

RISING HIGHER

ANNUAL REPORT & FINANCIAL STATEMENTS | 2016



INSURANCE COMPANY LTD





OUR VISION

To be the most reliable protector of wealth and health in the East African Region.

OUR MISSION

To bring peace of mind to our clients by providing the best insurance solutions

OUR CORE VALUES

Integrity

We are fair and honest; we do what we say and say what we do.

Innovation

We apply our imagination and modern technology to anticipate and respond to our customers' needs.

Empowerment

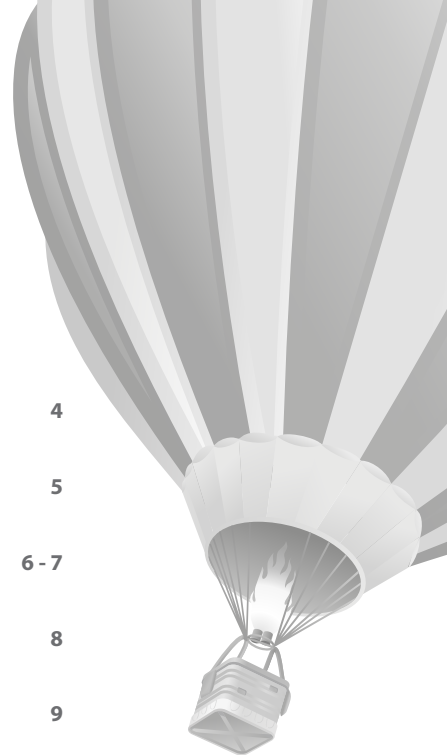
We create an enabling environment for our staff to serve our customers exceptionally well.

Customer Focus

All our products, business processes and relationships are engineered to yield maximum value for our customers.

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Company Information

Board of Directors

Jimnah Mbaru	-	Chairman
Asok Ghosh	-	Managing Director
Dipak Shah		
Tejal Ketul Dodhia		
Mayank Patel		
Mansukhlal P. Shah	-	(Deceased 10 January 2016)
Maganlal Dodhia	-	(Alternate to Archna Bulsara)
Karim Anjarwalla	-	(Resigned 25 November 2016)
Archna Bulsara	-	(Appointed 9 February 2016)
Fukunda Mbaru	-	(Appointed 9 February 2016)
Isaac P. Ngaru	-	(Appointed 8 August 2016)
Shailen M. Shah	-	(Appointed 8 August 2016)

Registered Office

Plot No. L.R. 1870/III/42, School Lane, Westlands
P.O. Box 66249, 00800 NAIROBI

Principal Place of Business

Crescent Business Centre
7th Floor, Parklands Road, Parklands
P.O. Box 39459, 00623 NAIROBI

Independent Auditor

KPMG Kenya
Certified Public Accountants
P. O. Box 40612, 00100 NAIROBI

Company Secretary

Sabre Registrars
Certified Public Secretaries
P.O. Box 66249, 00800 NAIROBI

Consulting Actuaries

Alexander Forbes Financial Services (E.A.) Ltd
P.O. Box 52439, 00200 NAIROBI

Principal Bankers

Guaranty Trust Bank (Kenya) Limited
Diamond Trust Bank Kenya Limited
Habib Bank A. G. Zurich
Guardian Bank Limited

Principal Legal Advisors

Boniface Masinde & Company Advocates
Shirika Co-op House, 3rd Floor, Wing B
P.O. Box 15226, 00100 NAIROBI

C.W. Ngala & Company Advocates
2nd Floor, Town House, Kaunda Street
P.O. Box 14102, 00100 NAIROBI



Chairman's Statement

For the Year 2016

I am delighted to present to you the 29th Annual Report and Financial Statements for the year ended 31 December 2016.

The economy is estimated to have grown at 5.9% compared to the growth of 5.6% experienced in 2015. This is attributed to ongoing infrastructure investments, low oil prices, good agriculture performance and a supportive monetary policy. Other drivers included forestry and fishing; transportation and storage; real estate; and wholesale and retail trade. The current account deficit narrowed last year due to low oil prices and lower machinery imports, combined with rising diaspora remittances and improved earnings from agricultural exports. Looking ahead, the economy is expected to maintain its steady growth trajectory fuelled by commencement of oil production which should help meet domestic demand and reduced fuel import costs in the medium term, with full production coming on-line in 2020, providing Kenya with an exporting capacity.

The Kenyan Shilling showed stability against some of the major currencies in 2016. Notably though was the 13.5% recovery against the Sterling Pound on account of the Brexit vote. The move by the US Federal Reserve to raise interest rates saw the Kenya Shilling lose the 1.5% recovery it had gained in the first half of 2016. The Equities Markets contracted in value for the second consecutive year. NSE 20 Share Index declined by 21.2% and the volume of transaction tanked by 27.4%. This decline may be attributed to the implementation of the interest cap law, extended periods of economic slowdown in the Eurozone, China and Sub Saharan economies that had a ripple effect in our financial markets, investor uncertainty regarding the August 2017 general elections and global events such as the Brexit vote and the outcome of the 2016 US Elections. The bonds market however exhibited a considerable gain in the transaction value at 41.7% year-on-year.

The overall inflation remained fairly stable in 2016, averaging at 6.3% (6.6% in 2015). The highest rate was in January at 7.78%, touching a low of 5% in May 2016 and was at 6.35% as at December 2016. The interest rates bill was assented into law in August 2016 capping lending rates at 4% above the prevailing CBR rate, currently set at 10.0%. Credit growth slowed down to its lowest level in more than a decade, at just 4.3% in the 12 months to December 2016. Central Bank of Kenya (CBK) noted that despite inflationary pressures still being mild, the domestic and global uncertainties could still affect rates in the new year. In particular, it cited the possible impact of the decision to cap bank-lending rates at 4% above the key Central Bank Rate, and the potential for shifts in US monetary policy to have an effect on capital flows.

The Insurance Industry recorded gross written premiums of KShs 194.7 billion in 2016 compared to KShs 173.2 billion in 2015. This was a growth of 12.3% and was largely driven by growth in the life sector. The non-life sector recorded gross premiums of 121.7 billion compared to the 112.1 billion in 2015. The industry recorded a profit of KShs 15.0 billion before tax in 2016 compared to KShs 11.3 billion in 2015. The overall insurance penetration in 2015 was 2.79% compared to 2.93% in 2014. The decrease in penetration was due to the rebasing of GDP upwards in 2014.

During the year under review, the Company performed commendably well despite the daunting challenges and an increasingly competitive business environment. The Company experienced a premiums growth of 6.6%, from KShs 1.94 billion in 2015 to KShs 2.03 billion in 2016.

The total asset base of the Company also improved, growing from KShs 2.67 billion in 2015 to KShs 2.96 billion in 2016, while shareholders' funds grew from 1.013 Billion to 1.051 billion. The Company posted an underwriting profit of KShs 16 million during the year, down from KShs 156 million recorded in 2015.

This reduction in underwriting profit is mainly attributed to the strengthening of our claim reserves and should smoothen out our results in the future. Profit before tax posted in 2016 is KShs 185.9 million down from KShs 297.9 million recorded in the previous year.

The Board and Senior Management Team formulated a strategic plan at the beginning of 2015 to chart the road ahead for the next 5 years. I am extremely pleased with the progress achieved so far and I am confident that the Company will continue striving to achieve the set targets as stipulated in the strategic plan.

Training and development of human resource continues to be a major priority in the growth of our Company. The Company assists its staff to undertake continuous professional and development training programmes to fulfil their potential. During the year in review, we carried out various training functions at all levels of staff to enhance skill and professionalism including a financial management seminar for all staff members. These training programmes have covered all aspects of our business and will continue in future.

The Company's relentless pursuit of excellence not only in the insurance business but also in social activities saw our sports team perform well in last year's AKI sports. There were a few notable individual performances too. We congratulate all members who participated in the event and wish them success in future.

Our business philosophy is strongly anchored on striving to be a responsible and supportive corporate citizen. During the year in review, we supported various initiatives spanning education, health and social and children welfare. Some of the notable activities included participation in the annual AKI medical camp in Karagita, Naivasha, offering sponsorship to several education programmes through construction of classrooms and dormitories, donation of classroom furniture and donations of wheelchairs and crutches. We also offered further support through donations of stationery, food items and water tanks to needy cases. The beneficiaries included Waita School for the Disabled, Green Stars School (Kisii), Rurii Primary School (Juja), St. Francis Kyai Asini, Uganda Martyrs Childrens Home (Machakos) and Zyllini Secondary School (Makueni). We aim to incorporate more environmental and mentorship programmes as we aim to spread our Corporate Social Responsibility outreach.

