



Tausi Assurance Company Limited



ANNUAL REPORT

AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
31ST DECEMBER 2016



A Symbol of Trust Security and Progress

Tausi Assurance Company Limited

Vision

To be the insurance provider of first choice

Mission

To provide general insurance services in Kenya

Core Values

- Integrity
- Innovation
- Accountability
- Professionalism
- Customer focus
- Team spirit
- Fairness

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COMPANY INFORMATION

BOARD OF DIRECTORS	:	Mr. R.C. Kantaria	Chairman
	:	Mrs. R. Thatthi	Managing Director/Principal Officer
	:	Mr. S.K. Shah	
	:	Mr. A.R. Kantaria	
	:	Mr. D.S Bid	
	:	Mr. D. Kapila	(Resigned on 01 June 2016)
	:	Mr. R.S. Sehmi	(Resigned on 14 March 2017)
	:	Mr. S.O.J. Mainda	(Appointed with effect from 15 March 2017)
	:	Mr. P.T. Warutere	(Appointed with effect from 16 March 2017)
COMPANY SECRETARIES	:	Mr. N.P. Kothari (FCPS Kenya)	
EXECUTIVE MANAGEMENT	:	Mrs. R. Thatthi	Managing Director/Principal Officer
	:	Ms. W. Muoki	Legal and Claims Manager
	:	Mr. J. Macharia	Underwriting Manager (Resigned on 5 th April 2017)
	:	Mr. T. Njoroge	IT Manager
	:	Mr. S. Khosla	Head of Actuarial Department
	:	Mr. S. Ogunde	Reinsurance Manager
	:	Mr. W. Orwe	Internal Auditor
	:	Mr. M. Mwangi	Deputy Manager - Accounts
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS		L.R. No. 209/2259/1 Tausi Court, Tausi Road Off Muthithi Road, Westlands P. O. Box 28889, 00200 NAIROBI Tel: 3746602/3/17 Mobile: 0729145888/0735145020 Fax: 3746618	
INDEPENDENT AUDITOR		PKF Kenya Certified Public Accountants P. O. Box 14077, 00800 NAIROBI	
ACTUARIES		Agency Advisory Actuarial Services P. O. Box 38251, 00623 NAIROBI	
PRINCIPAL BANKER		Prime Bank Limited P. O. Box 43825, 00100 NAIROBI	
LEGAL ADVISORS		Mandla & Sehmi Advocates P. O. Box 48642, 00100 NAIROBI	Macharia Mwangi & Njeru Advocates P. O. Box 10627, 00100 NAIROBI
		Wanja & Kibe Advocates P. O. Box 1382, 80100 MOMBASA	Daly & Inamdar Advocates P. O. Box 80483, 80100 MOMBASA
		Muchui & Company Advocates P. O. Box 61901, 00200 NAIROBI	Mucheru Oyatta & Associates Advocates P. O. Box 7769, 00200 NAIROBI



BOARD OF DIRECTORS

Rasik Kantaria

Mr. Rasik Kantaria joined the Tausi Board in 1993 and was elected Chairman in March 2006. A Bachelor of Science (Economics) graduate, Mr. Kantaria is also the Chairman of Prime Bank Limited, Leisure Lodge Beach and Golf Resort and First Merchant Bank, Malawi. He is a Director of Deposit Protection Fund Board of Kenya.



Dilesh S. Bid

Mr. Dilesh S. Bid joined the Tausi Board in September 2009. He has over 30 years experience in the insurance industry and has served on the executive Board of the Association of Insurance Brokers of Kenya for over 10 years. In the year 2008 he was appointed by the Insurance Regulatory Authority to serve as a member of the Industry Risk Evaluation Committee; which position he continues to hold.



Shantilal Shah

Mr. Shantilal Shah joined the Tausi Board in May 2005 and chairs the Audit Board Committee of the Company. A Bachelor of Commerce (Honours) graduate, Mr. Shantilal Shah is an FCA(Chartered Accountant, UK), an FCPA (Certified Public Accountant, Kenya) and a CPS (Certified Public Secretary, Kenya). He is also a Director of Prime Bank Limited.



Amar Kantaria

Mr. Amar Kantaria joined the Tausi Board in June 2007 and chairs the Asset/Liability Board committee of the Company. A Bachelor of Arts (Honours) graduate, Mr. Amar Kantaria has an MBA in International Management. Currently the Executive Director of Prime Bank Limited, Mr. Kantaria is also a Director of Kenya Community Development Fund and Treasurer of the Rotary Club Nairobi.



Dinesh Kapila

Mr. Dinesh Kapila joined the Board in November 2012, and is a Barrister at Law from Lincoln's Inn, England, advocate of the High Court of Kenya, partner with D. V Kapila & Co., a legal practitioner in corporate, commercial and conveyancing matters. Has served on AG's Task Force on companies, been a member of committees of Nairobi Securities Exchange, advised on privatization as a member of Parasternal Reform Program Committee of GOK and board of various other companies. He resigned on 1st June 2016



Rapinder. S. Sehmi

Mr. R. S Sehmi joined the Tausi Board in March 2015. He is a Barrister at Law called to the Bar at Lincoln's Inn, England in 1961. He was enrolled as an Advocate of the High Court of Kenya in 1962 and worked with the office of the Attorney General from 1962-1974. Mr. Sehmi has practiced in the firm name of Mandla & Sehmi Advocates, Nairobi since the year 1974. He resigned on 14th March 2017.



Dr. Steve O. Mainda

Dr. Steve O. Mainda holds a Doctorate (Honoris Causa) from the University of East Africa. He also holds a Master's degree in Management from Princeton University and a Diploma in Management from Cambridge University and a Diploma in Education from University of East Africa, Makerere College. He is a member of the Chartered Institute of Insurance of London and a Fellow of the Institute of Directors of London. Dr. Mainda has a wealth of experience in finance, Insurance, strategic management and education. He is currently the Group Chairman of Housing Finance Group of Companies and also the Chairman of Continental Reinsurance Company. He also sits on the Boards of several companies in East Africa. He has vast public and private sector management and leadership experience gained through assignments both locally and international. In recognition of his distinguished service, he was awarded "Elder of Burning Spear (EBS)" by the retired President Mwai Kibaki. Dr. Mainda served as the Chairman of Insurance Regulatory Authority for many years.



P. T. Warutere

Mr. P.T. Warutere joined the Tausi Board in March 2017. He is a development economist with over 30 years of experience in strategic communications and governance. He holds a Master of Philosophy degree in Business Administration from Maastricht School of Management in Netherlands, a Master of Economics and Social Studies degree from University of Manchester in UK, and a Bachelor of Education degree in Economics and Business Studies from University of Nairobi. He has worked in senior positions in several organizations, more recently at the World Bank Group. He is also an accomplished editor and writer on development issues. Mr. Warutere is also a director of Mashariki Communications and Mashariki Knowledge Academy.



Nalin Kothari

Partner - Company Secretary:- Axis Kenya



Nalin having been in private practice for many years, has wide and varied exposure and experience in company law and company secretarial practice in Kenya. He has been the Company Secretary to a number of public companies including listed companies, private companies, multinationals overseas branches, charitable trusts and pension and provident schemes. He has given briefs in training programmes of client companies. He has been registrar for a number of listed companies and Bond issues. He has also provided company secretarial services for companies in Uganda and Tanzania. He is a Fellow of the Certified Public Secretaries, Kenya and a Fellow of the Institute of Chartered Secretaries and Administrators, UK and holds a degree in law. He is the founder member of the Council of Institute of Certified Public Secretaries of Kenya and was appointed one of the first members of the Registration Board of Certified Public Secretaries.



Mrs. Rita Thatthi

Mrs. Rita Thatthi joined the Tausi Board in 2007 as the CEO and Principal Officer. She holds a Bachelor's degree in Commerce (Accounting Option) from the University of Nairobi and is an Associate member of the Chartered Insurance Institute of England. She has worked in the Insurance industry for over 30 years, having started her career in 1983. She worked with Kenindia Assurance Company Ltd and Corporate Insurance Co. Ltd prior to joining Tausi Assurance Co. Ltd. Rita was promoted to the position of a Managing Director at Tausi on 10th February 2015.



EXECUTIVE MANAGEMENT



MRS. RITA THATTHI
Managing Director and Principal Officer

Qualifications:
BCom Honours (Accounting Option) - University of Nairobi
Associate of the Chartered Insurance Institute (ACII) (U.K.)
Started Insurance Career in 1983
Email: rita_thatthi@tausiassurance.com

MS. WINFRED MUOKI
Claims and Legal Manager

Qualifications:
Bachelor of Law - Dr. Babasaheb Ambedkar Marathwada University (India)
Bachelor of Social Legislation - Dr. Babasaheb Ambedkar Marathwada University (India)
Certified Public Secretary (CPS) - (Kenya)
Advocate (Kenya)
Started Insurance Career in 2004
Email: winnie@tausiassurance.com



MR. JAMES N. MACHARIA
Underwriting Manager

Qualifications:
BCom (Insurance Option) - University of Nairobi
MBA (Strategic Management) - University of Nairobi
Associate of the Chartered Insurance Institute (ACII) (U.K.)
Associate of Chartered Institute of Arbitrators (ACI Arb)
Started Insurance Career in 1999
Email: jmacharia@tausiassurance.com
He resigned on 5th April 2017.

MR. STEVE OGUNDE
Reinsurance Manager

Qualifications:
Started Insurance Career in 1996
Email: steve@tausiassurance.com



MR. THOMAS NJOROGE
ICT Manager

Qualifications:
Bachelor of Information Technology - Kenyatta University
Oracle Certified Professional (OCP)
Microsoft Certified Systems Engineer (MCSE)
Cisco Certified Network Associate (CCNA)
ITIL V3 - I.T Service Management
Diploma - Chartered Insurance Institute, DIP- CII (Claims)
Started Insurance Career in 2006
Email: thomas.njoroge@tausiassurance.com

MR. WILLYS ODUOR ORWE
Head of Internal Audit

Qualifications:
Bachelor of Business Management (Accounting option) - Egerton University
MBA (Finance option) - University of Nairobi
Certified Public Accountant of Kenya (CPAK)
Member of Institute of Internal Auditors (IIA)
Started Insurance Career in 2010
Email: worwe@tausiassurance.com



MR. SAHIB SINGH KHOSLA
Head of Actuarial Department

Qualifications:
B.Sc. Actuarial Science (Hons.) - University of Nairobi
M.Sc. Actuarial Management - Cass Business School (U.K.)
Diploma in Actuarial Techniques - Institute & Faculty of Actuaries (U.K.)
Started Insurance Career in 2009
Email: skhosla@tausiassurance.com

Mathew Mwangi
Deputy Manager - Accounts

Qualifications:
B.A. (Economics & Sociology), University of Nairobi
M.B.A (Finance), University of Nairobi
Certified Public Accountant (CPA(k))
Associate of the Insurance Institute of Kenya (AIK)

Started Insurance career in the year 2009.
Email: mmwangi@tausiassurance.com



CHAIRMANS' STATEMENT

Rasik Kantaria

substantially from 44% to 40% over the same period. This was due to the effective risk management and internal control procedures in place. The Company recorded an overall improvement in its performance in 2016, as a combined ratio of 81% was achieved as compared to 87% in the previous year.

