balance at 31 December 2022 KShs
Property and equipment	(4,107,306)	-	627,105	(3,480,201)
Provisions	(58,858,515)	355,335	(41,695,092)	(100,198,272)
Unrealised exchange gain/(loss)	10,184,076	-	41,916,088	52,100,164
	(52,781,745)	**355,335**	**848,101**	**(51,578,309)**

2021	Balance at 1 January 2021 KShs	Prior year adjustment KShs	(Credited)/ charged to profit or loss KShs	Balance at 31 December 2021 KShs
Property and equipment	(2,052,323)	-	(2,054,983)	(4,107,306)
Provisions	(25,776,249)	(2,701,996)	(30,380,270)	(58,858,515)
Unrealised exchange gain/(loss)	14,318,594	-	(4,134,518)	10,184,076
	(13,509,978)	**(2,701,996)**	**(36,569,771)**	**(52,781,745)**

Deferred tax assets have been recognised because it is probable that future taxable profit will be available against which the Company can use the benefits therefrom.

23. PROPERTY AND EQUIPMENT

2022:	Right of use lease asset KShs	Motor vehicle KShs	Computer equipment KShs	Furniture and equipment KShs	Total KShs
Cost					
At 1 January 2022	25,902,699	17,301,375	2,625,200	22,239,593	68,068,867
Additions	14,988,274	-	1,112,904	24,318,055	40,419,233
At 31 December 2022	40,890,973	17,301,375	3,738,104	46,557,648	108,488,100
Depreciation					
At 1 January 2022	7,060,859	15,533,274	2,368,266	21,415,394	46,377,793
Charge for the year	2,869,809	1,392,727	325,186	1,617,440	6,205,162
At 31 December 2022	9,930,668	16,926,001	2,693,452	23,032,834	52,582,955
Net book amount At 31 December 2022	**30,960,305**	**375,374**	**1,044,652**	**23,524,814**	**55,905,145**

23. PROPERTY AND EQUIPMENT (Continued)

2021:	Right of use lease asset KShs	Motor vehicle KShs	Computer equipment KShs	Furniture and equipment KShs	Total KShs
Cost					
At 1 January 2021	25,902,699	17,301,375	2,451,200	22,239,593	67,894,867
Additions	-	-	174,000	-	174,000
At 31 December 2021	25,902,699	17,301,375	2,625,200	22,239,593	68,068,867
Depreciation					
At 1 January 2021	4,707,239	11,207,930	1,746,796	15,808,141	33,470,106
Charge for the year	2,353,620	4,325,344	621,470	5,607,253	12,907,687
At 31 December 2021	7,060,859	15,533,274	2,368,266	21,415,394	46,377,793
Net book amount					
At 31 December 2021	**18,841,840**	**1,768,101**	**256,934**	**824,199**	**21,691,074**

24. INTANGIBLE ASSETS - SOFTWARE

	2022 KShs	2021 KShs
Cost		
At 1 January	2,655,225	2,655,225
Additions	-	-
At 31 December	2,655,225	2,655,225
Depreciation		
At 1 January	1,007,345	497,300
Charge for the year	510,045	510,045
At 31 December	1,517,390	1,007,345
Net book value at 31 December	**1,137,835**	**1,647,880**

25. SHARE CAPITAL

Authorised, issued and fully paid:		
1,102,550 Ordinary shares of KShs 1,000 each		
Balance at 1 January and 31 December	**1,102,550,000**	**1,102,550,000**

The holders of ordinary shares are entitled to receive dividends when declared from time to time 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 2022 and 31 December 2021, 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

	2022 KShs	2021 KShs
Other creditors*	7,584,585	55,338,430
Lease liabilities (Note 32(b))	38,598,026	24,946,434
Other liabilities	60,404,361	12,196,402
	106,586,972	**92,481,266**

*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. PAYABLES ARISING FROM REINSURANCE ARRANGEMENTS

	2022 KShs	2021 KShs
Due to Retrocessionaires	506,636,581	253,978,029
Retro Commission receivable	(211,577,490)	(97,279,793)
	295,059,091	**156,698,236**