Finally, I wish to extend my sincere appreciation to all our customers and intermediaries for their endearing trust, support and loyalty to our Company, which indeed inspires our commitment to provide the best insurance solutions in the region. I am equally grateful to the Board of Directors for their wise counsel, the management team for their excellent leadership and the entire staff for their dedication throughout the year. I am also thankful to the Insurance Regulatory Authority for their supervisory support and guidance and I expect the same in future while assuring them of our commitment to the industry's development in all respects.

Jimnah M. Mbaru
Chairman



Corporate Social Responsibility



The Company Corporate Social Responsibility team donating course books to pupils in Busia County at R.C. Demco



The Company Corporate Social Responsibility team taking care of the less fortunate in the society in Nairobi County at Wings of the Dove Children's Home.



Corporate Social Responsibility



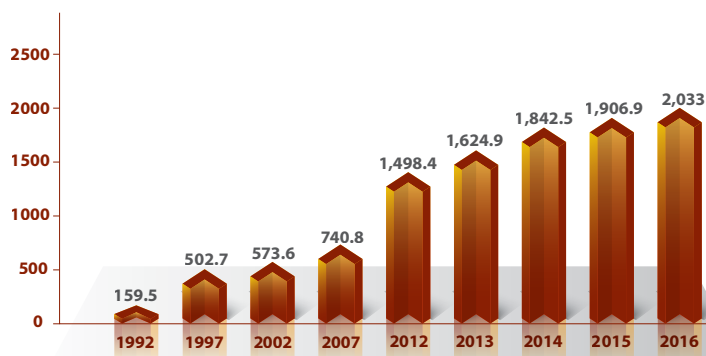
Donation of wheel chairs for the disabled as a response to the society.



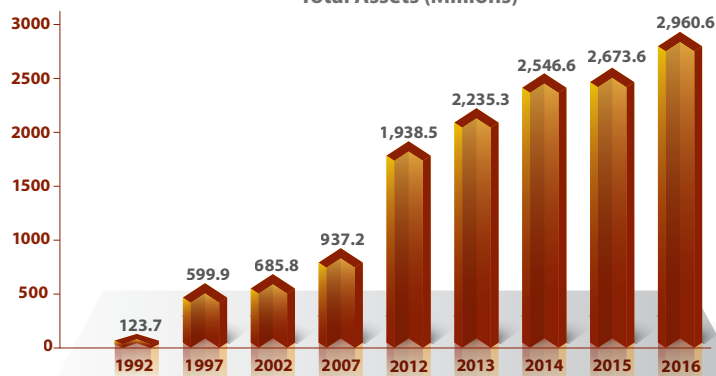
The Managing Director, Mr. Asok Ghosh planting trees to take care of the environment in Meru County at Nyweri Primary School.

Financial Highlights

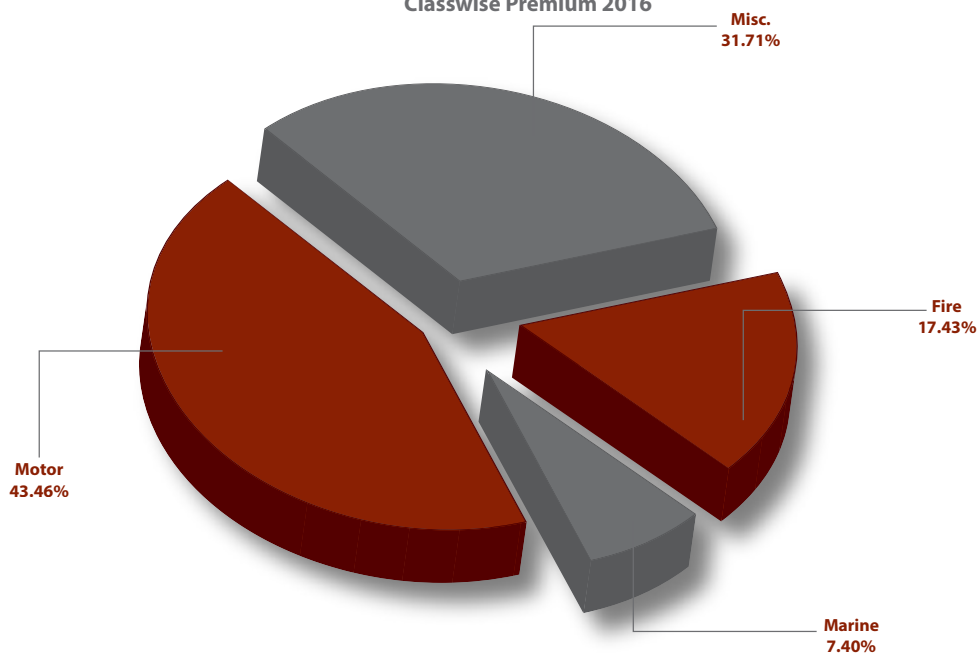
Gross Premium Written (Millions)



Total Assets (Millions)



Classwise Premium 2016



Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016 which disclose the state of affairs of the Company.

1. Principal activities

The Company conducts all classes of general insurance business as defined by the Insurance Act, with the exception of aviation.

2. Incorporation

The Company is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private Company limited by shares, and is domiciled in Kenya.

3. Results and dividend

Profit for the year of KShs 137,369,402 (2015: KShs 207,564,075) has been added to retained earnings. The Directors propose a final dividend of KShs 30,000,000 (2015: KShs 40,194,000) for the year.

4. Directors

The Directors who held office during the year and to the date of this report are shown on page 4.

In accordance with the Company's Articles of Association, no directors are due for retirement by rotation.

5. Business review

During the year 2016, the Company performed commendably well despite the challenges and an increasingly competitive business environment. The Company experienced a premium growth of 6.6% from KShs 1.9 billion in 2015 to KShs 2.03 billion in 2016. The total asset base of the Company also improved by 9.6%, growing from KShs 2.67 billion in 2015 to KShs 2.96 billion in 2016. The Company posted an underwriting profit KShs 16 million during the year versus KShs 156 million recorded in 2015 as we improved our reserves. Profit before tax posted in 2016 was KShs 185 million against KShs 297 million recorded in 2015.

6. Relevant audit information

The Directors in office at the date of this report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information

7. Employees

The Directors are pleased to record their appreciation for the untiring efforts of all employees of the Company. The average number of employees in 2016 was 103. (2015 – 86).

8. Independent auditor

The Company's auditor, KPMG Kenya, who was appointed during the year in place of PKF Kenya, continues in office in accordance with the Kenyan Companies Act, 2015.

9. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on 9 March 2017.

By order of the board

Sabre Registrars
Certified Public Secretaries
Secretary
Nairobi
9 March 2017



Statement of Directors' Responsibilities

The Directors are responsible for the preparation and fair presentation of the Company financial statements of Occidental Insurance Company Limited set out on pages 14 to 44 which comprise the statement of financial position of the Company and the Company at 31 December 2016, the Company's statement of profit or loss and other comprehensive income, Company statement of changes in equity and Company statement of cash flows, for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Approval of the financial Statements

The financial statements, as indicated above, were approved by the Board of Directors on 9 March 2017 and were signed on its behalf by:

Shailen M. Shah
Director

Tejal K. Dodhia
Director



Report of the Independent Auditor to the Members of Occidental Insurance Company Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Occidental Insurance Company Limited (the "Company") set out on pages 14 to 44 which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Occidental Insurance Company Limited as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards 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 Auditors 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