The Company's investment objective is to yield high returns from safe and well diversified investments. The investment income for the year increased by 3% from KES 143 million for the previous year to KES 148 million for the current year.

The shareholders' funds increased by 10%, from KES 993 million to pass the KES 1 Billion mark (KES 1,097 million). Return on equity stood at 16% compared to 14% in 2015. In keeping with the Company's policy, a dividend of KES 10 per share was declared and paid during the year.

Going forward, I am confident that the Company will fully achieve its next set of laid out strategies and goals and continue adding shareholder value. Our commitment to deliver on our promise to our esteemed customers is stronger than ever as we believe in putting our customers first.

Our clients are the cornerstone of our success and I sincerely thank them for their support and on our part, assure them the highest standard of service. I express my sincere appreciation to our agents and brokers, without whose loyal support it would have been difficult to achieve the results recorded.

I express my gratitude to the Insurance Regulatory Authority, re-insurers and other business associates for their unfailing support during the year.

On behalf of the Board of Directors and shareholders, I take this opportunity to thank the management and staff for their dedicated service to the Company and urge them to redouble their efforts in taking the Company to even greater heights.

I express my sincere appreciation to the Board for their unfailing support and guidance throughout the year.

RASIK KANTARIA



It gives me great pleasure in presenting the Annual Report and Financial Statements for Tausi Assurance Company Ltd for the year ended 31st December 2016.

The Company had a superior performance in the year 2016, recording an increase in profit before tax of 18% to stand at KES 237 million compared to KES 200 million for 2015.

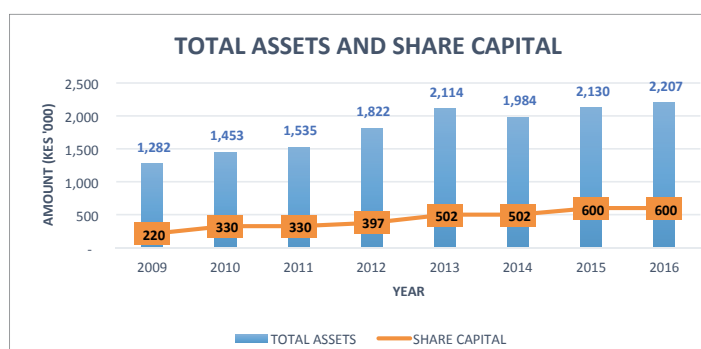
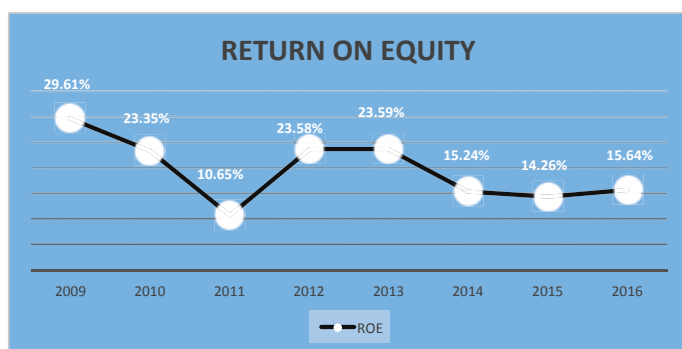
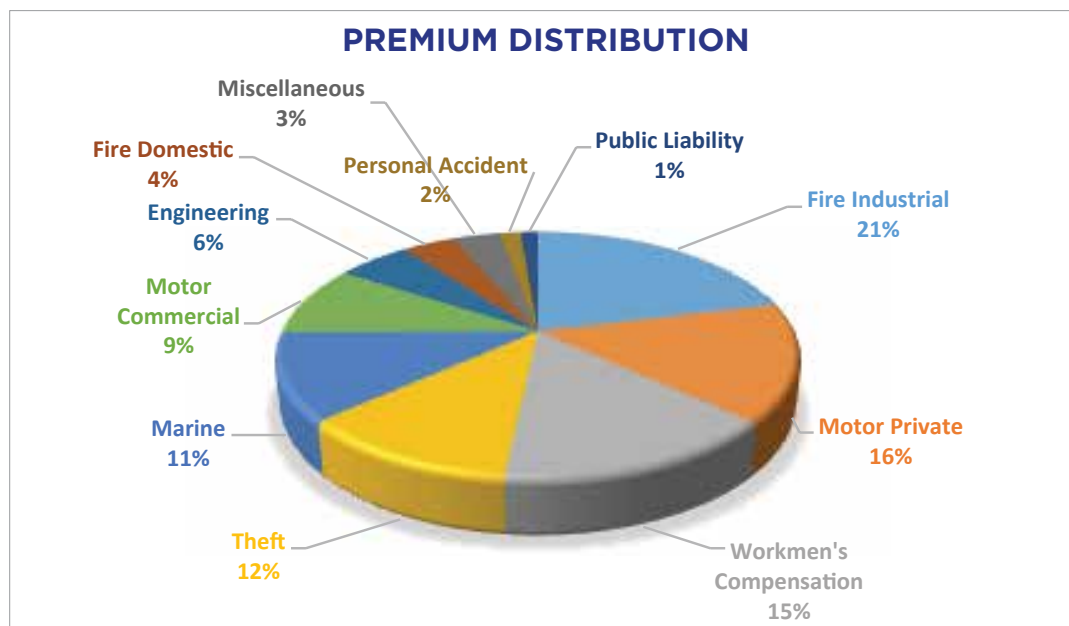
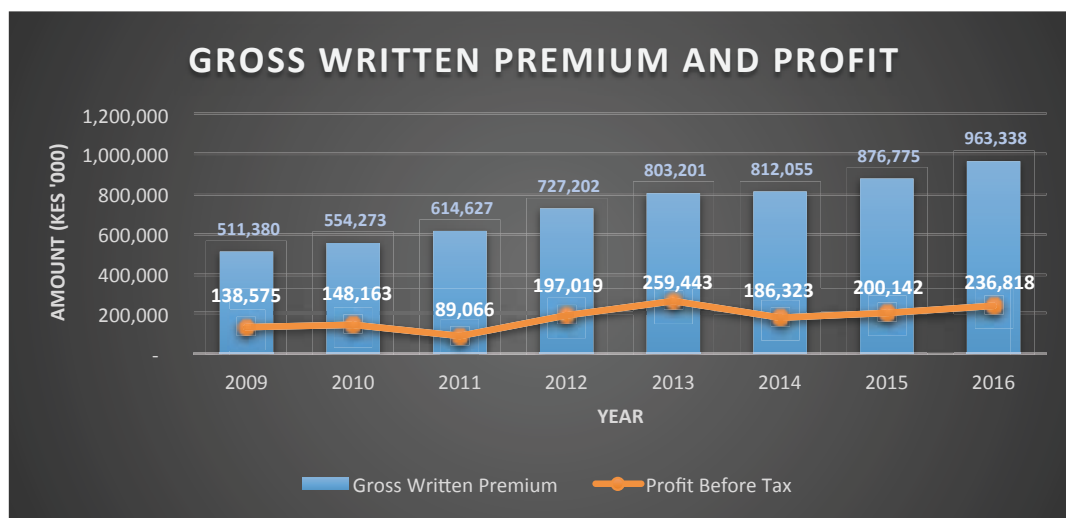
The Company has run through all five years of its first strategic plan, which ran from 2012 to 2016, and achieved the profitability targets set. This is after having taken into account changes in the regulatory landscape which required us to introduce various control functions such as risk management and actuarial input to ensure management of both financial and non-financial risks.

The gross written premium amounted to KES 963 million compared to KES 877 million in the previous year - a growth rate of 9.9%. The increase in business was well balanced and in line with the Company's strategy of 'growth with profit'.

The underwriting profit amounted to KES 118 million compared to KES 73 million recorded in the previous year - a remarkable increase of 61%. In the last five years, the Company has made underwriting profits.

Although the incurred claims increased by 9% from KES 240 million in 2015 to KES 262 million, the claims ratio decreased from 43% in 2015 to 42% in the current year. The expense ratio decreased

COMPANY PERFORMANCE



STATEMENT OF CORPORATE GOVERNANCE

Tausi Assurance Company Limited is committed to the principles of Corporate Governance and holds high standards of Corporate Governance and business ethics. The Board of Directors is accountable to the shareholders for ensuring that the Company complies with the law and effective Corporate Governance for the long term success of the Company's business.

BOARD OF DIRECTORS

The Board consists of seven non-executive directors including the Managing Director. One third of these are independent. The Board is known for its experience, skills and independence and the Board's diverse experience delivers significant value.

BOARD MEETINGS

The Board of Directors meets at least four times in a year and on other occasions to deal with specific matters. The Directors are provided with all the necessary information in advance in respect of items to be discussed at all meetings.

All Directors are required to declare any conflict of interest in respect of any matter before the Board.

PRIMARY RESPONSIBILITIES OF THE BOARD

The Board is responsible for establishing the long-term goals of the Company and ensuring strategic objectives and plans are established to achieve those goals. It ensures that the management structures are in place to achieve these objectives. They guide the implementation of strategic decisions and actions in addition to advising the management as appropriate.

The Board also deliberates on the recommendations of the various Committees and give direction for implementation or otherwise.

The Board is responsible for policy decisions and the review and adoption of the annual budgets, financial performance of the Company plus monitoring Company's performance and results on a monthly basis. It ensures the preparation of quarterly financial statements and annual financial statements, and disclosure of information.

The Board is responsible for the management of risk, overseeing implementation of adequate control systems and relevant compliance with the law, regulations, corporate governance, accounting and auditing standards. It is responsible for ensuring that the Company remains viable, sustainable and competitive while maintaining and increasing shareholder value.

BOARD COMMITTEES

The Board has constituted various Board Committees. These Committees as listed hereunder assist the Board in the discharge of its responsibilities including monitoring key activities in the Company.

The essential function of the Committees is to deliberate

and make recommendations to the Board and seek directions for implementation or otherwise.

BOARD INVESTMENT, ASSET AND LIABILITY COMMITTEE

The Investment, Asset and Liability Committee is responsible for investments of assets in accordance with the Board investment policy and the requirements of the Insurance Act. This Committee is also responsible for the management of assets and liabilities to achieve the Company's financial objectives and for formulating the framework that ensures the Company adheres to the solvency requirements, meets its cash flow needs and capital requirements. It is responsible for setting the Company's risk or reward objectives.