28. PROVISION FOR UNEARNED PREMIUM

	2022	2021
Gross unearned premium 1 January	459,691,321	290,981,653
Gross unearned premium 31 December	(806,403,735)	(459,691,321)
Gross unearned premium movement (A)	**(346,712,414)**	**(168,709,668)**
Deferred gross retrocessions at 1 January	73,547,959	61,300,392
Deferred gross retrocessions at 31 December	(101,288,126)	(73,547,959)
Deferred gross retrocessions movement (B)	**(27,740,167)**	**(12,247,567)**
Net unearned premium movement (A-B)	**(318,972,247)**	**(156,462,101)**

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 to net cash flows from operating activities**	2022 KShs	2021 KShs
Profit before taxation	809,988,217	274,634,389
Adjusted for:		
Interest on lease liability (Note 13)	3,881,993	3,323,430
Depreciation and amortization (Notes 23 & 24)	6,715,207	13,417,732
Exchange rate fluctuation on cash and cash equivalents	(1,418,887)	(681,917)
Net changes in:		
Reinsurance receivables (Note 19)	(530,287,599)	(154,226,703)
Retrocessionaires share of technical provision (Note 20)	(101,288,126)	(23,617,850)

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

(a) Reconciliation of operating profit to net cash flows from operating activities (continued)

	2022 KShs	2021 KS
Deferred acquisition cost (Note 21)	(110,538,385)	(57,352,649)
Other receivables (Note 18)	(59,806,504)	20,439,458
Reinsurance payables (Note 27)	138,360,855	35,552,964
Other payables, net of lease liabilities (Note 26)	454,114	5,127,980
Provision for unearned premium (Note 28)	346,712,414	168,709,668
Reinsurance contract liabilities (Note 33)	593,236,544	213,354,637
Net cash flows from operating activities before tax	**1,096,009,843**	**498,681,139**
Payment of lease interest	(3,881,993)	(3,323,430)
Income tax paid (Note 15(b))	(220,300,659)	(58,604,061)
Net cash flows from operating activities	**871,827,191**	**436,753,648**

(b) Analyses of cash and cash equivalents

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

	2022 KShs	2021 KShs
Cash and bank balances (Note 16)	54,263,824	23,741,363
Deposits with financial institutions maturing within 3 months (Note 17)	-	20,002,202
	54,263,824	**43,743,565**

30. CONTINGENT LIABILITIES

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

Government securities of KShs 215 million (2021 – KShs 180 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).

The Company is currently undergoing tax inspection for the financial years 2019 to 2021. The Company continues to hold discussions with Kenya Revenue Authority (KRA) in an attempt to resolve the matter in contention with the assistance of professional advisers. Management, based on the advise from professional tax advisors, is of the opinion that this will not be payable and as a result, no provision has been made in these financial statements.

31. RELATED PARTY TRANSACTIONS

The Company's majority owner and holding company is WAICA Reinsurance Corporation PLC, a company incorporated in Sierra Leone. The transactions are carried out at arm's length and are due on demand, non interest bearing and unsecured.

	2022 KShs	2021 KShs
(a) Directors' and key management remuneration		
Directors' fees	14,339,110	9,317,362
Directors' sitting allowance	9,848,213	5,991,751
	24,187,323	15,309,113
Key management remuneration	46,945,289	46,071,667
(b) Balances due from parent company		
Due from WAICA Reinsurance Corporation PLC	57,658,379	4,177,827

(c) Reinsurance transactions

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

	2022 KShs	2021 KShs
(i) Gross premium ceded out		
Gross premium ceded out	281,064,569	159,823,698
(ii) Commission earned		
Commission earned by WAICA Reinsurance (Kenya) limited	115,647,078	56,863,151
(iii) Outstanding commission balance		
Balance receivable by WAICA Reinsurance (Kenya) limited	174,193,681	43,010,813
(iv) Outstanding premium balance		
Balance receivable from WAICA Reinsurance (Kenya) limited	417,866,127	120,816,890

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.

32. LEASES (Continued)

(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.