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

Premium income and receivables	
See Notes 4(b) and 5 to the financial statements.	
The key audit matter	How the matter was addressed
Significant judgment is involved in premium revenue recognition, determination of unearned premiums and estimation of provisions for uncollected premiums receivables. There are inherent risks in the valuation of reinsurance assets and insurance receivables (Note 4 (b)) and these balances require judgement to be applied by the Company to the valuation and their processing requires manual adjustments to be made. Due to the above factors, we considered premium income and receivables to be a key audit matter.	Our audit procedures in this area included, among others: <ul style="list-style-type: none"> — Evaluation and testing of key controls over the processes designed to record and monitor premium income and insurance and reinsurance receivables; — Inspection of management's aged analysis for recoveries as at 31 December 2016; — Understanding the terms of the reinsurance programmes in place and conducting relevant substantive procedures and substantive analytical procedures to assess the reasonableness of the reinsurance assets relative to gross provisions. — Considering credit ratings for reinsurers, facultative and brokerage entities; and — Testing of the manual adjustments on a sample basis by tracing back to supporting documentation.
Short term insurance contract liabilities	
See Note 25 to the financial statements.	
The key audit matter	How the matter was addressed
Short term insurance contract liabilities constitute about 58% of the Company's total liabilities. Valuation of these liabilities is highly judgmental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities that are recognized in respect of claims that have occurred, but have not yet been reported to the Company. Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities.	Our audit procedures in this area included, among others: <ul style="list-style-type: none"> — Evaluating and testing key controls around the claims handling and reserve setting processes of the Company; — Checking for any unrecorded liabilities at the end of the period; — Checking samples of claims reserves through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters; — Re-performing reconciliations between the data recorded in the financial systems and the data used in the actuarial reserving calculations;

Report of the Independent Auditor to the Members of Occidental Insurance Company Limited

Report on the audit of the financial statements (continued)

Short term insurance contract liabilities (continued)	
The key audit matter	How the matter was addressed
<p>The key assumptions that drive the reserving calculations include graduate development factors, loss ratios, inflation assumptions and claims expense assumptions. The valuation of insurance contract liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.</p> <p>Consequently, we have determined the valuation of short term insurance contract liabilities to be a key audit matter.</p>	<ul style="list-style-type: none"> — Re-projecting the incurred but not reported reserve balances using the actuarially-determined reserve percentages per class of business; — Using our actuarial specialists to review the reserving methodology applied and analytically review the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; and — Considering the validity of management's liability adequacy testing by assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of Company and industry experience data and specific product features.
Information Technology (IT) systems and controls	
The key audit matter	How the matter was addressed
<p>Many financial reporting controls depend on the correct functioning of related elements of the operational and financial IT systems, for example interfaces between policy administration and financial reporting systems or automated controls which are designed to prevent inaccurate or incomplete transfers of financial information. This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly where systems require increased manual inputs.</p>	<p>In this area our audit procedures included, among others:</p> <ul style="list-style-type: none"> — Testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; — With the support of our own IT specialists, we tested these controls through examining whether changes made to the systems were appropriately approved, and assessing whether appropriate restrictions were placed on access to core systems through testing the permissions and responsibilities of those given that access; — Where IT controls were not operating effectively and we were therefore unable to rely on certain automated IT controls, we considered whether financial information was impacted and extended the scope of our work by performing additional audit procedures in a limited number of areas; and — In the areas where we performed additional procedures we were able to place reliance on manual compensating controls, such as reconciliations between systems and other information sources, or perform additional testing, such as extending the size of our sample sizes, to obtain sufficient appropriate audit evidence over the financial statement balances that were impacted.

Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditors' report is the Chairman's statement, the Report of the Directors and Supplementary Information, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Directors' responsibilities for the financial statements

As stated on page 10, the Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.



Report of the Independent Auditor to the Members of Occidental Insurance Company Limited

Report on the audit of the financial statements (continued)

Directors' responsibilities for the financial statements (continued)

In preparing the financial statements, 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors 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 auditors' report is CPA Alexander Mbai – P/2172. KMPG Kenya.

Certified Public Accountant Nairobi, Kenya.

9 March 2017.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December 2016

	Notes	2016 KShs	2015 KShs
Gross written premium		2,033,090,004	1,906,947,436
Net decrease/(increase) in unearned Premium reserves		28,642,802	(50,004,927)
Gross earned premiums	5	2,061,732,806	1,856,942,509
Less: reinsurance premium ceded		(652,273,989)	(610,934,480)
Net earned premiums		1,409,458,817	1,246,008,029
Investment and other income	6	162,697,575	180,470,799
Gain on revaluation of investment properties	15	49,317,072	-
Commissions earned		251,554,948	169,027,641
Net income		1,873,028,412	1,595,506,469
Claims payable	7	1,461,990,385	1,133,384,822
Less: amounts recoverable from reinsurers		(401,618,399)	(412,452,289)
Net claims payable		1,060,371,986	720,932,533
Operating and other expenses	8	(310,377,350)	(283,507,282)
Commissions payable		(316,333,480)	(293,159,711)
Profit before tax		185,945,596	297,906,943
Income tax expense	10	(48,576,194)	(90,342,868)
Profit for the year after tax		137,369,402	207,564,075
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of quoted shares	22(a)	(15,272,856)	(17,109,322)
Deferred tax on fair value loss	23	4,581,857	-
Total other comprehensive income		(10,690,999)	(17,109,322)
Total comprehensive income for the year attributable to shareholders of the Company	30	126,678,403	190,454,753
Earnings per share	30	182.79	274.83
Final dividend proposed for the year	32	30,000,000	40,194,000

The notes on pages 18 to 44 form an integral part of these financial statements.



Statement of Financial Position

For the year ended 31st December 2016

	Notes	2016 KShs	2015 KShs
CAPITAL EMPLOYED			
Share capital	11	693,000,000	693,000,000
Retained earnings	12	340,918,411	278,594,009
Revaluation reserve	13	(9,184,694)	1,506,305
Proposed dividend	32	30,000,000	40,194,000
Shareholders' funds		1,054,733,717	1,013,294,314
REPRESENTED BY:			
Assets			
Vehicles and equipment	14	39,291,204	29,049,066
Investment properties	15	491,000,000	441,682,928
Intangible assets	16	32,952,873	29,319,970
Deferred acquisition cost	17	68,895,000	-
Kenya Motor Insurance Pool	18	10,619,259	11,687,053
Deferred tax asset	23	1,099,819	-
Reinsurers' share of insurance contract liabilities	19	83,140,111	93,620,807
Other receivables and prepayments	20	37,334,914	25,824,879
Current tax recoverable	10	22,122,777	-
Government securities - 'Held to maturity'	21(a)	1,056,675,488	650,592,994
Corporate bond	21(b)	11,182,821	14,863,921
Equity investments 'Available-for-sale':			
- quoted investments	22(a)	95,961,167	111,234,023
- unquoted investments	22(b)	100,824,875	100,824,875
Receivables arising out of reinsurance arrangements		196,309,222	171,956,755
Receivables arising out of direct insurance arrangements		475,060,317	452,520,699
Deposits with financial institutions	24	170,999,891	495,477,401
Cash and cash equivalents	24	67,174,300	44,990,056
TOTAL ASSETS		2,960,644,038	2,673,645,427
Liabilities			
Deferred tax liabilities	23	-	1,044,399
Current tax payable	10	-	12,717,119
Insurance contract liabilities	25	1,127,011,958	850,234,047
Unearned premium reserve	26	531,494,000	560,136,802
Creditors arising from reinsurance arrangements		154,211,761	147,872,634
Other payables	27	93,192,602	88,346,112
Total liabilities		1,905,910,321	1,660,351,113
NET ASSETS		1,054,733,717	1,013,294,314

The financial statements on pages 14 to 44 were authorised and approved for issue by the Board of Directors on 9 March 2017 and were signed on its behalf by:

Shailen M. Shah
Director

Tejal K. Dodhia
Director

Asok Ghosh
Principal Officer

The notes on pages 18 to 44 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31st December 2016