BOARD NOMINATION, REMUNERATION AND HR COMMITTEE

This Committee is responsible for determining, with agreed terms of reference, the Company's policy on nomination procedures and specific remuneration packages and any remuneration for the Principal Officer and the Executive Director. The Committee is responsible for the scrutiny and evaluation of declarations made by the Directors before their appointment or reappointment or election of Directors by Shareholders. This Committee ensures succession planning and the Board continuity, and also assesses yearly evaluation recommendations. It is responsible for the recruitment of persons in control functions and senior management positions. Its responsibilities include overseeing the implementation of the human resource policy.

BOARD ETHICS AND CORPORATE GOVERNANCE COMMITTEE

This Committee is responsible for addressing corporate governance matters in the Company - the manner in which the Board of Directors and the Senior Management oversee the Company's business. Corporate governance includes corporate discipline, transparency, independence, accountability, fairness, probity and corporate social responsibility. This Committee also deals with compliance concerns and supervising and monitoring matters reported on ethical violations or potential breaches or violations of the same.

BOARD RISK COMMITTEE

The Committee is responsible for ensuring the effective operation of the risk management system by performance of specialized analysis and quality reviews. It reports on details of risk exposures and actions being taken to manage the exposures. It also advises on Risk Management decisions in relation to Strategic and Operational matters like Corporate Strategy, mergers and acquisitions and related matters. This Committee furthermore addresses protection matters of policyholders including review of the status of policyholders' complaints.

BOARD AUDIT COMMITTEE

This Committee is responsible for overseeing preparation of the financial statements, financial reporting and



disclosure processes. The Committee is also responsible for reviewing annual financial statements before they are submitted to the Board. The responsibility of the Committee includes reviewing the effectiveness and reliability of management information systems, internal control systems and the efficiency and effectiveness of both external and internal audit. It ensures the efficient functioning of the internal audit department and the review of its reports.

The Committee ensures the independence of the external auditors and reviews their reports. This Committee discusses and agrees with the external auditors the scope, nature and priorities of external audit.

EXECUTIVE COMMITTEE

This Committee consists of the Managing Director and the Executive Management of the Company. The Committee is chaired by the Head of Actuarial Department. The Committee is responsible for the execution of Board policies and implementation of the strategic plan and Board directions. It is responsible for ensuring implementation of internal control systems, the risk management policy and addressing matters arising in

the daily operations of the Company. Any communication from the Board and the Insurance Regulatory Authority is also addressed through this Committee.

SUPPLY OF INFORMATION TO DIRECTORS AND ACCESS TO PROFESSIONAL ADVICE

The Directors have access to any Company information and are provided with all the information needed to carry out their duties and responsibilities fully and effectively. The Directors are entitled to seek independent professional advice concerning the affairs of the Company.

ACCOUNTABILITY AND AUDIT

The Board presents a balanced and understandable assessment of the Company's financial position and prospects. It also discloses to shareholders any information that would materially affect either the value or worth of their investments and/or earnings therefrom. The assessment is provided in the audited financial statement attached to the report. The Company complies with the International Financial Reporting Standards and the requirements of the Companies Act 2015, Laws of Kenya.

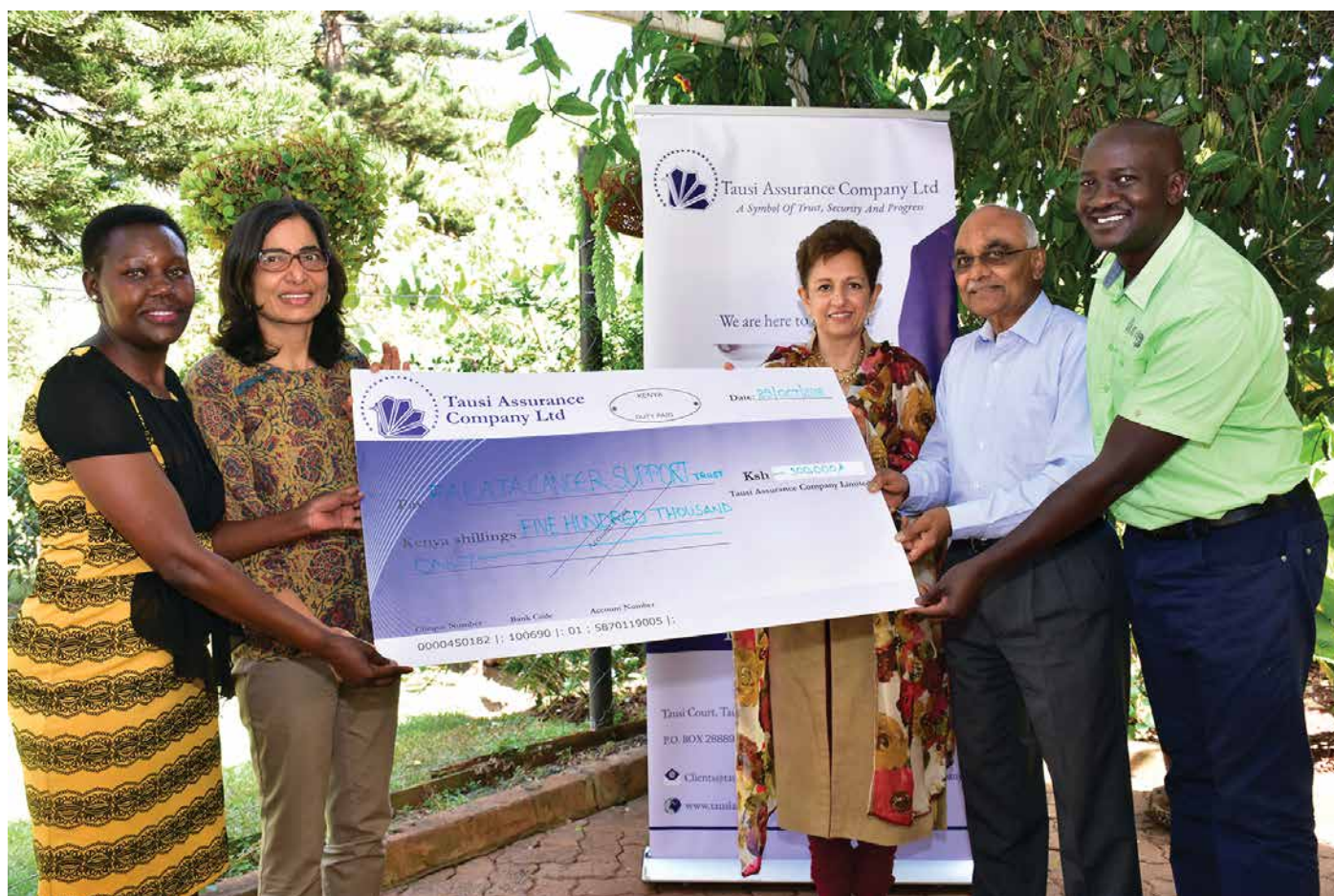


Tausi Director presenting a gift to one of the participant of 2016 Parkland's Marathon sponsored by Tausi Assurance Company Ltd

CORPORATE SOCIAL RESPONSIBILITY

The Board is conscious of the Company's social responsibility and has ensured that the community at large and the environment benefit from funds that have been channeled to various worthy causes. Employees have also participated in some CSR activities listed below are just a few of the projects that the Company supported in 2016:

- a) School Bursaries to the less fortunate at Kitondo Secondary School
- b) Funds to Faraja Cancer Support Trust and cancer patients.
- c) Sponsorship to the needy for eye operations at Lions Sight first Hospital.
- d) Rhino Environmental conservation event through Rhino Ark Charitable Trust
- e) The Jaipur foot Project
- f) PCEA Kikuyu Orthopedic Rehab Centre donation in aid of surgery for the less fortunate.
- g) Sponsorship to support Heart operations for needy people through Mater Hospital Heart Fund.
- h) Cerebral Palsy Society of Kenya sponsorship.
- i) Sponsorship for Parkland Marathon promoting healthy living.
- j) Young Jains Nairobi Walkathon and Carnival sponsorship.
- k) Donations for Women Empowerment in Kibera through the Jain Social Group
- l) Donations through the Giants Group of Nairobi charity golf day in aid of homes for the aged.
- m) Donations for taking care and raising awareness on taking care for domestic animals through KSCPA



Tausi Directors presenting a Cheque to Faraja Cancer Trust Staff on 29th Oct 2016.

REPORT OF THE **DIRECTORS**

The directors submit their report and the audited financial statements for the year ended 31 December 2016 which disclose the state of affairs of the company.

In accordance with Section 42 of the Sixth Schedule of the Companies Act, 2015, Transitional and Savings Provisions, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act 2015, Laws of Kenya as a private limited liability company and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The company conducts all classes of general insurance business as defined by Section 31 of the Insurance Act (Cap 487), laws of Kenya with the exception of aviation.

RESULTS	2016 Shs	2015 Shs
Profit before tax	236,817,673	200,141,892
Tax	(65,208,730)	(58,545,453)
Profit for the year	171,608,943	141,596,439

DIVIDEND

During the year, an interim dividend of Shs. 60,000,000 (2015: Shs. 50,224,420) was paid. The directors do not recommend the payment of a final dividend for the year.

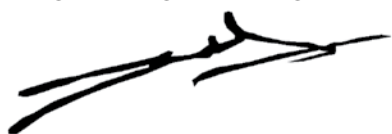
DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 3.

INDEPENDENT AUDITOR

PKF Kenya having expressed their willingness to continue in office, the Board of Directors recommend their re-appointment as auditors of the company in accordance with Section 719(2) of the Companies Act, 2015.

BY ORDER OF THE BOARD



N.P Kothari
Secretary
23rd March, 2017

STATEMENT OF **DIRECTORS' RESPONSIBILITY**

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; that disclose, with reasonable accuracy, the financial position of the company and that enable them to prepare financial statements of the company that comply with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

- i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. Selecting and applying appropriate accounting policies; and
- iii. Making accounting estimates and judgements that are reasonable in the circumstances.

In preparing these financial statements the directors have assessed the company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

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

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on 23rd March, 2017 and signed on its behalf by:



DIRECTOR



DIRECTOR

REPORT OF THE **INDEPENDENT AUDITOR**

Opinion

We have audited the financial statements of Tausi Assurance Company Limited set out on pages 15 to 50, which comprise the statement of financial position as at 31 December 2016, statement of profit or loss and other comprehensive income, 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 company's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and 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' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

This section of the audit report is intended to describe the matters communicated with those charged with governance that we have determined, in our professional judgment, were of most significance in the audit of the financial statements. 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.

