

Liberty Kenya Holdings Plc

The Board of Directors of Liberty Kenya Holdings Plc is pleased to announce the audited results of the Group for the year ended 31 December 2018



GROUP STATEMENT OF FINANCIAL POSITION

	31 Dec 2018	31 Dec 2017	1 Jan 2017
	Shs'000	Restated Shs'000	Restated Shs'000
Ordinary share capital	535,707	535,707	535,707
Share premium	1,490,480	1,490,480	1,490,480
Revenue and other reserves	5,370,803	5,175,828	4,506,296
Equity attributable to owners of parent	7,396,990	7,202,015	6,532,483
Non-controlling interest	281,046	291,550	331,925
Total equity	7,678,036	7,493,565	6,864,408
REPRESENTED BY:			
Assets			
Property and equipment	1,218,612	1,251,319	1,243,243
Intangible assets	168,577	150,362	98,323
Goodwill	1,254,995	1,254,995	1,254,995
Investment property	760,855	876,434	907,626
Financial investments	22,456,803	24,983,002	21,896,541
Receivable arising from reinsurance	161,224	764,875	490,076
Receivable arising from direct insurance	824,923	925,690	1,439,313
Reinsurers' share of insurance liabilities	2,701,761	2,379,010	2,315,493
Deferred acquisition costs	72,268	26,588	22,735
Other receivables	276,682	783,548	332,236
Deferred income tax	221,494	228,172	131,175
Current income tax	94,922	25,471	29,559
Non-current assets held for sale	125,000	-	-
Cash and cash equivalents	6,240,923	3,689,506	4,936,638
Total assets	36,579,039	37,338,972	35,097,953
Liabilities			
Insurance contract liabilities	6,643,294	6,181,886	5,933,688
Investment contracts liabilities	9,892,067	8,926,121	6,111,588
Investment contracts with discretionary participation features	5,860,977	7,833,598	10,367,517
Unearned premium reserve	3,054,112	3,007,402	3,026,221
Creditors arising from direct insurance	552,382	585,119	449,403
Creditors arising from reinsurance	673,563	842,072	589,770
Other liabilities	1,069,396	1,348,278	827,916
Deferred income tax	1,048,660	1,085,120	907,839
Current income tax	106,552	36,511	19,603
Total liabilities	28,901,003	29,845,407	28,233,545
Net assets	7,678,036	7,493,565	6,864,408

GROUP STATEMENT OF PROFIT OR LOSS

	31 Dec 2018	31 Dec 2017
	Shs'000	Restated Shs'000
Income		
Gross earned premium revenue	10,217,603	10,493,560
Less: Outward reinsurance	(3,908,377)	(4,162,811)
Net insurance premium revenue	6,309,226	6,330,749
Commissions earned	844,015	965,459
Investment income	125,156	2,434,872
Interest income on financial assets held at amortised cost	415,752	167,699
Fair value (loss)/gain on financial investments	1,602,263	520,621
Administration fees	15,638	14,641
Loss on disposal of subsidiary	-	(10,549)
Total income	9,312,050	10,423,492
Claims and policyholder benefits payable	(5,306,021)	(6,091,026)
Change in insurance contract liabilities	(689,723)	(663,247)
Amounts recoverable from reinsurers	1,802,243	1,771,564
Commissions payable	(1,166,084)	(1,171,902)
Other operating expenses	(3,027,509)	(3,164,611)
Claims and expenses	(8,387,094)	(9,319,222)
Profit before income tax	924,956	1,104,270
Income tax expense	(316,534)	(429,697)
Profit for the year	608,422	674,573
Attributable to :-		
Owners of parent	552,607	653,791
Non-controlling interest	55,815	20,782
	608,422	674,573
Basic and diluted earnings per share (Shs)	1.03	1.22

ABRIDGED GROUP STATEMENT OF CASH FLOWS

	31 Dec 2018	31 Dec 2017
	Shs'000	Shs'000
Cash used in operations	1,302,233	(984,773)
Net interest received	276,105	2,520,967
Income tax (paid)/recovery	(345,729)	(560,542)
Net cash generated from operating activities	1,232,609	975,652
Cash earned from / (used in) investing activities	1,659,656	(2,220,629)
Cash flows used in financing activities	(323,186)	-
Net increase/(decrease) in cash equivalents	2,569,079	(1,244,977)
Cash and cash equivalents at 1 January	3,689,506	4,936,638
Currency translation differences	(17,662)	(2,155)
Cash and cash equivalents at the end of the year	6,240,923	3,689,506

GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

	31 Dec 2018	31 Dec 2017
	Shs'000	Restated Shs'000
Profit for the period	608,422	674,573
Items that can be reclassified subsequently to profit or loss:		
Foreign currency	(34,650)	(4,244)
Items that cannot be reclassified subsequently to profit or loss:		
Gain on revaluation of owner occupied property	14,879	228,977
Recognition of deferred income tax on revaluation of owner occupied property	(1,086)	(31,100)
Change in long term policyholder insurance liabilities (OCI) - effect of shadow accounting	(11,259)	(78,632)
Other comprehensive (loss)/income for the year net of tax	(32,116)	115,001
Total comprehensive income for the period	576,306	789,574
Total comprehensive income attributable to:		
Owners of parent	531,478	774,394
Non-controlling interest	44,828	15,180
Total comprehensive income for the period	576,306	789,574

ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY SHARE

	Share Capital	Share Premium	Revenue and other reserves	Non- controlling interest	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2018 - as reported	535,707	1,490,480	5,110,833	291,550	7,428,570
Change in liabilities - applicable to revaluation of land	-	-	(78,632)	-	(78,632)
Gain on land revaluation	-	-	151,477	-	151,477
Deferred tax on revaluation gains	-	-	(7,850)	-	(7,850)
At 1 January 2018 - restated	535,707	1,490,480	5,175,828	291,550	7,493,565
IFRS 9 transition adjustment	-	-	(98,071)	-	(98,071)
Deferred tax on IFRS 9 transition adjustment	-	-	29,422	-	29,422
Net profit for the year	-	-	552,607	55,815	608,422
Gain on revaluation of owners occupied property	-	-	14,879	-	14,879
Recognition of deferred income tax on revaluation of owner occupied property	-	-	(1,086)	-	(1,086)
Change in long term policyholder insurance liabilities (OCI) - effect of shadow accounting	-	-	(11,259)	-	(11,259)
Foreign currency translation	-	-	(23,663)	(10,987)	(34,650)
Dividend paid to shareholders	-	-	(267,854)	-	(267,854)
Dividend paid to non-controlling interests	-	-	-	(55,332)	(55,332)
At 31 December 2018	535,707	1,490,480	5,370,803	281,046	7,678,036

MESSAGE FROM THE DIRECTORS

The Board of Directors is pleased to announce the Group results for the year ended 31 December 2018.

Accounting policies

The accounting policies applied in the preparation of these annual financial statements are in terms of IFRS and are consistent with those applied in the prior year Group annual financial statements except for the accounting policy changes detailed below, and mandatory adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Under the transitional approach adopted by the Group for these standards, there was no change to comparative period primary financial statements or note disclosures. The impact to the Group's opening retained income as at 1 January 2018 was a reduction of KShs 69 million after taxation (relating to IFRS 9 only). Consequential amendments were made to IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments. Disclosures impacted only the 2018 annual financial statements.

Presentation change due to IFRS 9, adopted in line with the entity's transition approach

The Group re-assessed its accounting presentation policy of all IFRS 9 related transactions. As part of the IFRS 9 implementation, all income statement movements on financial instruments held at fair value through profit or loss (including interest and dividends) are prospectively presented as fair value adjustments.

Restatements

Accounting policy adjustments

Deferred Tax

The Group deferred income tax on actuarial surplus previously recognised in Equity is now recognised directly in the income statement. The change to the said basis of accounting in accordance with IAS 8 (Accounting policies, changes in accounting estimates and errors) requires a restatement of the financial statements as a correction of a prior period error as defined in IAS 8, as it arose from the change in interpretation of an accounting policy.

The application of above required retrospective adjustments to the financial statements and the 2017 income statement has been charged KShs 172m.

IFRS classification of deposit administration contract liabilities

These are contracts with a discretionary participation feature (DPF) and should be classified as investment contracts with DPF, which are within the scope of IFRS 4 Insurance Contracts. The DPF feature entitles the holder to receive benefits or bonuses whose amount or timing is contractually at the discretion of the issuer. The change was a re-classification without impact on the net earnings or net asset value of the Group.

Investment and owner-occupied properties and the adoption of shadow accounting

The Group has adopted for the first time, effective 1 January 2018, an accounting policy for shadow accounting as permitted under IFRS 4 Insurance Contracts. The shadow accounting will be applied to the allocation of changes to policyholder liabilities arising from fair value re-measurement of owner-occupied properties held to match obligations under insurance contracts. Previously a mismatch was created as the change to the insurance policyholder liability was reflected in profit or loss whilst the matching asset re-measurement was reflected in other comprehensive income as required by IAS 16 Property, Plant and Equipment. The adoption of shadow accounting allows the relevant change in the insurance liability to be reflected in other comprehensive income thereby eliminating the mismatch in presentation.

Treatment of leasehold land

The Group changed its accounting policy in 2018 to include leasehold land component of investment property in determining the fair value of the property in accordance with IAS 40.

Operating results

Overall, Group earnings after tax were 9% below 2017 on a re-stated basis. The operating businesses however showed great resilience under a difficult operating environment characterised by stunted premium growth in Kenya and Tanzania. Third quarter Insurance Regulatory Authority (IRA) statistics indicated that the insurance industry in Kenya grew by only 1.7% while in the Half year report by Tanzania Insurance regulatory authority indicated a premium growth of 3.9% in Tanzania.

During the year, the equity market was on a downward trend, with NASI, NSE 25 and NSE 20 declining by 18.0%, 17.1% and 23.7% respectively. Similarly the yields in Government securities both in Kenya and Tanzania reflected a declining trend, impacting investment earnings. The Group managed operating and business acquisition costs to similar levels recorded in 2017 in line with flat growth in premium income. The claims costs, however, declined on account of lower policy terminations.

Outlook

The Group continues to review the business operational processes to create efficiencies and improved effectiveness in service delivery to our customers, through an update of the Policy Administration Systems, and other data automation management processes. In addition, in preparation for International Reporting Standard IFRS 17 that takes effect from reporting period 2022 (following IASB due process), the Group has set up a project team to manage the transition.

Dividends

The Directors will consider a first and final dividend which shall be included in the Notice of Annual General Meeting in due course.

Annual General Meeting

Notice is hereby given that the 14th Annual General Meeting of the Company will be held in Nairobi on Thursday 6th June 2019, at the Intercontinental Hotel.

The Financial Statements were approved by the Board on 28 March 2019.

P. Odera
Chairman

G. May
Director

M.L. du Toit
Managing Director.