	Share capital KShs	Retained earnings KShs	Revaluation surplus KShs	Proposed dividends KShs	Total KShs
At 1 January 2016	693,000,000	278,594,009	1,506,305	40,194,000	1,013,294,314
Comprehensive income:					
Profit for the year	-	137,369,402	-	-	137,369,402
Other comprehensive income:					
Change in fair value of 'Available-for-sale' investments (Note 22(a))	-	-	(15,272,856)	-	(15,272,856)
Deferred income tax relating to components of other comprehensive income (Note 23)	-	-	4,581,857	-	4,581,857
Total comprehensive income for the year	-	137,369,402	(10,690,999)	-	126,678,403
Transaction with owners					
Dividends:					
- Final dividend paid for 2015 (Note 32)	-	-	-	(40,194,000)	(40,194,000)
- Interim dividend proposed for 2016 (Note 32)	-	(45,045,000)	-	45,045,000	-
- Interim dividend paid 2016 (Note 32)	-	-	-	(45,045,000)	(45,045,000)
- Final dividend proposed 2016 (Note 32)	-	(30,000,000)	-	30,000,000	-
Total transaction with owners	-	(75,045,000)	-	(10,194,000)	(85,239,000)
At 31 December 2016	693,000,000	340,918,411	(9,184,694)	30,000,000	1,054,733,717
Year ended 31 December 2015					
At start of year	346,500,000	487,723,934	18,213,680	45,045,000	897,482,614
Comprehensive income:					
Profit for the year	-	207,564,075	-	-	207,564,075
Other comprehensive income:					
Change in fair value of available-for-sale investments (Note 22(a))	-	-	(17,109,322)	-	(17,109,322)
Deferred income tax relating to components of other comprehensive income (Note 23)	-	-	401,947	-	401,947
Total comprehensive income for the year	-	207,564,075	(16,707,375)	-	190,856,700
Transaction with owners					
Issue of bonus shares	346,500,000	(346,500,000)	-	-	-
Dividends:					
- interim 2015 and Final for 2014 paid (Note 32)	-	-	-	(75,045,000)	(75,045,000)
- proposed and paid Interim for 2015 (Note 32)	-	(30,000,000)	-	30,000,000	-
- proposed and final for 2016 (Note 32)	-	(40,194,000)	-	40,194,000	-
Total transaction with owners	346,500,000	(416,694,000)	-	(4,851,000)	(75,045,000)
At 31 December 2015	693,000,000	278,594,009	1,506,305	40,194,000	1,013,294,314

The notes on pages 18 to 44 form an integral part of these financial statements.



Statement of Cash Flows

For the year ended 31st December 2016

	Note	2016 KShs	2015 KShs
Operating activities			
Cash from operations	28	176,916,872	92,633,369
Tax paid	10	(80,978,451)	(79,364,600)
Net cash from operations		95,938,421	13,268,769
Investing activities			
Net movement in government securities	21(a)	(406,082,494)	(9,834,519)
Interest received from current bank accounts	6	2,038,834	1,611,931
Interest income from fixed deposits	6	40,921,214	52,425,909
Interest income from Held-to-Maturity investments	6	90,600,676	76,640,767
Share of (loss)/profit from Kenya Motor Insurance Pool	6	296,056	(31,377)
Proceeds from disposal of vehicles and equipment		1,211,000	111,000
Purchase of vehicles and equipment	14	(22,026,170)	(11,655,207)
Purchase of investment property	15	-	(1,682,928)
Purchase of intangible assets	16	(3,632,903)	(295,501)
Redemption of commercial papers	21(b)	3,681,100	3,709,752
Purchase of quoted shares	22(a)	-	(36,143)
Net cash from investing activities		(292,992,687)	110,963,684
Financing activities			
Dividend paid	32	(85,239,000)	(75,045,000)
Net cash used in financing activities		(85,239,000)	(75,045,000)
Increase in cash and cash equivalents		(282,293,266)	49,187,453
Movement in cash and cash equivalents:			
At start of year		520,467,457	471,280,004
Increase		(282,293,266)	49,187,453
At end of year	24	238,174,191	520,467,457

The notes on pages 18 to 44 form an integral part of these financial statements.

Financial Statements

For the year ended 31st December 2016

Notes

1. GENERAL INFORMATION

The Company is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability Company and is domiciled in Kenya. The address of its registered office is:

Plot No. LR 1870/III/42, School Lane, Westlands
P.O. Box 66249, 00800
Nairobi

2. SUMMARY OF 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 the period presented, unless otherwise stated.

(a) Basis of preparation

(i) Statement of compliance

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenya Companies Act, 2015. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs).

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

(ii) Basis of measurement

The financial statements are prepared under the historical cost basis.

(iii) Functional presentation currency

The financial statements are presented in Kenya Shillings, which is the Company's functional and presentation currency.

(iv) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements is described in Note 3.

(b) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

The Company has adopted the following new standards and amendments during the year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2016. The nature and effects of the changes are explained below:



Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

New standard or amendments

– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
– Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
– Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
– Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
– Equity Method in Separate Financial Statements (Amendments to IAS 27)
– IFRS 14 Regulatory Deferral Accounts
– Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
– Disclosure Initiative (Amendments to IAS 1)
– Annual improvements cycle (2012-2014) – various standards

– *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

– *Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)*

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41. The new requirements are effective from 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

– *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

– *Equity Method in Separate Financial Statements (Amendments to IAS 27)*

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. This amendment was not applicable for the entity.

Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

– IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

– Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. The adoption of these changes did not have a significant impact on the financial statements of the Company.

– Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendment applies for annual periods beginning on or after 1 January 2016 and early application is permitted. The adoption of these changes did have a significant impact on the financial statements of the Company.

– Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Changes in methods of disposal. Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued. The adoption of these changes did not have an impact on the financial statements of the Company since the Company does not have any assets held for sale or held for distribution.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	Servicing contracts. Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. The adoption of these changes did not have an impact on the financial statements of the Company since the Company does not have servicing contracts for transferred assets.



Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

– Annual improvements cycle (2012-2014) – various standards - continued

Standard	Amendments
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1) – continued	Applicability of the amendments to IFRS 7 to condensed interim financial statements. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements. The adoption of these changes did not have an impact on the financial statements of the Company since the Company does not produce condensed interim financial statements.
IAS 19 Employee Benefits	Discount rate: regional market issue. Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level). The adoption of these changes did not have an impact on the financial statements of the Company since the Company does not have a defined benefits scheme.
IAS 34 Interim Financial Reporting	Disclosure of information 'elsewhere in the interim financial report'. Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference The adoption of these changes did not have an impact on the financial statements of the Company since the Company does not produce an interim financial report.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

(ii) New and amended standards interpretations in issue but not yet effective for the year ended 31 December 2016

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements. The Company does not plan to adopt these Standards early. These are summarised below:

New standard or amendments	Effective for annual periods beginning on or after
– Disclosure Initiative (Amendments to IAS 7)	1 January 2017
– Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
– IFRS 15 Revenue from Contracts with Customers	1 January 2018
– Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)	1 January 2018
– IFRS 9 Financial Instruments (2014)	1 January 2018
– Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
– Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
– IFRS 16 Leases	1 January 2019

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



Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) *New standards and amended standards interpretations in issue but not yet effective for the year ended 31 December 2016 (continued)*

– **Disclosure Initiative (Amendments to IAS 7)**

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities “for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities”. It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments. The Company is assessing the impact of IAS 7.

– **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The Company is assessing the impact of IAS 12.

– **IFRS 15 Revenue from Contracts with Customers**

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the impact of the above standard.



Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) *New standards and amended standards interpretations in issue but not yet effective for the year ended 31 December 2016 (continued)*

– **Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)**

The following clarifications and amendments are contained in the pronouncement:

- Accounting for cash-settled share-based payment transactions that include a performance condition

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

- Classification of share-based payment transactions with net settlement features

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above. The Company is assessing the impact of the above standard.

– **IFRS 9: Financial Instruments (2014)**

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income (OCI) or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. The Company is assessing the impact of adoption of the above standard.

– **Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)**

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) *New standards and amended standards interpretations in issue but not yet effective for the year ended 31 December 2016 (continued)*

– *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) (continued)*

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities. The Company is assessing the impact of adoption of the above standard.

– *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review. The Company is assessing the impact of IFRS 10 and IAS 28.

– *IFRS 16: Leases*

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognize:

- (a) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognizes the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use-assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognizes a financial liability representing its obligation to make future lease payments.
- (b) Depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.
- (c) IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognize assets and liabilities for:

- (a) Short term leases (i.e. lease of 12 months or less) and;
- (b) Leases of low-value assets

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted in so far as the recently issued revenue standard, IFRS 15 revenue from contracts with Customers is also applied.

The Company is assessing the potential impact of the standard on the financial statements.



Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Insurance contracts

Recognition and measurement

Premium income

Premium income is recognized on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the reporting date, and is computed using the 365th method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims payable

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, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss.

Commissions and deferred acquisition costs ("DAC")

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 are ceded.

A proportion of commission's payable is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

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.

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 the income statement. 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 2 (g)).

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 the income statement. 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 (Note 2(e)).

Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Insurance contracts (continued)

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 property.

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.

Other income

- Investment income is stated net of investment expenses.
- Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.
- Rental income is recognised as income in the period in which it is earned.
- Dividend income is recognised when the shareholders right to receive payment has been established.