Insurance contract liabilities

The directors exercise significant judgement in estimation of outstanding reported claims and Incurred But Not Reported (IBNR) claims. Accounting policy (b), included in Note 1 to the financial statements, describes the basis for such

provisions and Note 22 to the financial statements sets out the disclosures in respect of these provisions. Such provisions are based on multiple sources of information including models developed that rely on historical experience of claims. Because of the complexity of such models, the degree of judgement and estimation involved and the quantum of these provisions, the audit of insurance contract liabilities is a key audit matter.

Our audit procedures included testing the key controls over the claims recording procedures, including controls over the completeness and accuracy of the data that supports the models used in estimating the insurance contract liabilities. We tested the completeness of the claims registers including the quantification of claims outstanding at the reporting date. We tested the completeness of the data used by management in its models to estimate the IBNR claims provision. We reperformed, on a sample basis, management's model.

In testing the reasonability of the estimates and assumptions used by management, we reviewed the historical experience of claims incurred against provisions recognised. We also reviewed the trend in claims over the recent past, including our knowledge of the industry, to determine overall reasonability of the provisions recognised.

Information technology (IT) systems and controls over financial reporting

The company is reliant on IT systems, with respect to its underwriting function. There is a risk that the controls around the IT systems may not be designed and operating effectively which could have a material impact on amounts reported. Therefore this represented a key audit matter.

We tested the design and implementation of the controls around the information technology environment and operating effectiveness for controls that were critical to databases within the scope of our audit and the financial reporting process. Where our procedures identified deficiencies, we assessed the design and implementation of any controls that mitigated the identified risks and extended the scope of our tests of operating effectiveness of controls and/or substantive audit procedures.

Other information

The directors are responsible for the other information. The other information comprises the

report of the directors and the general insurance business revenue account but does not include the financial statements and our auditor's report thereon.

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

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

When we read the other reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or has 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal Requirements

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

(i) we have obtained all the information and

explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

- (ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- (iii) the company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Salim Alibhai – P/No 2151.

PKF Kenya

Certified Public Accountants
NAIROBI

31st March, 2017
254/17

STATEMENT OF **PROFIT OR LOSS**

And Other Comprehensive Income

	Notes	2016 Shs	2015 Shs
Gross earned premiums	4	920,346,599	879,851,489
Less: reinsurance premium ceded	4	(290,517,772)	(318,003,394)
Net earned premiums	4	629,828,827	561,848,095
Investment and other income	5	147,715,377	142,910,856
Commissions earned		107,101,817	115,065,279
Net income		884,646,021	819,824,230
Claims payable		(320,773,841)	(305,881,225)
Less: amounts recoverable from reinsurers		58,773,574	66,130,956
Net claims payable	6	(262,000,267)	(239,750,269)
Operating and other expenses	7	(221,679,821)	(223,065,928)
Commissions payable		(164,148,260)	(156,866,141)
Profit before tax		236,817,673	200,141,892
Tax	9	(65,208,730)	(58,545,453)
Profit for the year		171,608,943	141,596,439
Other comprehensive income:			
Items that shall not be reclassified subsequently to profit or loss:			
Surplus on revaluation of property, plant and equipment	11	-	58,035,273
Deferred income tax on surplus on revaluation of property, plant and equipment	25	-	(17,410,582)
Items that may be reclassified subsequently to profit or loss when specific conditions are met:			
Changes in fair value of government securities - 'Available-for-sale'	17(b)	(817,211)	(5,888,965)
Changes in fair value of quoted shares - 'Available-for-sale'	19(b)	(7,099,299)	(13,469,909)
Total other comprehensive income		(7,916,510)	21,265,817
Total comprehensive income for the year attributable to shareholders of the company		163,692,433	162,862,256
Dividend - interim paid during the year	30	60,000,000	50,224,420
Earnings per share	31	28.60	23.60

The notes on pages 19 to 50 form an integral part of these financial statements.

Report of the independent auditor - pages 12 to 14.



STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

	Notes	2016 Shs	2015 Shs
CAPITAL EMPLOYED			
Share capital	10	600,000,000	600,000,000
Revaluation reserves	11	149,943,509	152,682,694
Change in fair value of 'Available-for-sale' investments		(25,034,782)	(17,627,982)
Retained earnings		372,332,338	257,984,210
Shareholders' funds		1,097,241,065	993,038,922
REPRESENTED BY:			
Assets			
Property, plant and equipment	12	289,078,379	295,598,812
Intangible assets	13	363,475	1,063,835
Mortgage and other loans	14	98,233,627	110,882,746
Receivables arising out of reinsurance arrangements		8,639,979	4,173,414
Receivables arising out of direct insurance arrangements		72,027,980	99,230,710
Reinsurers' share of insurance contract liabilities	15	222,092,759	255,714,094
Other receivables	16	65,756,843	68,936,449
Government securities - 'Held to maturity'	17(a)	919,693,936	663,203,454
Government securities - 'Available-for-sale'	17(b)	89,428,900	136,830,371
Commercial paper	18	21,684,195	28,892,823
Quoted shares at fair value through profit or loss	19(a)	117,946,259	144,245,548
Quoted shares - 'Available-for-sale'	19(b)	72,691,761	31,424,736
Deposits with financial institutions		214,604,669	256,676,665
Cash and bank balances	21	14,470,567	30,564,668
Tax recoverable		-	2,360,742
Total assets		2,206,713,329	2,129,799,067
Liabilities			
Insurance contract liabilities	23	656,487,009	688,268,959
Payables arising out of reinsurance arrangements		36,777,512	51,667,260
Unearned premium reserve	24	300,729,328	264,368,898
Deferred tax	25	50,681,904	54,361,741
Tax payable		527,825	-
Other payables	26	64,268,686	78,093,287
Total liabilities		1,109,472,264	1,136,760,145
Net assets		1,097,241,065	993,038,922

The financial statements on pages 15 to 50 were approved and authorised for issue by the Board of Directors on 23rd March, 2017 and were signed on its behalf by:


Director


Director


Director

The notes on pages 19 to 50 form an integral part of these financial statements.
Report of the independent auditor - pages 12 to 14.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

A Symbol of Trust, Security & Progress

Year ended 31 December 2015		Notes	Share capital Shs	Fair value reserve Shs	Revaluation reserve Shs	Retained earnings Shs	Total Shs
At start of year			502,244,200	1,730,892	114,157,543	262,268,451	880,401,086
Profit for the year			-	-	-	141,596,439	141,596,439
Other comprehensive income:							
Change in fair value of government securities 'Available-for-sale'		17(b)	-	(5,888,965)	-	-	(5,888,965)
Change in fair value of quoted shares - 'Available-for-sale'		19(b)	-	(13,469,909)	-	-	(13,469,909)
Surplus on revaluation of property, plant and equipment		11	-	-	58,035,273	-	58,035,273
Deferred income tax on revaluation of property, plant and equipment		11	-	-	(17,410,582)	-	(17,410,582)
Transfer of excess depreciation		11	-	-	(2,999,343)	2,999,343	-
Deferred income tax on transfer of excess depreciation		11	-	-	899,803	(899,803)	-
Total comprehensive income for the year			-	(19,358,874)	38,525,151	143,695,979	162,862,256
Transactions with owners:							
Issue of share capital		10	97,755,800	-	-	(97,755,800)	-
Dividend:							
- interim for 2015 (paid)		30	-	-	-	(49,781,414)	(49,781,414)
- transfer to liabilities		26	-	-	-	(443,006)	(443,006)
At end of year			600,000,000	(17,627,982)	152,682,694	257,984,210	993,038,922
Year ended 31 December 2016							
At start of year			600,000,000	(17,627,982)	152,682,694	257,984,210	993,038,922
Comprehensive income:							
Profit for the year			-	-	-	171,608,943	171,608,943
Other comprehensive income:							
Change in fair value of government securities - 'Available-for-sale'		17(b)	-	(817,211)	-	-	(817,211)
Transfer to profit & loss on maturity of - 'Available-for-sale' assets		17(b)	-	509,710	-	-	509,710
Change in fair value of quoted shares - 'Available-for-sale'		19(b)	-	(7,099,299)	-	-	(7,099,299)
Transfer of excess depreciation		11	-	-	(3,913,122)	3,913,122	-
Deferred income tax on transfer of excess depreciation		11	-	-	1,173,937	(1,173,937)	-
Total comprehensive income for the year			-	(7,406,800)	(2,739,185)	174,348,128	164,202,143
Transactions with owners:							
Dividend:							
- interim for 2016 (paid)		30	-	-	-	(60,000,000)	(60,000,000)
At end of year			600,000,000	(25,034,782)	149,943,509	372,332,338	1,097,241,065

The notes on pages 19 to 50 form an integral part of these financial statements.

Report of the independent auditor - pages 12 to 14.



STATEMENT OF **CASH FLOWS**

For the year ended 31 December 2016

	Notes	2016 Shs	2015 Shs
Operating activities			
Cash from operations	28	308,744,589	271,723,809
Tax paid		(66,000,000)	(37,652,448)
Net cash from operations		242,744,589	234,071,361
Investing activities			
Purchase of property, plant and equipment	12	(3,044,317)	(4,077,381)
Purchase of intangible assets	13	-	(64,380)
Proceeds from disposal of property, plant and equipment		38,720	669,311
Movement in mortgage and other loans		12,649,119	(11,340,789)
Purchase of government securities - 'Held to maturity'		(281,187,684)	(210,786,027)
Maturity of government securities - 'Available-for-sale'	17(b)	50,000,000	-
Redemption of commercial paper	18	7,208,628	7,233,290
Proceeds from disposal of quoted shares at fair value through profit or loss	19(a)	-	525,250
Purchase of quoted shares - 'Available-for-sale'	19(b)	(48,366,324)	(44,894,645)
Increase/(decrease) in restricted cash balances	21	15,000,000	(18,465,329)
Net cash (used in) investing activities		(247,701,858)	(281,200,700)
Financing activities			
Dividend paid	30	(60,000,000)	(50,224,420)
Net cash (used in) financing activities		(60,000,000)	(50,224,420)
(Decrease) in cash and cash equivalents		(64,957,269)	(97,353,759)
Movement in cash and cash equivalents			
At start of year		290,567,176	387,920,935
(Decrease)		(64,957,269)	(97,353,759)
At end of year	21	225,609,907	290,567,176

The notes on pages 19 to 50 form an integral part of these financial statements.

Report of the independent auditor - pages 12 to 14.

NOTES

For the year ended 31 December 2016

1. Significant accounting policies

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

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (*IFRS*). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Going concern

The financial performance of the company is set out in the report of the directors and in the statement of profit or loss and the other comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 3.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

These financial statements comply with the requirements of the Kenyan Companies Act, 2015. The statement of profit or loss and other comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

New standards, amendments and interpretations issued but not effective

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

- Amendments issued in January 2016 to IAS 7 'Statement of Cash Flows' to improve information provided about an entity's changes in liabilities from financing activities through disclosure (as applicable) of: (i) changes from financing cash flows; (ii) changes from obtaining cash flows; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; and (v) other charges. These amendments are effective for annual periods beginning on or after 1 January 2017.



NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (Continued)

a) Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective (continued)

- Amendments issued in January 2017 to IAS 12 'Income Taxes' that are effective for annual periods beginning on or after 1 January 2017 clarify that unrealised losses on debt instruments that are carried at fair value give rise to a deductible temporary difference on which deferred tax arises where they are carried as cost for tax purposes.
- Amendments issued in June 2016 to IFRS 2 'Share - based Payment' which are effective for annual periods beginning on or after 1 January 2018 clarify the effects of vesting conditions on cash settled schemes, treatment of net settled schemes and modifications for equity settled schemes.
- IFRS 9 'Financial Instruments' (Issued in July 2014) will replace IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition.

IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. In respect of financial liabilities, the most significant effect of IFRS 9 where the fair value option is taken will be in respect of the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

In respect of impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract.

In respect of hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risks.

- IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and their interpretations (SIC-31 and IFRIC 13,15 and 18). It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.
- IFRS 16 'Leases' (issued in January 2016) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

The directors expect that the future adoption of IFRS 9, IFRS 15 and IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (continued)

b) Insurance contracts

Recognition and measurement

The company issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the company defines a significant insurance risk as the possibility of having to pay claims on the occurrence of an insured event.

Premium income

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium.

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability. Unearned premiums are computed based on the 1/365th method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date.

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

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 are used.

Commissions

Commissions payable are recognised in the period in which the related premiums are written. Commissions receivable are recognised in income in the period in which the related premiums ceded.

Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.



NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (continued)

b) Insurance contracts (continued)

Reinsurance contracts held (continued)

The benefits to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets (Note 1 (e)).

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivables are impaired, the company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in profit or loss. The company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Salvage and subrogation reimbursements

Some insurance contracts permit the company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the asset.

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

c) Other income

Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss and 'Available for sale', are recognised in profit or loss using the effective interest rate method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (continued)

c) Other income (continued)

Dividend income

Dividend income for 'Available-for-sale' and fair value through profit or loss equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

Rental income

Rental income is accounted for on an accrual basis, on a straight line basis.

d) Property, plant and equipment

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Buildings and leasehold land are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve in equity through the statement of other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on a reducing balance basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Buildings	2 (Straight line basis)
Motor vehicles	25
Furniture and fittings	12.5
Computer equipment	30

Leasehold land is depreciated over its remaining life, on a straight line basis.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.



NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (continued)

e) Financial assets

The company classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held to maturity and Available-for-sale. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

i) Classification

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise receivables arising out of reinsurance arrangements, receivables arising out of direct insurance arrangements, other receivables and prepayments, deposits with financial institutions and cash and cash equivalents.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

- Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity, other than:

- those that the company upon initial recognition designates as at fair value through profit or loss;
- those that the company designates as Available for sale; and
- those that meet the definition of loans and receivables

Interest on held-to-maturity investments are included in profit or loss and are reported as 'interest and similar income'. In the case of an impairment, it is been reported as a deduction from the carrying value of the investment and recognised in profit or loss as 'gain/(loss) on investments'.

Held-to-maturity investments are government securities and commercial paper.

ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or loss arising from changes in the fair value of the financial assets at fair value through profit or loss' category are presented in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the company's right to receive payments is established. Changes in the fair value of monetary and non-monetary securities classified as 'Available-for-sale' are recognised in other comprehensive income.

NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (continued)

e) Financial assets (continued)

ii) Recognition and measurement (continued)

When securities classified as 'Available-for-sale' are sold or impaired, the accumulated fair value adjustments that were recognised in equity are included in profit or loss as 'gains and losses from investment securities'.

Interest on 'Available-for-sale' securities calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends on 'Available-for-sale' equity instruments are recognised in profit or loss as part of other income when the company's right to receive payments is established.

iii) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities on the stock exchange (NSE). The quoted market price used for financial assets held by the company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the reporting date.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value as disclosed in accounting policy (a).

iv) Reclassification of financial assets

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or Available-for-sale categories if the company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date.

Further increases in estimates of cash flows adjust effective interest rates prospectively.

v) Impairment of assets

Evidence of impairment may include indications that the receivables or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (continued)

e) Financial assets (continued)

v) Impairment of assets (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

- Financial assets carried at amortised cost

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or company of financial assets is impaired. A financial asset or a company of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') has an impact on the estimated future cash flows of the financial asset or company of financial assets that can be reliably estimated.

- Assets classified as 'Available-for-sale'

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a company of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as Available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and reclassified to profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the statement of profit or loss.

NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (continued)

e) Financial assets (continued)

vi) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

vii) Impairment of other non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

f) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, net of restricted balances.

g) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

h) Employee benefits

i) Retirement benefit obligations

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the company and employees. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The employees of the company are also members of the National Social Security Fund ("NSSF").

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

ii) Other entitlements

The estimated monetary liability for employees accrued annual leave entitlement at the reporting date is recognised as an expense accrual.



NOTES (Continued)

For the year ended 31 December 2016

1. Significant accounting policies (continued)

i) Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income, in which case, the tax is also recognised in the statement of other comprehensive income.

Current tax

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

j) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

k) Share capital

Ordinary shares are classified as equity.

l) Comparatives

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

NOTES (Continued)

For the year ended 31 December 2016

2. Critical accounting estimates and judgments

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continuously evaluated and based on historical experience and other factors, expectations of future events that are believed to be reasonable under the circumstances.

a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims.

Judgement is also applied in the estimation of future contractual cash flows in relation to reported losses and losses incurred but not yet reported. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims. Case estimates are computed on the basis of the best information available at the time the records for the year are closed. Note 22 contains further details on this process.

b) Impairment of receivables

The company reviews their portfolio of receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

c) Impairment of 'Available-for-sale' quoted shares

The company determines that 'Available-for-sale' quoted shares are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

3. Management of insurance and financial risk

3.1 Insurance risk

The company's activities expose it to a variety of risks, including insurance and financial risks (credit risk, and the effect of changes in debt and equity market prices and interest rates). The company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the company manages them.

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



NOTES (Continued)

For the year ended 31 December 2016

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

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

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

i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered as a result of exposure to asbestos, and the increase in the number of cases coming to court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

The company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

ii) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Claims on casualty contracts/general risks are payable on a claims-occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time, and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

3.2 Financial risk

The company is exposed to financial risk through its financial assets and financial liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important types of risk are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate risk, equity price risk and other price risk.

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

The company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

NOTES (Continued)

For the year ended 31 December 2016

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

a) Market risk

i) Foreign exchange risk

The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar on cash and bank balances.

The assets denominated in US dollar at year end totalled Shs. 1,398,109 (2015: Shs. 1,557,821) representing 0.06% (2015: 0.07%) of total assets. At 31 December 2016, if the Kenya Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, the effect on the post tax profit for the year would be Shs. 97,868 (2015: Shs. 109,047).

ii) Price risk

The company is exposed to equity securities price risk because of investments in quoted shares and treasury bonds classified either as 'Available-for-sale' or at fair value through profit or loss. The company is not exposed to commodity price risk. To manage its price risk arising from investments in equity the company diversifies its portfolio on several counters. Diversification of the portfolio is done in accordance with limits set by the company and guidelines per the Kenyan Insurance Act. All quoted shares and treasury bonds held by the company are traded on the Nairobi Securities Exchange (NSE).

The table below summarises the impact of increases/decreases of the NSE index on the company's post-tax profit for the year and on other comprehensive income. The analysis is based on the assumption that the equity indexes had increased by 5% with all other variables held constant and all the company's equity instruments moved according to the historical correlation with the index:

Index	Impact on profit		Impact on other comprehensive income	
	2016 Shs	2015 Shs	2016 Shs	2015 Shs
Increase	4,128,119	5,048,594	5,674,223	5,888,929

iii) Cash flow and interest rate risk

Fixed interest rate financial instruments expose the company to fair value interest rate risk. Variable interest rate financial instruments expose the company to cash flow interest rate risk.

The company's fixed interest rate financial instruments are government securities and deposits with financial institutions. The company's fixed interest rate financial instruments are commercial papers.

No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments.

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

The government securities, deposits with financial institutions, commercial paper and loans at year end totalled Shs. 1,343,645,327 (2015: Shs. 1,196,486,058) representing a significant portion of total assets. At the reporting date, if the interest rates had been 5 basis points higher/lower with all other variables held constant, the effect on the post tax profit for the year would have been an increase/decrease by Shs. 47,027,586 (2015: Shs. 41,877,012).



NOTES (Continued)

For the year ended 31 December 2016

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

b) Credit risk

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- receivables arising out of direct insurance arrangements;
- mortgage and other loans;
- receivables arising out of reinsurance arrangements; and
- reinsurers' share of insurance liabilities.

Credit risk on amounts arising out of direct insurance arrangements is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a regular basis.

Maximum exposure to credit risk before collateral held

Year ended 31 December 2016	Fully performing Shs	Past due but not impaired Shs	Past due and impaired Shs	Total Shs
Receivables arising out of direct insurance arrangements	61,647,048	10,380,932	-	72,027,980
Receivables arising out of reinsurance arrangements	8,639,979	-	-	8,639,979
Reinsurers' share of insurance liabilities	222,092,759	-	-	222,092,759
Mortgage and other loans	98,233,627	-	-	98,233,627
Government securities - 'Held to maturity'	919,693,936	-	-	919,693,936
Government securities - 'Available-for-sale'	89,428,900	-	-	89,428,900
Commercial paper	21,684,195	-	-	21,684,195
Deposits with financial institutions	199,973,743	3,465,328	11,165,598	214,604,669
Cash and bank balances	14,470,567	-	-	14,470,567
Quoted shares at fair value through profit or loss	117,946,259	-	-	117,946,259
Quoted shares - 'Available-for-sale'	72,691,761	-	-	72,691,761
Other receivables	65,756,843	-	-	65,756,843
	1,892,259,617	13,846,260	11,165,598	1,917,271,475

NOTES (Continued)

For the year ended 31 December 2016

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

b) Credit risk (continued)

Year ended 31 December 2015	Fully performing Shs	Past due but not impaired Shs	Past due and impaired Shs	Total Shs
Receivables arising out of direct insurance arrangements	97,554,902	-	1,675,808	99,230,710
Receivables arising out of reinsurance arrangements	4,173,414	-	-	4,173,414
Reinsurers' share of insurance liabilities	255,714,094	-	-	255,714,094
Mortgage and other loans	110,882,746	-	-	110,882,746
Government securities - 'Held to maturity'	663,203,454	-	-	663,203,454
Government securities - 'Available-for-sale'	136,830,371	-	-	136,830,371
Commercial paper	28,892,823	-	-	28,892,823
Deposits with financial institutions	253,211,337	3,465,328	-	256,676,665
Cash and cash equivalents	30,564,668	-	-	30,564,668
Quoted shares at fair value through profit or loss	144,245,548	-	-	144,245,548
Quoted shares - 'Available-for-sale'	31,424,736	-	-	31,424,736
Other receivables	68,936,449	-	-	68,936,449
	1,825,634,542	3,465,328	1,675,808	1,830,775,678

All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated. The mortgage loan is secured by joint collaterals on debentures against the borrower and lien over the borrowers' property.