	2022 KShs	2021 KShs
At 1 January	18,841,840	21,195,460
Addition	14,988,274	-
Depreciation charge for the year	(2,869,809)	(2,353,620)
At 31 December	**30,960,305**	**18,841,840**

(b) Lease liabilities

As at 31 December 2022, the future minimum lease payments under non-cancellable operating leases were payable as follows;

Maturity analysis – Contractual undiscounted cash flows	**2022 KShs**	**2021 KShs**
Tenancy		
Less than one year	5,815,105	4,106,700
Later than one year and not later than five years	44,746,163	25,577,362
Later than five years	11,011,961	13,434,225
Total undiscounted lease liability at 31 December	**61,573,229**	**43,118,287**

The movement in lease liabilities during the year 2022 is as follows:

	2022 KShs	2021 KShs
At 1 January	24,946,434	25,381,629
Additions	14,988,274	-
Lease interest charge	3,881,993	3,323,430
Lease rental payments	(5,218,675)	(3,758,625)
Balance at 31 December	**38,598,026**	**24,946,434**

(c) Amounts recognised in profit or loss

Finance cost on lease liabilities (Note 13)	3,881,993	3,323,430
Depreciation charge for the year	2,869,809	2,353,620
Expensed relating to short term lease (Note 11(b))	2,779,901	2,311,135
	9,100,668	**7,082,055**

(d) Amounts recognised in statement of cash flows

Payment of principal lease liabilities	1,336,682	435,195
Payment of lease interest	3,881,993	3,323,430
Total lease payments	**5,218,675**	**3,758,625**

33. REINSURANCE CONTRACT LIABILITIES

	2022 KShs	2021 KShs
Opening balance	(310,165,427)	(96,810,790)
Additional Incurred But Not Reported (IBNR) provision	(267,010,212)	(82,609,472)
Additional claims outstanding provision	(318,380,257)	(128,918,285)
Unallocated Loss Adjustment Expense (ULAE)	(7,846,075)	(1,826,880)
Insurance contract liabilities at 31 December	**(903,401,971)**	**(310,165,427)**

Triangulations are undertaken using both the booked premiums and the paid claims data and are based on the underwriting years vs booking year basis. The analysis is undertaken from the incorporation to current financial year. The claim triangulations are based on paid claims for each class of business. To enhance the credibility of the analysis some classes are combined for the analysis and then split to the respective reporting classes using earned premium factors.

Since the analysis is undertaken on an underwriting year basis rather than financial year basis, adjustments are made on the ultimate claims to reflect the claims that relate to the earned booked premium. The booked premium data is used to project the ultimate premiums including pipeline premiums that are yet to be booked in the financial statements but may have been earned. The projection is undertaken using the chain ladder method. The ratio of the ultimate claims determined by the chain ladder method to the ultimate premiums is then used to determine the initial loss ratio assumption for the B-F method.

A combination of the "Chain Ladder" and "Bornhuetter-Ferguson" (B-F) methods is used in the analysis. The methodologies used include an implicit assumption for inflation and therefore claim amounts have not been adjusted explicitly for inflation. For some classes of business, the ultimate loss ratio is further adjusted to reflect the limited data in the final 2 periods of the triangulations. The adjustment is guided by the actuaries view of the ultimate loss ratio and is based on the historical ultimate loss ratio trends.

The claims development tables per accident year are shown below:

Underwriting year	**2018 KShs**	**2019 KShs**	**2020 KShs**	**2021 KShs**	**2022 KShs**	**Total KShs**
Estimated ultimate claims cost						
At the end of accident year	-	5,794,450	14,978,339	63,537,129	161,016,306	**245,326,224**
One year later	19,025,681	22,743,858	77,121,983	297,528,758	-	**416,420,280**
Two years later	19,025,681	31,430,191	170,264,895	-	-	**220,720,767**
Three years later	30,523,869	44,493,576	-	-	-	**75,017,445**
Four years later	30,523,869	-	-	-	-	**30,523,869**
Cumulative payments to date	**99,099,100**	**104,462,075**	**262,365,217**	**361,065,887**	**161,016,306**	**988,008,585**

33. REINSURANCE CONTRACT LIABILITIES (Continued)

Underwriting year	**2018 KShs**	**2019 KShs**	**2020 KShs**	**2021 KShs**	**2022 KShs**	**Total KShs**
Gross outstanding claims notified provision	-	15,754,547	31,434,483	136,242,924	393,743,685	**577,175,639**
Liability incurred but not reported claims and unallocated loss adjustment expense	112,771	9,115,515	33,890,015	157,632,700	125,475,331	**326,226,332**
Total gross claims liabilities included in statement of financial position	**112,771**	**24,870,062**	**65,324,498**	**293,875,624**	**519,219,016**	**903,401,971**

34. 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 year end to the date the financial statements were signed.