(d) Vehicles and equipment

All vehicles and equipment are initially recorded at cost. All vehicles and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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 of the item can be measured reliably. 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 the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life. The vehicles and equipment are depreciated over a period of between 3 and 8 years.

Vehicles and equipment are reviewed at each reporting date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Asset residual values and their estimated useful lives are reviewed at each reporting date and adjusted if appropriate. Gains and losses on disposal of vehicles and equipment are determined immediately by reference to their carrying amounts.

(e) Financial assets

Classification

The Company classifies its financial assets in the following categories: loans and receivables, held-to-maturity financial assets, and 'Available-for-sale' financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than (a) those that the Company upon initial recognition designates as available-for-sale; or (b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Company's loans and receivables comprise receivables arising out of reinsurance arrangements, receivables arising out of direct insurance arrangements, other receivables and prepayments and 'cash and cash equivalents' in the statement of financial position.

(ii) Held-to-maturity financial assets

Held-to-maturity financial assets 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. Were the Company to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available-for-sale.



Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets (continued)

(iii) 'Available-for-sale' financial assets

'Available-for-sale' investments are those non-derivative financial assets that are not classified under any of categories (i) – (ii) above and are neither classified as fair value through profit or loss.

Recognition and derecognition

Regular way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and 'Available-for-sale' are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, transaction costs for all financial assets except those 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 financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included 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 investment 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.

Dividends on 'Available-for-sale' equity instruments are recognised in profit or loss when the Company's right to receive payments is established. Both are included in the investment income line.

(f) Investment properties

Investment properties are long-term investments in land and buildings that are not occupied substantially for own use. Investment properties are initially recognised at cost and subsequently measured at fair value representing open market value at the reporting date and is determined annually by independent external registered valuers. Changes in fair value are recorded in profit or loss. Gains and losses on disposal of investment property are determined by reference to their carrying amount and are taken into account in determining profit before tax.

(g) Impairment of financial assets

(i) Financial assets carried at amortised cost

The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group 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 initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

- objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:
- significant financial difficulty of the issuer;
- a breach of contract, such as default or delinquency in interest or principal repayments;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group.

Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of financial assets (continued)

(ii) Assets carried at fair value

In the case of equity investments classified as 'Available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for 'Available-for-sale' financial assets, 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 other comprehensive income – is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through 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 the profit or loss.

(iii) Impairment of non-financial assets

Assets that have an indefinite useful life 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) 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.

(i) 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.

(j) 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 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 the profit or loss in the year to which they relate.

(ii) Other entitlements

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

(k) Taxation

The tax expense for the period 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.



Financial Statements

For the year ended 31st December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Taxation (continued)

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.

(l) 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.

(m) Share capital

Ordinary shares are classified as equity.

(n) Comparatives

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

3. 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 judgements are continually evaluated and based on historical experience and other factors, including expected future events that are believed to be reasonable under the circumstances.

The estimation of future benefit payments from general 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.

The determination of the liabilities under general insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected amounts of claims to be paid in future. Judgment is also applied in the estimation of future contractual cash flows in relation to reported losses and losses incurred but not reported. There are several sources of uncertainty that need to be considered in the estimate of the ability 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.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

– 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.

– Fair value measurement and valuation process

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available.

– Useful lives of vehicles and equipment

Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

– Held to maturity financial assets

The directors have reviewed the Company's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Company's positive intention and ability to hold those assets to maturity.

Financial Statements

For the year ended 31st December 2016

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company's activities expose it to a variety of risks, including insurance risk and financial risk (credit risk, and the effect 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.

This section summarises the way the Company manages key risks:

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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



Financial Statements

For the year ended 31st December 2016

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and incurred but not reported claims (IBNR) for each successive year at each reporting date, together with cumulative payments to date.

Estimate of ultimate claim costs reported	2011 KShs	2012 KShs	2013 KShs	2014 KShs	2015 KShs	2016 KShs	Total KShs
At end of accident year	365,539,374	406,376,838	395,292,354	536,808,757	470,937,465	494,554,373	
One year later	630,504,666	798,053,891	807,628,943	917,007,671	905,675,284		
Two years later	695,932,292	868,642,383	879,765,160	997,218,499			
Three years later	731,408,662	922,999,257	919,674,169				
Four years later	771,143,574	964,070,460					
Five years later	802,765,486						
Current estimate of cumulative claims	833,284,758	1,019,256,243	984,800,052	1,127,680,241	1,152,358,757	1,106,988,949	6,224,369,000
Reserves relating to years before 2011							94,770,193
Less: cumulative payments to date	(802,765,486)	(964,070,460)	(919,674,169)	(997,218,499)	(905,675,284)	(494,554,373)	(5,083,958,271)
Total gross claims liability in financial statements	30,519,272	55,185,783	65,125,883	130,461,742	246,683,473	612,434,576	1,235,180,922

The liabilities included in the claims development table above considers the gross incurred but not reported reserve (IBNR). Below is a reconciliation to insurance contract liabilities disclosed on the financial statements:

Claims reported and claims handling expenses (Note 25)	727,555,418
Gross claims incurred but not reported (IBNR)	507,625,504
As Above	1,235,180,922
Less reinsurance share of IBNR	(109,350,504)
Insurance contract liabilities (Note 25)	1,125,830,418

Financial Statements

For the year ended 31st December 2016

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Financial risk

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

The concentration of insurance risk before and after reinsurance by territory in relation to the type of casualty insurance risk accepted is summarised on page 29, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from casualty insurance contracts. The Company is exposed to financial risk through its financial assets and financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance 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 and price risks. 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.

(a) Market risk

(i) Price risk

The Company is exposed to equity securities price risk because of investments in quoted securities classified as 'Available-for-sale'. 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 Insurance Act. All quoted shares held by the Company are traded on the Nairobi Securities Exchange (NSE).

The table below summarises the impact of increases/decreases of the NSE on the Company's post-tax profit for the year. 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:

Impact on other comprehensive income:	2016 KShs	2015 KShs
Index		
Increase	3,358,641	3,893,191

(ii) Cash flow and fair value 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 has no variable interest rate instruments.

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, cash and equivalents and deposits with financial institutions at year end totalled KShs 1,294,849,679 (2015: KShs 1,191,060,451) representing a significant portion of total assets.

At 31 December 2016, if the interest rates had been 5 percent 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 KShs 64,742,484 (2015: KShs 59,553,022).



Financial Statements

For the year ended 31st December 2016

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Financial risk (continued)

(b) Credit risk

Other areas where credit risk arises are deposits with banks and other receivables. The Company has no significant concentrations of credit risk. The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review.

Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

	2016 KShs	2015 KShs
Maximum exposure to credit risk before collateral held		
Receivables arising out of direct insurance arrangements	475,060,318	452,520,699
Receivables arising out of reinsurance arrangements	196,309,222	171,956,755
Reinsurers' share of insurance liabilities	83,140,111	93,620,807
Government securities	1,056,675,488	650,592,994
Commercial paper	11,182,821	14,863,921
Deposits with financial institutions	170,999,891	495,477,401
Cash and cash equivalents	67,174,300	44,990,056
Kenya Motor Insurance Pool	10,619,259	11,687,053
Other receivables	30,303,119	20,935,311
	2,101,464,529	1,956,644,997

All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

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 past due or impaired except for the following amounts in receivables arising out of direct insurance arrangements.

Receivables arising out of direct insurance arrangements are summarised as follows:

	2016 KShs	2015 KShs
Past due but not impaired	475,060,318	452,520,699
Receivables arising out of direct insurance arrangements past due but not impaired:		
Past due but not impaired:		
- by up to 30 days	96,892,295	94,741,901
- by 31 to 60 days	248,055,366	259,793,941
- over 60 days	130,112,657	97,984,857
Total past due but not impaired	475,060,318	452,520,699

The Company does not hold any collateral for receivables arising out of direct insurance arrangements.

Receivables arising out of direct insurance arrangements individually impaired relates to brokers.

Receivables arising out of reinsurance arrangements are summarised as follows:

	2016 KShs	2015 KShs
Past due but not impaired (over 60 days)	9,105,535	24,986,319

Financial Statements

For the year ended 31st December 2016

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Financial risk (continued)

(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 administration 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. The Board sets limits on the minimum level of bank overdraft facilities that should be in place to cover expenditure at unexpected levels of demand.