No collateral is held for the remaining assets. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are impaired except for the following past due but not impaired amounts in:

- receivables arising out of direct insurance arrangements (which are due within 90 days of the end of the month in which they are invoiced; and
- receivables arising out of reinsurance arrangements.

Receivables arising out of direct insurance arrangements can be analysed as follows:

	2016 Shs	2015 Shs
Past due but not impaired		
- by up to 30 days	25,026,725	38,037,662
- by 31 to 60 days	19,413,576	29,565,163
- by 61 to 120 days	24,735,281	29,692,310
- over 120 days	2,852,398	1,935,575
	72,027,980	99,230,710



NOTES (Continued)

For the year ended 31 December 2016

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

b) Credit risk (continued)

Receivables arising out of reinsurance arrangements are summarised as follows:

	2016 Shs	2015 Shs
Past due and impaired	-	459,379
Past due but not impaired	8,639,979	3,714,035
	8,639,979	4,173,414

c) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. The company is exposed to daily calls on its available cash for claims settlement and other expenses. The company does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. On large claims arrangements are in place to obtain cash calls from reinsurers.

The table below presents the undiscounted cash flows payable by the company under financial liabilities by remaining contractual maturities (other than insurance contract liabilities which are based on expected maturities) at the reporting date. All figures are in Kenya Shillings.

As at 31 December 2016	Up to 3 months Shs	4 - 12 months Shs	1 - 5 years Shs	Total Shs
Liabilities				
Insurance contract liabilities	65,648,701	137,862,272	452,976,036	656,487,009
Creditors arising from reinsurance arrangements	36,777,512	-	-	36,777,512
Tax payable	-	527,825	-	527,825
Other payables	64,268,686	-	-	64,268,686
Total financial liabilities	166,694,899	138,390,097	452,976,036	758,061,032

As at 31 December 2015	Up to 3 months Shs	4 - 12 months Shs	1 - 5 years Shs	Total Shs
Liabilities				
Insurance contract liabilities	68,826,896	145,630,181	473,811,882	688,268,959
Creditors arising from reinsurance arrangements	51,667,260	-	-	51,667,260
Other payables	78,093,287	-	-	78,093,287
Total financial liabilities	198,587,443	145,630,181	473,811,882	818,029,506

NOTES (Continued)

For the year ended 31 December 2016

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

d) Financial assets measured at fair value

The following table presents the company's assets that are measured at fair value at 31 December 2016 and 31 December 2015:

As at 31 December 2016	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Assets				
Financial assets				
Quoted shares at fair value through profit or loss	117,946,259	-	-	117,946,259
Quoted shares - Available-for- sale'	72,691,761	-	-	72,691,761
Government securities - Available-for- sale'	89,428,900	-	-	89,428,900
	280,066,920	-	-	280,066,920
As at 31 December 2015	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Assets				
Financial assets				
Quoted shares at fair value through profit or loss	144,245,548	-	-	144,245,548
Quoted shares - Available-for- sale'	31,424,736	-	-	31,424,736
Government securities - Available-for- sale'	136,830,371	-	-	136,830,371
	312,500,655	-	-	312,500,655

NOTES (Continued)

For the year ended 31 December 2016

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

e) Financial risk assets by category

	Loans and receivables Shs	Financial assets at fair value through profit or loss upon initial recognition Shs	Held to maturity Shs	Available for sale Shs	Total Shs
As at 31 December 2016					
Quoted shares	-	117,946,259	-	72,691,761	190,638,020
Government securities	-	-	919,693,936	89,428,900	1,009,122,836
Commercial paper	-	-	21,684,195	-	21,684,195
Mortgage and other loans	98,233,627	-	-	-	98,233,627
Receivables arising out of reinsurance arrangements	8,639,979	-	-	-	8,639,979
Reinsurers share of insurance contract liabilities	222,092,759	-	-	-	222,092,759
Receivables arising out of direct insurance arrangements	72,027,980	-	-	-	72,027,980
Other receivables	65,756,843	-	-	-	65,756,843
Deposits with financial institutions	214,604,669	-	-	-	214,604,669
Cash and cash equivalents	14,470,567	-	-	-	14,470,567
	695,826,424	117,946,259	941,378,131	162,120,661	1,917,271,475
As at 31 December 2015					
Quoted shares	-	144,245,548	-	31,424,736	175,670,284
Government securities	-	-	663,203,454	136,830,371	800,033,825
Commercial paper	-	-	28,892,823	-	28,892,823
Mortgage and other loans	110,882,746	-	-	-	110,882,746
Receivables arising out of reinsurance arrangements	4,173,414	-	-	-	4,173,414
Reinsurers share of insurance contract liabilities	255,714,094	-	-	-	255,714,094
Receivables arising out of direct insurance arrangements	99,230,710	-	-	-	99,230,710
Other receivables	68,936,449	-	-	-	68,936,449
Deposits with financial institutions	256,676,665	-	-	-	256,676,665
Cash and cash equivalents	30,564,668	-	-	-	30,564,668
	826,178,746	144,245,548	692,096,277	168,255,107	1,830,775,678

f) Financial liabilities by category

	As at 31 December 2016			As at 31 December 2015		
	Financial liabilities at fair value through profit or loss Shs	Financial liabilities at amortised cost Shs	Total Shs	Financial liabilities at fair value through profit or loss Shs	Financial liabilities at amortised cost Shs	Total Shs
Insurance contract liabilities	-	656,487,009	656,487,009	-	688,268,959	688,268,959
Payables arising out of reinsurance arrangements	-	36,777,512	36,777,512	-	51,667,260	51,667,260
Other payables	-	64,268,686	64,268,686	-	78,093,287	78,093,287
	-	757,533,207	757,533,207	-	818,029,506	818,029,506



NOTES (Continued)

For the year ended 31 December 2016

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

g) Capital management

The company's objectives when managing capital, which is a broader concept than shareholders' funds on the statement of financial position are to:

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

Externally imposed capital requirements

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

- general insurance business companies Shs. 300 million and

Short term insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Shs. 10 million or 15% of the net premium income during the preceding financial year.

During the year the company met requirements for the minimum paid up capital for an insurance business as well as the solvency margin as prescribed by Section 41 (1) of the Kenyan Insurance Act. The solvency margin of the company as at 31 December 2016 and 2015 is illustrated below:

	2016 Shs	2015 Shs
Admitted assets	2,041,781,258	1,946,039,177
Admitted liabilities	1,109,472,264	1,134,188,659
Margin	932,308,994	811,850,518
Required margin	100,923,088	78,602,984

As per the returns made to the Insurance Regulatory Authority, the absolute capital required (besides the Shs 300,000,000) is Shs 167,855,304, whereas the company has Shs 952,529,417 available.

Gross earned premiums

The gross earned premium of the company can be analysed between the principal classes of business as shown below:

Year ended 31 December 2016	Gross Shs	Reinsurance Shs	Net Shs
Fire	239,643,920	(179,418,359)	60,225,561
Motor	231,186,437	(4,057,780)	227,128,657
Workmen's compensation	138,144,543	(6,642,106)	131,502,437
Marine	107,928,342	(32,531,561)	75,396,781
Theft	96,035,896	(10,305,783)	85,730,113
Engineering	51,820,692	(42,611,925)	9,208,767
Public liability	11,469,397	(1,217,622)	10,251,775
Personal accident	12,379,624	(1,193,131)	11,186,493
Others	31,737,748	(12,539,505)	19,198,243
	920,346,599	(290,517,772)	629,828,827



NOTES (Continued)

For the year ended 31 December 2016

4. Gross earned premiums (continued)

Year ended 31 December 2015	Gross Shs	Reinsurance Shs	Net Shs
Fire	212,744,525	(169,571,429)	43,173,096
Motor	222,500,461	(7,705,454)	214,795,007
Workmen's compensation	146,545,466	(3,484,034)	143,061,432
Marine	121,123,968	(43,332,782)	77,791,186
Theft	99,372,698	(50,180,594)	49,192,104
Engineering	36,142,003	(28,102,215)	8,039,788
Public liability	9,497,294	(2,933,090)	6,564,204
Personal accident	11,848,871	(6,600,633)	5,248,238
Others	20,076,203	(6,093,163)	13,983,040
	879,851,489	(318,003,394)	561,848,095

5. Investment and other income

	2016 Shs	2015 Shs
Interest from government securities	109,448,406	90,484,247
Interest from corporate bond	3,185,989	5,051,042
Profit on maturity of - 'Available-for- sale' assets	509,710	-
Interest from bank deposits and current accounts	26,931,952	36,228,635
Interest on staff and mortgage loans	14,754,011	17,820,766
Foreign exchange gain	996,371	459,693
Rental income	9,353,342	6,178,512
Gain on sale of quoted shares	-	1,098,403
Dividend income	7,905,479	5,290,920
Miscellaneous income	890,686	19,899
Gain on disposal of property, plant and equipment	38,720	108,267
Fair value (loss) on quoted shares at fair value through profit or loss (Note 19(a))	(26,299,289)	(19,829,528)
	147,715,377	142,910,856

6. Claims payable

The claims of the company can be analysed between the principal classes of business as follows:

Year ended 31 December 2016	Gross Shs	Reinsurance Shs	Net Shs
Motor	90,488,828	(1,763,177)	88,725,651
Fire	78,606,013	(27,490,108)	51,115,905
Workmen's compensation	45,622,661	(73,072)	45,549,589
Marine	43,369,831	(9,645,095)	33,724,736
Theft	43,552,693	(13,219,961)	30,332,732
Engineering	10,954,833	(6,442,961)	4,511,872
Public liability	2,175,882	-	2,175,882
Personal accident	1,139,245	(37,950)	1,101,295
Others	4,863,855	(101,250)	4,762,605
	320,773,841	(58,773,574)	262,000,267

NOTES (Continued)

For the year ended 31 December 2016

6. Claims payable (continued)

Year ended 31 December 2015	Gross Shs	Reinsurance Shs	Net Shs
Fire	79,972,882	(1,005,489)	78,967,393
Motor	69,174,569	(28,722,078)	40,452,491
Workmen's compensation	68,983,064	(275,332)	68,707,732
Marine	43,078,589	(11,788,332)	31,290,257
Theft	19,892,385	(9,208,454)	10,683,931
Engineering	20,913,620	(14,922,515)	5,991,105
Public liability	(2,245,614)	(68,138)	(2,313,752)
Personal accident	1,016,980	(10,118)	1,006,862
Others	5,094,750	(130,500)	4,964,250
	305,881,225	(66,130,956)	239,750,269