WAICA REINSURANCE (KENYA) LIMITED

APPENDIX I- REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2022

Class of insurance	Aviation	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor private	Motor commercial	Personal accident	Theft	WIBA	Medical	Miscellaneous	Total
Gross premium written	26,103,863	545,307,673	640,713	1,538,357,057	99,593,248	108,330,187	51,611,573	37,884,307	172,892,129	60,064,031	148,054,373	62,148,038	410,169,454	3,261,156,646
Change in gross UPR	12,662,737	(147,502,727)	68,486	(115,699,826)	(7,148,566)	(5,372,967)	1,563,296	(4,088,071)	5,514,025	(6,342,162)	(10,658,894)	(4,720,328)	(37,247,250)	(318,972,247)
Gross earned premium	38,766,600	397,804,946	709,199	1,422,657,231	92,444,682	102,957,220	53,174,869	33,796,236	178,406,154	53,721,869	137,395,479	57,427,710	372,922,204	2,942,184,399
Less: Reinsurance premium	(9,444,777)	(65,056,027)	-	(278,847,278)	(17,042,390)	(9,493,366)	-	(11,705)	(107,721)	(3,675,765)	(16,262,811)	-	(5,797,658)	(405,739,498)
Net earned premiums	**29,321,823**	**332,748,919**	**709,199**	**1,143,809,953**	**75,402,292**	**93,463,854**	**53,174,869**	**33,784,531**	**178,298,433**	**50,046,104**	**121,132,668**	**57,427,710**	**367,124,546**	**2,536,444,901**
Gross Claims paid	(3,515,712)	(67,720,126)	-	(134,241,904)	(59,342,334)	(118,197,699)	-	(16,678,568)	-	(12,341,412)	-	(7,405,048)	(80,119,595)	(499,562,398)
Change in gross o/s claims	(1,367,218)	(2,711,933)	(28,903)	(389,203,035)	(26,245,713)	(28,046,567)	(6,848,403)	(5,592,185)	2,283,380	(2,009,116)	(7,023,510)	(151,206)	(52,835,735)	(519,780,144)
Claims recoveries	(385,041)	-	-	111,676,483	706,147	86,494,260	-	-	-	-	-	-	1,618,977	200,110,826
Net claims incurred	**(5,267,971)**	**(70,432,059)**	**(28,903)**	**(411,768,456)**	**(84,881,900)**	**(59,750,006)**	**(6,848,403)**	**(22,270,753)**	**2,283,380**	**(14,350,528)**	**(7,023,510)**	**(7,556,254)**	**(131,336,352)**	**(819,231,716)**
Commissions income	1,708,193	8,003,389	-	115,326,153	1,424,165	292,524	-	4,654	-	154,112	9,026,040	-	2,544,392	138,483,622
Commission expense	(9,186,451)	(129,522,585)	(306,951)	(454,642,699)	(37,094,958)	(29,074,120)	(13,079,095)	(4,973,312)	(45,078,724)	2,233,223	(50,749,189)	(6,518,444)	(164,516,813)	(942,510,118)
Net Commission	**(7,478,258)**	**(121,519,196)**	**(306,951)**	**(339,316,546)**	**(35,670,793)**	**(28,781,596)**	**(13,079,095)**	**(4,968,658)**	**(45,078,724)**	**2,387,335**	**(41,723,149)**	**(6,518,444)**	**(161,972,422)**	**(804,026,497)**
Management expenses	(4,411,450)	(46,729,604)	(531,785)	(179,328,222)	(58,817,298)	(25,424,816)	(4,897,136)	(4,897,136)	(11,025,650)	(9,528,573)	(6,021,031)	(2,494,938)	(21,138,752)	(375,246,391)
Underwriting profit/(loss)	**12,164,144**	**94,068,060**	**(158,440)**	**213,396,729**	**(103,967,699)**	**(20,492,564)**	**28,350,235**	**1,647,984**	**124,477,439**	**28,554,338**	**66,364,978**	**40,858,075**	**52,677,021**	**537,940,298**
Investment Income	1,282,250	14,551,184	31,013	50,019,062	3,297,359	4,087,194	2,325,349	1,477,405	7,797,030	2,188,527	5,297,158	2,511,326	16,054,438	110,919,295
Results from operating Activities	**13,446,394**	**108,619,243**	**(127,427)**	**263,415,791**	**(100,670,340)**	**(16,405,370)**	**30,675,584**	**3,125,389**	**132,274,469**	**30,742,865**	**71,662,136**	**43,369,401**	**68,731,459**	**648,859,593**