The table below presents the 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.

Short term insurance business maturing between 1 to 5 years

As at 31 December	2016 KShs	2015 KShs
Liabilities		
Insurance contract liabilities	1,127,011,958	850,234,047
Unearned premium	531,494,000	560,136,802
Creditors arising from reinsurance arrangements	154,211,761	147,872,634
Other payables	93,192,602	88,346,112
Total financial liabilities	1,905,910,321	1,646,589,595

(d) Fair value estimation

Effective 1 January 2011, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry bank, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2016 and 31 December 2015.

31 December 2016

Assets - financial assets

Equity instruments at fair value through profit or loss:

- unquoted
- quoted

	Level 1 KShs	Carried at cost KShs	Total KShs
	-	100,824,875	100,824,875
	95,961,167	-	95,961,167
	95,961,167	100,824,875	196,786,042



Financial Statements

For the year ended 31st December 2016

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Financial risk (continued)

(d) Fair value estimation (continued)

31 December 2015

Equity instruments at fair value through profit or loss:

- unquoted
- quoted

	Level 1 KShs	Carried at cost KShs	Total KShs
- unquoted	-	100,824,875	100,824,875
- quoted	111,234,023	-	111,234,023
	111,234,023	100,824,875	212,058,898

(e) Financial assets by category

Financial assets

As at 31 December 2016

	Receivables KShs	Financial assets at fair value through profit or loss upon initial recognition KShs	Held to maturity KShs	Total KShs
Reinsurers' share of insurance contract liabilities	83,140,111	-	-	83,140,111
Investments at fair value through profit or loss:				
- unquoted investments	-	100,824,875	-	100,824,875
- quoted investments	-	95,961,167	-	95,961,167
Government securities	-	-	1,056,675,488	1,056,675,488
Commercial paper	11,182,821	-	-	11,182,821
Receivables arising out of reinsurance arrangements	196,309,222	-	-	196,309,222
Receivables arising out of direct insurance arrangements	475,060,318	-	-	475,060,318
Deposits with financial institutions	170,999,891	-	-	170,999,891
Cash and cash equivalents	67,174,300	-	-	67,174,300
Other receivables and prepayments	37,334,914	-	-	37,334,914
Kenya Motor Insurance Pool	10,619,259	-	-	10,619,259
	1,051,820,836	196,786,042	1,056,675,488	2,305,282,366

As at 31 December 2015

Reinsurers' share of insurance contract liabilities	93,620,807	-	-	93,620,807
Investments at fair value through profit or loss:				
- unquoted investments	-	100,824,875	-	100,824,875
- quoted investments	-	111,234,023	-	111,234,023
Government securities	-	-	650,592,994	650,592,994
Commercial paper	14,863,921	-	-	14,863,921
Receivables arising out of reinsurance arrangements	171,956,755	-	-	171,956,755
Receivables arising out of direct insurance arrangements	452,520,699	-	-	452,520,699
Deposits with financial institutions	475,477,401	-	-	475,477,401
Cash and cash equivalents	44,990,056	-	-	44,990,056
Other receivables and prepayments	25,824,879	-	-	25,824,879
Kenya Motor Insurance Pool	11,687,053	-	-	11,687,053
	1,290,941,571	212,058,898	650,592,994	2,153,593,463

Financial Statements

For the year ended 31st December 2016

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Financial risk (continued)

(e) Financial assets by category (continued)

Financial liabilities at amortised cost

	2016 KShs	2015 KShs
Insurance contract liabilities	1,127,011,958	850,234,047
Creditors arising from reinsurance arrangements	154,211,761	147,872,634
Other payables	93,192,602	88,346,112
	1,374,416,321	1,086,452,793

(f) Capital management

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

Internally imposed capital requirements

- to comply with the capital requirements as set out in the Insurance Act;
- to comply with regulatory solvency requirements as set out in the Insurance Act;
- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business;
- to maintain an optimal capital structure to reduce the cost of capital; 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 Insurance Act requires each insurance Company to hold the minimum level of paid up capital as follows:

- general insurance business companies KShs 300 million.

General insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of KShs 10 million or 15% of the net premium income during the preceding financial year. The Insurance Act has been amended and the Risk Based Capital Regime introduced.

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 Insurance Act.

5. GROSS EARNED PREMIUMS

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

	2016 KShs	2015 KShs
General insurance business:		
Motor	848,839,204	788,423,152
Fire and engineering	471,561,274	400,362,602
Personal accident	41,363,891	41,457,802
Marine	168,305,234	159,074,807
Theft	144,116,549	130,181,079
Workmens compensation	333,996,817	275,087,860
Public liability	11,646,456	9,389,710
Miscellaneous	41,903,381	52,965,497
Gross earned premiums	2,061,732,806	1,856,942,509



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For the year ended 31st December 2016

6. INVESTMENT AND OTHER INCOME

Interest from government securities
Interest from bank deposits
Interest on current bank accounts
Net rental income from investment properties
Dividends received from equity investments
Impairment of investments
Gain on disposal of vehicles and equipment
Share of profit/(loss) from Kenya Motor Insurance Pool (Note 16)
Other income

2016 KShs	2015 KShs
90,600,676	76,640,767
40,921,214	52,425,909
2,038,834	1,611,931
39,316,064	41,840,961
8,959,754	7,719,532
(21,487,893)	-
1,191,125	111,000
296,056	(31,377)
861,745	152,076
162,697,575	180,470,799

7. CLAIMS PAYABLE

Net claims payable by principal class of business:
Motor
Fire and engineering
Personal accident
Marine
Theft
Workmen's compensation
Public liability
Miscellaneous

520,673,245	481,565,119
289,654,021	290,193,272
41,563,012	35,154,244
105,001,963	111,457,704
69,505,877	72,435,284
379,852,581	118,304,125
1,525,567	1,058,970
54,214,119	23,216,104
1,461,990,385	1,133,384,822

Total claims and policyholder benefits payable

8. OPERATING AND OTHER EXPENSES

Staff costs (Note 9)
Directors remuneration
Advertising
Donations
Entertainment
Legal and professional fees
Audit fees
Miscellaneous
Postages and telephones
Printing and stationery
Newspapers and periodicals
Travelling and transport
Bank charges and commission
Stamp duty
Vehicle running expenses
Computer expenses
Meeting expenses
Association charges
Premium tax
Subscriptions
Policy holder compensation
Fines and penalties
Secretarial fees
Rent
Electricity and water
Repairs and maintenance
Licenses
Insurance
Security expenses
Depreciation on vehicles and equipment
Bank overdraft interest

140,617,860	128,487,052
23,717,101	27,818,442
2,522,913	5,831,132
5,047,252	4,223,548
2,756,252	1,297,673
11,033,562	10,221,972
3,344,883	2,357,150
3,202,527	3,514,839
5,025,658	4,666,939
11,059,514	7,633,210
415,540	292,480
3,097,362	1,999,693
1,323,702	828,306
-	5,000,000
10,694,747	6,053,400
609,500	569,699
8,852,805	5,092,288
1,223,755	1,043,241
19,503,117	18,175,954
3,986,515	3,974,008
5,096,123	4,743,610
1,865,400	-
1,113,600	1,133,600
23,170,987	20,041,802
121,139	166,951
2,897,631	2,191,015
323,350	245,300
3,831,720	3,742,128
2,156,114	2,052,286
11,764,157	9,781,428
2,564	328,136
310,377,350	283,507,282

Total expenses

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For the year ended 31st December 2016

9. STAFF COSTS

Staff costs include the following:

Salaries and wages	161,052,663	113,717,967
Defined benefit scheme and National Social Security Fund	8,317,600	6,677,900
Staff redundancy costs	(30,811,472)	3,305,404
Other staff expenses	2,059,069	4,785,781
	140,617,860	128,487,052

10. TAX CHARGE

Current tax	46,138,555	82,741,104
Deferred tax (credit)/charge (Note 23)	5,821,153	7,601,764
Prior year over provision of deferred tax (Note 23)	(3,383,514)	-
	48,576,194	90,342,868

Tax charge

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

	2016 KShs	2015 KShs
Profit before tax	185,945,596	297,906,943
Tax calculated at a tax rate of 30% (2015: 30%)	55,783,679	89,372,083
Tax effect of:		
- expenses not allowable for tax purposes	10,570,436	8,261,391
- non-taxable gain on investment property	(14,795,122)	-
- fair value gain investment property (taxed at 5%)*	2,465,854	-
- prior year over-provision of deferred tax (Note 23)	3,383,514	9,029,922
- income not subject to tax	(8,832,167)	(16,320,528)
	48,576,194	90,342,868
Movement in tax balances		
At the beginning of the year	(12,717,119)	(9,340,615)
Tax charge	(46,138,555)	(82,741,104)
Tax paid	80,978,451	79,364,600
At the end of the year	22,122,777	(12,717,119)

*Fair value gains on investment property in Kenya are taxed at the enacted capital gains tax rate of 5%.