7. Operating and other expenses	2016 Shs	2015 Shs
Depreciation on property, plant and equipment (Note 12)	9,564,750	9,036,235
Amortisation of intangible assets (Note 13)	700,360	756,580
Auditors' remuneration	1,990,560	1,803,800
Directors' remuneration		
- Fees to executives	3,300,000	6,600,000
- Other fees	4,350,000	4,028,000
Repairs and maintenance	3,560,013	6,656,194
Other operating expenses	70,961,054	66,658,960
Staff costs (Note 8)	127,253,084	127,526,159
	221,679,821	223,065,928

8. Employee benefits expense	2016 Shs	2015 Shs
The following items are included within employee benefits expense:		
Salaries and wages	112,363,388	112,140,202
National Social Security Fund	133,400	155,400
Retirement benefit costs - defined contribution scheme	5,884,592	5,610,473
Other staff costs	8,871,704	9,620,084
	127,253,084	127,526,159

9. Tax		
Current tax	68,888,567	59,813,235
Deferred tax (credit) (Note 25)	(3,679,837)	(1,267,782)
Tax charge	65,208,730	58,545,453



NOTES (Continued)

For the year ended 31 December 2016

9. Tax (continued)

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

	2016 Shs	2015 Shs
Profit before tax	236,817,673	200,141,892
Tax calculated at the rate of 30% (2015: 30%)	71,045,302	60,042,568
Tax effect of:		
- expenses not deductible for tax purposes	10,162,334	7,774,374
- income not subject to tax	(15,998,906)	(9,271,489)
Tax charge	65,208,730	58,545,453

10. Authorised, issued and fully paid:

6,000,000 (2015: 6,000,000) ordinary shares of Shs. 100 each

11. Revaluation reserve

Leasehold land 52,314,644 53,023,829
Buildings 97,628,865 99,658,865

149,943,509 152,682,694

The movement on the reserve is as follows:

Leasehold land

At start of year 53,023,829 41,893,878
Revaluation surplus - 16,699,273
Deferred tax on revaluation surplus - (5,009,782)
Transfer of excess depreciation (1,013,122) (799,343)
Deferred tax on excess depreciation transfer 303,937 239,803

At end of year **52,314,644 53,023,829**

Buildings

At start of year 99,658,865 72,263,665
Revaluation surplus - 41,336,000
Deferred tax on revaluation surplus - (12,400,800)
Transfer of excess depreciation (2,900,000) (2,200,000)
Deferred tax on excess depreciation transfer 870,000 660,000

At end of year 97,628,865 99,658,865

The revaluation reserve is not distributable.

NOTES (Continued)

For the year ended 31 December 2016

12. Property, plant and equipment

Year ended 31 December 2016	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture and fittings Shs	Computer equipment Shs	Total Shs
Cost/valuation						
At start of year	80,000,000	195,000,000	3,737,434	32,407,921	32,071,483	343,216,838
Additions	-	-	-	1,051,310	1,993,007	3,044,317
Disposals	-	-	-	-	(57,500)	(57,500)
At end of year	80,000,000	195,000,000	3,737,434	33,459,231	34,006,990	346,203,655
Depreciation						
At start of year	-	-	2,027,528	19,776,455	25,814,043	47,618,026
On disposal	-	-	-	-	(57,500)	(57,500)
Charge for the year	1,069,042	3,900,000	427,477	1,710,347	2,457,884	9,564,750
At end of year	1,069,042	3,900,000	2,455,005	21,486,802	28,214,427	57,125,276
Net book value	78,930,958	191,100,000	1,282,429	11,972,429	5,792,563	289,078,379

NOTES (Continued)

For the year ended 31 December 2016

12. Property, plant and equipment

Year ended 31 December 2015	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture and fittings Shs	Computer equipment Shs	Total Shs
Cost/valuation						
At start of year	65,000,000	160,000,000	5,081,184	31,112,350	30,491,983	291,685,517
Additions	-	-	-	2,497,881	1,579,500	4,077,381
Disposals	-	-	(1,343,750)	(1,202,310)	-	(2,546,060)
Surplus on revaluation	15,000,000	35,000,000	-	-	-	50,000,000
At end of year	80,000,000	195,000,000	3,737,434	32,407,921	32,071,483	343,216,838
Depreciation						
At start of year	855,263	3,200,000	2,482,431	18,932,104	23,132,282	48,602,080
On disposal	-	-	(1,024,872)	(960,144)	-	(1,985,016)
Charge for the year	844,010	3,136,000	569,969	1,804,495	2,681,761	9,036,235
Reversal on revaluation	(1,699,273)	(6,336,000)	-	-	-	(8,035,273)
At end of year	-	-	2,027,528	19,776,455	25,814,043	47,618,026
Net book value	80,000,000	195,000,000	1,709,906	12,631,466	6,257,440	295,598,812

Leasehold land and buildings were professionally valued by R.R. Oswald & Company Limited on the basis of current open market value on 15 December 2015. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to the revaluation reserve in shareholder's equity, through the statement of comprehensive income.

The fair valuation of property, plant and equipment is considered to represent a level 3 valuation based on significant non-observable inputs being the location and condition of the assets and replacement costs. Management does not expect there to be a material sensitivity to the fair values arising from the non-observable inputs.

If leasehold land and buildings were stated on the historical cost basis, the carrying values would be as follows:-

Year ended 31 December 2016	Leasehold land Shs	Buildings Shs	Total Shs
Cost	5,000,000	50,000,000	55,000,000
Accumulated depreciation	(871,420)	(15,000,000)	(15,871,420)
	4,128,580	35,000,000	39,128,580
Year ended 31 December 2015			
Cost	5,000,000	50,000,000	55,000,000
Accumulated depreciation	(815,500)	(14,000,000)	(14,815,500)
	4,184,500	36,000,000	40,184,500

NOTES (Continued)

For the year ended 31 December 2016

13. Intangible asset - software	2016 Shs	2015 Shs
Cost		
At start of year	22,542,942	22,478,562
Additions	-	64,380
At end of year	22,542,942	22,542,942
Amortisation		
At start of year	21,479,107	20,722,527
Charge for the year	700,360	756,580
At end of year	22,179,467	21,479,107
Net book value	363,475	1,063,835
14. Mortgage and other loans		
Mortgage loans		
At start of year	108,118,624	97,048,867
Amount advanced	6,125,000	76,629,579
Repayment	(20,128,228)	(65,559,822)
At end of year	94,115,396	108,118,624
Other loans		
At start of year	2,764,122	2,493,090
Amount advanced	2,500,000	5,945,271
Repayment	(1,145,891)	(5,674,239)
At end of year	4,118,231	2,764,122
Total mortgage and other loans	98,233,627	110,882,746
15. Reinsurers' share of insurance contract liabilities		
Reinsurers' share of:		
- unearned premium (Note 24)	68,259,843	74,891,174
- notified claims outstanding (Note 23)	129,106,085	147,525,843
- claims incurred but not reported (Note 23)	24,726,831	33,297,077
	222,092,759	255,714,094
16. Other receivables		
Deposits	9,987,775	11,120,640
Sundry debtors	3,098,326	7,578,895
Deferred commission	51,823,366	45,078,167
Prepayments	847,376	5,158,746
	65,756,843	68,936,449



NOTES (Continued)

For the year ended 31 December 2016

17. Government securities	2016 Shs	2014 Shs
a) Held-to-maturity financial assets		
Treasury bills and bonds maturing:		
Less than 90 days from the reporting date (Note 21)	-	21,791,172
Between 1 and 5 years of the reporting date	249,141,370	267,981,249
After 5 years of the reporting date	670,552,566	373,431,033
	919,693,936	663,203,454

Treasury bonds whose face value is Shs. 121,000,000 (2015: Shs. 121,000,000) are held under lien in favour of the Commissioner of Insurance in accordance with Section 32 of the Kenyan Insurance Act.

	2016 Shs	2015 Shs
b) Available for sale		
Treasury bills and bonds maturing:		
Between 1 and 5 years of the reporting date	18,442,380	61,134,353
After 5 years of the reporting date	70,986,520	75,696,018
	89,428,900	136,830,371

The movement in government securities - 'Available-for-sale' is analysed as follows:

	2016 Shs	2015 Shs
At start of year	136,830,371	142,719,336
Matured during the year	(50,000,000)	-
Gain on maturity of - 'Available-for-sale' assets	509,710	-
Accrued interest	2,906,030	-
Fair value (loss)	(817,211)	(5,888,965)
	89,428,900	136,830,371

18. Commercial paper		
Infrastructure bond	21,684,195	28,892,823
19. Quoted shares		
a) At fair value through profit or loss		
At start of year	144,245,548	164,600,326
Disposals	-	(525,250)
Fair value (loss)	(26,299,289)	(19,829,528)
At end of year	117,946,259	144,245,548
b) Available for sale		
At start of year	31,424,736	-
Additions	48,366,324	44,894,645
Fair value (loss)	(7,099,299)	(13,469,909)
At end of year	72,691,761	31,424,736

NOTES (Continued)

For the year ended 31 December 2016

20. Weighted average effective interest rates

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

	2016 %	2015 %
Government securities	10.85	11.31
Deposits with financial institutions	12.55	14.11
Commercial paper	14.69	17.48
Mortgage and other loans	15.02	16.07

21. Cash and bank balances	2016 Shs	2015 Shs
Cash at bank and in hand	14,470,567	30,564,668
For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:		
Cash at bank and in hand	14,470,567	30,564,668
Deposits with financial institutions	214,604,669	256,676,665
Government securities - 'Held to Maturity' maturing within 90 days (Note (19)(a))	-	21,791,172
Less: Restricted cash balances - bank under receivership	-	(15,000,000)
Less: Restricted cash balances - under lien	(3,465,329)	(3,465,329)
	225,609,907	290,567,176

Included in deposits with financial institutions is Shs. 3,465,329 (2015: Shs. 3,465,329) which is held under lien with National Industrial Credit Bank Limited. The amount is not available to finance the company's day to day operations.

22. Insurance contract liabilities

Short term non-life insurance contracts:		
- claims reported and claims handling expenses	541,638,801	573,784,792
- claims incurred but not reported (IBNR)	114,848,208	114,484,167
Total gross insurance liabilities (Note 23)	656,487,009	688,268,959

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2016 and 2015 are not material.

The company uses chain-ladder techniques to estimate the ultimate cost of claims and the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.



For the year ended 31 December 2016

22. Insurance contract liabilities (continued)

The development of insurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims.