WAICA REINSURANCE (KENYA) LIMITED

APPENDIX II- REVENUE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

Class of insurance	Aviation	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor private	Motor commercial	Personal accident	Theft	WIBA	Medical	Miscellaneous	Total
Gross premium written	43,546,719	215,171,951	200,103	728,808,521	121,834,977	14,953,189	13,054,424	48,565,345	111,946,403	7,166,250	83,085,948	6,127,519	89,912,780	1,484,374,129
Change in gross UPR	(19,684,096)	(7,335,032)	357,968	(108,390,027)	988,474	7,687,637	(1,391,509)	(3,759,087)	(22,628,580)	598,252	(11,922,805)	(792,659)	9,809,361	(156,462,103)
Gross earned premium	23,862,623	207,836,919	558,071	620,418,494	122,823,451	22,640,826	11,662,915	44,806,258	89,317,823	7,764,502	71,163,143	5,334,860	99,722,141	1,327,912,026
Less: Reinsurance premium	(3,488,758)	(56,929,498)	-	(154,046,449)	(10,134,752)	(3,450,552)	-	(9,743)	-	-	(301,404)	-	(3,183,898)	(231,545,054)
Net earned premiums	**20,373,865**	**150,907,421**	**558,071**	**466,372,045**	**112,688,699**	**19,190,274**	**11,662,915**	**44,796,515**	**89,317,823**	**7,764,502**	**70,861,739**	**5,334,860**	**96,538,243**	**1,096,366,972**
Gross Claims paid	-	(22,223,353)	-	(58,134,959)	-	(24,418,007)	-	(2,889,474)	(28,933,235)	(6,105)	-	(6,137,788)	(864,618)	(143,607,539)
Change in gross o/s claims	(3,347,568)	(76,717,643)	(51,276)	(89,069,074)	(10,997,376)	15,593,102	(3,424,795)	(79,999)	(21,009,946)	(37,244)	(7,699,516)	(448,249)	(4,694,771)	(201,984,355)
Claims recoveries	-	-	-	7,618,071	-	-	-	-	-	-	-	-	-	7,618,071
Net claims incurred	**(3,347,568)**	**(98,940,996)**	**(51,276)**	**(139,585,962)**	**(10,997,376)**	**(8,824,905)**	**(3,424,795)**	**(2,969,473)**	**(49,943,181)**	**(43,349)**	**(7,699,516)**	**(6,586,037)**	**(5,559,388)**	**(337,973,823)**
Commissions income	153,637	10,514,764	-	49,770,946	1,059,592	143,808	-	1,039,286	17,506	65,570	7,717,095	-	764,472	71,246,676
Commission expense	(6,163,323)	(56,813,160)	(63,503)	(179,877,148)	(28,918,780)	(19,926,772)	(1,587,817)	(2,984,936)	(28,099,387)	(2,010,686)	(18,850,995)	(3,554,338)	(17,004,056)	(365,854,901)
Net Commission	**(6,009,686)**	**(46,298,396)**	**(63,503)**	**(130,106,202)**	**(27,859,189)**	**(19,782,964)**	**(1,587,817)**	**(1,945,649)**	**(28,081,881)**	**(1,945,116)**	**(11,133,900)**	**(3,554,338)**	**(16,239,585)**	**(294,608,226)**
Management expenses	(5,327,596)	(36,550,381)	(417,531)	(128,907,742)	(53,604,439)	(5,019,563)	(3,546,994)	(10,640,983)	(8,075,629)	(2,036,437)	(4,410,046)	(3,417,118)	(20,441,333)	(282,395,793)
Underwriting profit/(loss)	**5,689,015**	**(30,882,352)**	**25,761**	**67,772,139**	**20,227,696**	**(14,437,157)**	**3,103,309**	**29,240,410**	**3,217,132**	**3,739,600**	**47,618,277**	**(8,222,632)**	**54,297,937**	**181,389,135**
Investment Income	1,163,705	8,619,458	31,876	26,638,015	6,436,499	1,096,101	666,157	2,558,666	5,101,613	443,489	4,047,447	304,714	5,514,025	62,621,764
Results from operating Activiti	**6,852,719**	**(22,262,895)**	**57,637**	**94,410,155**	**26,664,195**	**(13,341,056)**	**3,769,466**	**31,799,076**	**8,318,745**	**4,183,089**	**51,665,724**	**(7,917,918)**	**59,811,962**	**244,010,899**