11. SHARE CAPITAL

Authorised:

1,000,000 (2015: 1,000,000)	2016 KShs	2015 KShs
Ordinary shares of KShs 1,000 each	1,000,000,000	1,000,000,000

Issued and fully paid:

693,000 (2015: 693,000)	2016 KShs	2015 KShs
Ordinary shares of KShs 1,000 each	693,000,000	693,000,000

12. RETAINED EARNINGS

Included within retained earnings of 2016 are surpluses arising from the revaluation of investment properties whose distribution is subject to restrictions imposed by legislation. The Commissioner has placed restrictions on distribution on gains arising from revaluation of investment properties. As at 31 December 2016, the cumulative fair value gains on the investment properties amounted to KShs 233,712,372 (2015: KShs 184,395,300).

13. REVALUATION RESERVE

The revaluation reserve relates to unrealized gains/losses on the Company's equity investments that are carried at fair value through other comprehensive income. Movements in the revaluation reserve are shown in the statement of changes in equity. The fair value reserve is not distributable to the shareholders of the Company. The fair value reserves were KShs (9,184,694) (2015: KShs 1,506,305).



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For the year ended 31st December 2016

14. VEHICLES AND EQUIPMENT

2016:	Motor vehicles KShs	Computers KShs	Fittings and equipment KShs	Total KShs
Cost				
At start of year	6,760,613	30,270,523	51,016,607	88,047,743
Additions	4,889,964	6,600,928	10,535,278	22,026,170
Disposals	(1,800,000)	(97,706)	(53,000)	(1,950,706)
At end of year	9,850,577	36,773,745	61,498,885	108,123,207
Depreciation				
At start of year	6,348,313	29,442,452	23,207,912	58,998,677
Charge for the year	1,347,491	4,264,153	6,152,513	11,764,157
Disposals	(1,800,000)	(33,125)	(97,706)	(1,930,831)
At end of year	5,895,804	33,673,480	29,262,719	68,832,003
Net book value	3,954,773	3,100,265	32,236,166	39,291,204
2015:				
Cost				
At start of year	6,760,613	26,967,901	42,664,022	76,392,536
Additions	-	3,302,622	8,352,585	11,655,207
At end of year	6,760,613	30,270,523	51,016,607	88,047,743
Depreciation				
At start of year	5,360,813	24,904,391	18,952,045	49,217,249
Charge for the year	987,500	4,538,061	4,255,867	9,781,428
At end of year	6,348,313	29,442,452	23,207,912	58,998,677
Net book value	412,300	828,071	27,808,695	29,049,066

15. INVESTMENT PROPERTIES

	2016 KShs	2015 KShs
At start of year	441,682,928	440,000,000
Additions	-	1,682,928
Fair value gain	49,317,072	-
At end of year	491,000,000	441,682,928

Investment properties include property held under finance leases which are classified and accounted for as investment properties. The fair value of investment property was determined using the market approach by reference to the market prices of similar properties of the type and in the area in which the property is situated. The valuation was carried out on 31 December 2016 by Milligan Limited, an independent professional valuer with recent experience in the location and category of the investment property being valued. These are categorized as Level 3 in the fair value hierarchy. The estimated fair values would increase/ (decrease):

- If property prices near the location of the property were higher/ (lower).
- With improvements/ (deterioration) in infrastructure development.

The book values of properties was adjusted and the resultant surplus was credited to the statement of profit or loss. Direct operating expenses arising on the investment property amounted to KShs 9,641,289 (2015: KShs 6,012,606).

16. INTANGIBLE ASSETS - WORK IN PROGRESS

	2016 KShs	2015 KShs
At start of year	29,319,970	29,024,469
Additions	3,632,903	295,501
At end of year	32,952,873	29,319,970

The above work in progress relates to a computer software (Agilis) being implemented by the Company.

Financial Statements

For the year ended 31st December 2016

17. DEFERRED ACQUISITION COSTS

At start of year
Additions

At end of year

2016 KShs	2015 KShs
-	-
68,895,000	-
68,895,000	-

18. KENYA MOTOR INSURANCE POOL (KMIP)

At start of year
Claims paid during the year
Share of profit/(loss) (Note 6)
Impaired Amount

11,687,053	11,702,369
134,043	16,061
296,056	(31,377)
(1,497,893)	-
10,619,259	11,687,053

19. SHORT TERM INSURANCE BUSINESS

Reinsurer's share of claims outstanding

83,140,111	93,620,807
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20. OTHER RECEIVABLES AND PREPAYMENTS

Prepayments
Staff loans and advances
Rent receivable
Deposits
Restricted cash amounts
Other receivables

4,842,442	3,696,472
4,712,463	3,162,215
5,897,641	11,061,487
2,189,353	1,193,096
10,000	-
19,683,015	6,711,609
37,334,914	25,824,879

21. (a) GOVERNMENT SECURITIES – 'HELD TO MATURITY'

Between 1 and 5 years of the reporting date
After 5 years of the reporting date

2016 KShs	2015 KShs
496,341,643	198,617,389
560,333,845	451,975,605
1,056,675,488	650,592,994

(b) CORPORATE BOND

Corporate Bond - Kengen

11,182,821	14,863,921
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(c) WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

Government securities
Deposits with financial institutions
Commercial paper

2016 %	2015 %
12.14	12.14
8.25	11.36
12.50	12.50

22. EQUITY INVESTMENTS

(a) Quoted investments

At start of year
Additions
Fair value loss

2016 KShs	2015 KShs
111,234,023	128,307,202
-	36,143
(15,272,856)	(17,109,322)
95,961,167	111,234,023

At end of year

(b) Unquoted investments

At start and end of year

100,824,875	100,824,875
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Financial Statements

For the year ended 31st December 2016

22. EQUITY INVESTMENTS (continued)

(b) Unquoted investments (continued)

The investment in unquoted investments can be summarised as:

Spire Bank Limited

22,347 (2015: 22,347) Ordinary shares

Victoria Commercial Bank Limited:

100,000 (2015: 100,000) Ordinary shares of in

At end of year

	2016 KShs	2015 KShs
	824,875	824,875
	100,000,000	100,000,000
	100,824,875	100,824,875

23. DEFERRED TAX

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

At start of year
Charge to profit or loss (Note 10)
Prior year over provision
Credit to other comprehensive income

	2016 KShs	2015 KShs
	1,044,399	(6,155,418)
	5,821,153	7,601,764
	(3,383,514)	-
	(4,581,857)	(401,947)
	(1,099,819)	1,044,399

Deferred income tax assets and liabilities and deferred income tax charge/(credit) to profit or loss are attributable to the following items:

	At start of year KShs	Prior year over provision KShs	Recognised in profit or loss KShs	Recognised in OCI KShs	At end of year KShs
Deferred income tax					
Excess depreciation over capital allowances	(3,932,793)	-	190,525	-	(3,742,268)
Provisions	-	-	(4,461,313)	-	(4,461,313)
Staff redundancy provision	(7,626,087)	-	7,626,087	-	-
Fair value loss on quoted investments	-	-	-	(4,581,857)	(4,581,857)
Fair value gain on investment properties	12,603,279	(3,383,514)	2,465,854	-	11,685,619
Net deferred tax	1,044,399	(3,383,514)	5,821,153	(4,581,857)	(1,099,819)

24. CASH AND CASH EQUIVALENTS

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

Cash and bank balances
Fixed deposits maturing within 90 days
Restricted bank balances

	2016 KShs	2015 KShs
	67,174,300	44,990,056
	170,999,891	475,477,401
	-	20,000,000
	238,174,191	540,467,457

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

Cash and bank balances
Restricted bank balances

	2016 KShs	2015 KShs
	238,174,191	540,467,457
	-	(20,000,000)
	238,174,191	520,467,457

Restricted bank balances relate to bank balances that are held with Imperial Bank (K) Limited (in receivership).