The table below illustrates how the company's estimate of total claims outstanding for each accident year has changed at successive year ends:

Accident year	2012 and Prior years Shs	2013 Shs	2014 Shs	2015 Shs	2016 Shs	Total Shs
Estimate of ultimate claims costs:						
At end of accident year	1,990,635,753	396,177,376	346,076,429	365,740,761	324,529,719	3,423,160,038
One year later	47,344,768	(32,213,674)	(32,560,380)	8,858,182	-	(8,571,104)
Two years later	(25,552,406)	(26,646,047)	6,510,178	-	-	(45,688,275)
Three years later	(37,546,934)	(1,069,214)	-	-	-	(38,616,148)
Four years later	(7,844,902)	-	-	-	-	(7,844,902)
Current estimate of cumulative claims	1,967,036,279	336,248,441	320,026,227	374,598,943	324,529,719	3,322,439,609
Less: cumulative payments to date	1,746,497,468	308,748,846	271,032,754	277,294,374	177,227,366	2,780,800,808
Liability	220,538,811	27,499,595	48,993,473	97,304,569	147,302,353	541,638,801
Provision for incurred but not yet reported claims (IBNR)						114,848,208
Total gross claims liability included in the statement of financial position						656,487,009

NOTES (Continued)

For the year ended 31 December 2016

23. Movements in insurance liabilities and reinsurance assets

	2016			2015		
	Gross Shs	Reinsurance Shs	Net Shs	Gross Shs	Reinsurance Shs	Net Shs
Notified claims	573,784,792	147,525,843	426,258,949	619,064,737	167,335,330	451,729,407
Incurred but not reported	114,484,167	33,297,077	81,187,090	109,086,167	36,476,224	72,609,943
At start of year	688,268,959	180,822,920	507,446,039	728,150,904	203,811,554	524,339,350
Cash paid for claims settled in year	(336,570,744)	(58,773,574)	(277,797,170)	(311,769,579)	(66,130,958)	(245,638,621)
Increase in liabilities						
- arising from current year claims	298,334,550	30,656,499	267,678,051	368,640,995	97,428,879	271,212,116
- arising from prior year claims	6,454,244	1,127,071	5,327,173	(96,753,361)	(54,286,555)	(42,466,806)
At end of year	656,487,009	153,832,916	502,654,093	688,268,959	180,822,920	507,446,039
Notified claims	541,638,801	129,106,085	412,532,716	573,784,792	147,525,843	426,258,949
Incurred but not reported	114,848,208	24,726,831	90,121,377	114,484,167	33,297,077	81,187,090
At end of year	656,487,009	153,832,916	502,654,093	688,268,959	180,822,920	507,446,039

24. Unearned premium reserves

	2016			2015		
	Gross Shs	Reinsurance Shs	Net Shs	Gross Shs	Reinsurance Shs	Net Shs
At start of year	264,368,898	74,891,174	189,477,723	274,688,455	82,134,237	192,554,217
Increase/(Decrease)	36,360,430	(6,631,331)	42,991,762	(10,319,557)	(7,243,063)	(3,076,494)
At end of year	300,729,328	68,259,843	232,469,485	264,368,898	74,891,174	189,477,723



NOTES (Continued)

For the year ended 31 December 2016

25. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2015: 30%). The movement on the deferred tax account is as follows:

	2016 Shs	2015 Shs
At start of year	54,361,741	38,218,941
Charge to equity	-	17,410,582
(Credit) to profit or loss (Note 9)	(3,679,837)	(1,267,782)
At end of year	50,681,904	54,361,741

Deferred tax liability in the statement of financial position and deferred tax (credit) to profit or loss are attributable to the following items:

	At start of year Shs	(Credit) to profit or loss Shs	At end of year Shs
Deferred tax liability			
Property, plant and equipment			
- Historical cost	(93,041)	(24,146)	(117,187)
- revaluation	59,850,598	-	59,850,598
Provisions	(5,395,816)	(3,655,691)	(9,051,507)
Net deferred tax liability	54,361,741	(3,679,837)	50,681,904

26. Other payables

	2016 Shs	2015 Shs
Accrued expenses	9,129,163	14,431,548
Ordinary dividend payable	1,169,587	443,006
Other liabilities	38,976,777	34,203,144
Deferred commissions	14,993,159	29,015,589
	64,268,686	78,093,287

27. Contingent liabilities

As is common with the insurance industry in general, the company is subject to litigation arising in the normal course of insurance business.

The directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the company.

NOTES (Continued)

For the year ended 31 December 2016

28. Cash from operations

Reconciliation of profit before tax to cash from operations:

	2016 Shs	2015 Shs
Profit before tax	236,817,673	200,141,892
Adjustments for:		
Depreciation on property, plant and equipment (Note 12)	9,564,750	9,036,235
Amortisation of intangible assets (Note 13)	700,360	756,580
(Gain) on disposal of property, plant and equipment	(38,720)	(108,267)
Fair value loss on quoted shares through profit or loss (Note (19)(a))	26,299,289	19,829,528
Changes in working capital		
- increase/(decrease) in receivables arising out of direct insurance arrangements	27,202,730	(8,634,214)
- (decrease)/increase in receivables arising out of reinsurance arrangements	(4,466,565)	6,337,113
- increase in reinsurers share of insurance contract liabilities	33,621,335	30,231,697
- increase/(decrease) in other receivables	3,179,606	(3,015,756)
- (decrease) in insurance contract liabilities	(31,781,950)	(39,881,945)
- (decrease)/increase in payables arising out of reinsurance arrangements	(14,889,748)	37,482,502
- increase/(decrease) in unearned premium reserves	36,360,430	(10,319,557)
- (decrease)/increase in other payables	(13,824,601)	29,868,001
Cash from operations	308,744,589	271,723,809

29. Related party transactions

Related parties are defined as entities which are related to the company through common shareholdings or common directorships. In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients.

i) Transactions with related parties

	2016 Shs	2015 Shs
Gross premiums written	359,853,201	304,470,267
Gross claims incurred	96,977,791	97,775,606
Commission paid	66,537,110	54,877,948



NOTES (Continued)

For the year ended 31 December 2016

29. Related party transactions (continued)	2016 Shs	2015 Shs
ii) Outstanding balances		
Outstanding premiums	13,804,636	40,259,748
Claims payable	143,746,156	149,765,109
Deposits with financial institutions	93,968,752	84,000,000
Current account balances	12,803,325	30,564,668
Mortgage loans	3,865,011	3,565,105
Staff loans	4,118,231	2,760,309
iii) Directors' remuneration		
Fees for services as a director	4,350,000	4,028,000
Other emoluments	3,300,000	6,600,000
iv) Key management compensation		
Remuneration of senior management	59,653,124	60,005,610

30. Dividend

During the year, an interim dividend of Shs. 60,000,000 (2015: Shs. 50,224,420) was paid. The directors do not propose the payment of a final dividend for the year.

Payment of dividend is subject to withholding tax at a rate of 0%, 5% or 10% depending on the tax status or residency of the shareholder.

31. Earnings per share

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of the bonus shares issued if any.

	2016	2015
Net profit for the year attributable to shareholders	171,608,943	141,596,439
Adjusted weighted average number of ordinary shares in issue	6,000,000	6,000,000
Earnings per share - basic and diluted (Shs.)	28.60	23.60

There were no potentially dilutive shares outstanding as at 31st December 2016 and 2015.

NOTES (Continued)

For the year ended 31 December 2016

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Class of insurance business	Engineering		Fire		Public Liability		Marine		Motor		Motor Commercial		Personal Accident		Theft Compensation		Workmen's Miscellaneous		Dec 2016		Dec 2015	
	Shs		Shs		Shs		Shs		Shs		Shs		Shs		Shs		Shs		Total	Shs	Total	Shs
Gross premiums written	53,071,300		38,307,220		12,698,837		110,788,436		150,248,792		89,163,871		14,874,543		112,576,387		33,758,706		963,338,361		876,774,996	
Change in net unearned premiums	(1,250,608)		(968,455)		(1,229,440)		(2,860,094)		(5,153,840)		(3,072,386)		(2,494,919)		(16,540,491)		(2,020,958)		(42,991,762)		3,076,493	
Gross earned premiums	51,820,692		37,338,765		11,469,397		107,928,342		145,094,952		86,091,485		12,379,624		96,035,896		31,737,748		920,346,599		879,851,489	
Less: premiums ceded to reinsurers	(42,611,925)		(11,160,740)		(1,217,622)		(32,531,561)		(2,590,305)		(1,467,475)		(1,193,131)		(10,305,783)		(6,642,106)		(290,517,772)		(318,003,394)	
Net earned premiums	9,208,767		26,178,025		10,251,775		75,396,781		142,504,647		84,624,010		11,186,493		85,730,113		131,502,437		629,828,827		561,848,095	
Gross claims paid	(10,893,680)		(37,507,526)		(4,366,471)		(32,432,940)		(53,490,588)		(45,892,645)		(387,472)		(36,602,507)		(64,329,524)		(4,413,221)		(311,769,579)	
Changes in net outstanding claims	(61,153)		2,652,086		2,190,589		(10,936,891)		(9,959,851)		18,854,256		(751,773)		(6,950,186)		18,706,863		(450,634)		5,888,353	
Less: reinsurance recoverable	6,442,961		3,329,242		-		9,645,095		35,027		1,728,150		37,950		13,219,961		73,072		101,250		66,130,956	
Net claims incurred	(4,511,872)		(31,526,198)		(2,175,882)		(33,724,736)		(63,415,412)		(25,310,239)		(1,101,295)		(30,332,732)		(45,549,589)		(4,762,605)		(239,750,269)	
Commissions receivable	14,415,714		3,153,314		1,420,262		10,332,363		7		226		425,273		3,263,213		-		5,126,057		115,065,279	
Commissions payable	(8,834,235)		(7,710,472)		(2,418,686)		(19,014,312)		(14,387,478)		(8,572,958)		(2,888,459)		(20,998,989)		(27,567,832)		(2,988,913)		(156,866,141)	
Expenses of management	(5,245,201)		(10,317,898)		(4,665,225)		(44,050,646)		(7,609,704)		(22,498,294)		(2,631,798)		(19,621,388)		(36,184,846)		(20,855,705)		(207,146,672)	
Total expenses and commissions	336,278		(14,875,056)		(5,663,649)		(52,732,595)		(21,997,175)		(31,071,026)		(5,094,984)		(37,357,164)		(63,752,678)		(18,718,561)		(248,947,534)	
Underwriting profit/(loss)	5,033,173		(20,223,229)		2,412,244		(11,060,550)		57,092,060		28,242,745		4,990,214		18,040,217		22,200,170		(4,282,923)		73,150,292	

A Symbol of Trust, Security & Progress



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