Financial Statements

For the year ended 31st December 2016

25. INSURANCE CONTRACT LIABILITIES

Short term insurance contracts:

- claims reported and claims handling expenses
- claims incurred but not reported (IBNR)

Long term insurance contracts:

- claims reported and claims handling expenses

Total gross insurance liabilities

2016 KShs	2015 KShs
727,555,418	649,207,525
398,275,000	199,844,982
1,125,830,418	849,052,507
1,181,540	1,181,540
1,127,011,958	850,234,047

26. UNEARNED PREMIUM RESERVES

At start of year

Net (decrease)/ increase during the year

At end of year

2016 KShs	2015 KShs
560,136,802	510,131,875
(28,642,802)	50,004,927
531,494,000	560,136,802

27. OTHER PAYABLES

Rental deposits

Other accrued expenses

Staff redundancy cost.

Accrued leave due

Other liabilities

2016 KShs	2015 KShs
6,384,392	6,538,834
11,126,173	8,599,718
-	30,811,472
14,871,042	-
60,810,995	42,396,088
93,192,602	88,346,112

28. CASH FROM OPERATIONS

Reconciliation of profit before tax to cash from operations:

Profit before tax

Adjustments for:

Investment income

Gain on revaluation of investment property

Gain on disposal of vehicles and equipment

Depreciation on vehicles and equipment (Note 14)

Changes in:

- restricted bank balances

- insurance contract liabilities

- provisions for unearned premium

- receivables arising out of direct insurance arrangements

- other receivables and prepayments

- other payables

- increase in creditors arising out of reinsurance arrangements

- movement in reinsurance debtors

- movement in deferred acquisition costs

- net movement in Kenya Motor Insurance Pool

- receivables arising out of reinsurance arrangements

Cash from operations

2016 KShs	2015 KShs
185,945,596	297,906,943
(133,856,780)	(130,647,230)
(49,317,072)	(111,000)
(1,191,125)	9,781,428
11,764,157	
20,000,000	(20,000,000)
276,777,911	(447,460)
(28,642,802)	50,004,927
(22,539,618)	(101,302,942)
(11,510,035)	(8,742,472)
4,846,490	2,483,511
6,339,127	(44,816,186)
10,480,696	30,538,896
(68,895,000)	-
1,067,794	15,316
(24,352,467)	7,969,638
176,916,872	92,633,369



Financial Statements

For the year ended 31st December 2016

29. RELATED PARTY TRANSACTIONS

The following companies are related to Occidental Insurance Company Limited through common directorships.

The following transactions were carried out with related parties:

Gross earned premium:

	2016 KShs	2015 KShs
Dyer & Blair Limited	1,992,705	1,791,180
Dhodhia Packaging Limited	11,790,717	8,801,472
Biashara Development Limited	99,495	1,556,334
Paramount Chief Estate Limited	81,960	582,453
Capet Management Services Limited	294,948	124,101
Reef Securities Limited	59,865	59,865
Eagle Investments Limited	83,200	83,200
Bhagwanji & Company Limited	181,187	181,187
Thika Cloth Mills Limited	9,784,567	10,847,883

Total

24,368,644 **24,027,675**

Net claims incurred:

Dyer & Blair Limited	244,919	36,550
Dhodhia Packaging Limited	6,055,192	8,916,614
Biashara Development Limited	728,943	109,620
Thika Cloth Mills Limited	1,838,307	2,067,950

Total

8,867,361 **11,130,734**

Key management personnel compensation

The remuneration of directors and other key management during the year were as follows:

Fees for services as directors	2,150,000	625,000
Other remuneration	21,567,101	27,193,442
	23,717,101	27,818,442

In the normal course of business, the Company has entered into transactions with certain related parties. These transactions are at commercial terms and conditions.

30. 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 KShs	2015 KShs
Net profit for the year attributable to shareholders (KShs)	126,678,403	190,454,753
Adjusted weighted average number of ordinary shares in issue	693,000	693,000
Earnings per share - basic and diluted (KShs)	182.79	274.83

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

Financial Statements

For the year ended 31st December 2016

31. OPERATING LEASE COMMITMENTS

Company as a lessee

Rental expenses incurred during the year was KShs 23,170,987 (2015: KShs 20,041,802). At the end of the reporting period the Company had outstanding commitments under operating leases which fall due as follows:

	2016 KShs	2015 KShs
Not later than 1 year	16,179,716	10,296,973
Later than 1 year and not later than 5 years	30,989,208	18,268,822
	47,168,924	28,565,795

Company as a lessor

Rental income earned during the year was KShs 48,957,353 (2015: KShs 47,853,567). At the end of the reporting period the Company had contracted with tenants for the following future lease receivables:

	2016 KShs	2015 KShs
Within 1 year	42,186,498	48,249,434
In the second to fifth year inclusive	72,605,696	109,802,542
	114,792,194	158,051,976

32. DIVIDENDS

The Directors propose a final dividend of KShs 30,000,000 (2015: KShs 40,194,000) for the year. In accordance with the Kenyan Companies Act, 2015, these financial statements reflect this dividend payable, which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 31 December 2016.

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. Below is a summary of dividends paid in the year:

	2016 KShs	2015 KShs
2015 and 2014 final dividends paid	40,194,000	45,045,000
2016 and 2015 interim dividends proposed and paid	45,045,000	30,000,000
	85,239,000	75,045,000

33. 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.

The Company has issued various custom bonds. No material loss is anticipated from these.

34. CAPITAL COMMITMENTS

Capital expenditure commitments that had been authorized and contracted for as at the year end were as follows:

	2016 KShs	2015 KShs
Software maintenance fees	2,304,000	2,223,000

35. SUBSEQUENT EVENTS

There are no material events after the reporting date which require to be disclosed.



Financial Statements

For the year ended 31st December 2016

General Insurance Business Revenue Account

CLASS OF INSURANCE BUSINESS

	Engineering KShs	Fire Domestic KShs	Fire Industrial KShs	Public Liability KShs	Marine KShs	Motor Private KShs	Motor Commercial KShs	Personal Accident KShs	Theft KShs	Workmen's compensation KShs	Miscellaneous KShs	2016 Total KShs	2015 Total KShs
Gross premiums written	113,016,825	50,860,887	303,530,162	11,677,318	150,399,882	409,051,172	474,458,008	39,088,444	135,406,387	308,213,266	37,387,653	2,033,090,004	1,906,947,436
Change in gross UPR	(2,206,897)	3,108,289	3,252,008	(30,862)	17,905,352	(37,731,716)	3,061,740	2,275,447	8,710,162	25,783,551	4,515,728	28,642,802	(50,004,927)
Gross earned premiums	110,809,928	53,969,176	306,782,170	11,646,456	168,305,234	371,319,456	477,519,748	41,363,891	144,116,549	333,996,817	41,903,381	2,061,732,806	1,856,942,509
Less:													
Reinsurance payable	89,521,847	20,650,225	253,328,170	8,736,210	90,741,883	16,808,416	18,632,313	31,042,148	83,086,824	9,543,778	30,182,174	652,273,989	610,934,480
Net earned premiums	21,288,081	33,318,951	53,454,000	2,910,246	77,563,351	354,511,040	458,887,435	10,321,743	61,029,725	324,453,039	11,721,207	1,409,458,817	1,246,008,029
Gross claims paid	70,689,368	72,888,455	143,547,801	1,096,892	96,553,419	216,710,972	277,019,889	37,043,494	68,493,336	149,898,720	40,789,432	1,174,731,778	1,103,293,385
Change in gross o/s claims	(1,979,672)	11,294,830	(6,786,761)	428,675	8,448,544	43,735,773	(16,793,389)	4,519,518	1,012,541	229,953,861	13,424,687	287,258,607	30,091,437
Less: Reinsurance	49,616,437	36,639,321	109,826,649	895,468	67,441,701	11,836,032	25,837,723	31,722,697	39,204,456	134,339	28,463,576	401,618,399	412,452,289
Net claims incurred	19,093,259	47,543,964	26,934,391	630,099	37,560,262	248,610,713	234,388,777	9,840,315	30,301,421	379,718,242	25,750,543	1,060,371,986	720,932,533
Commissions receivable	(27,072,354)	(5,725,439)	(82,348,662)	(2,230,145)	(22,499,615)	(2,197,684)	(2,283,617)	(7,765,607)	(21,158,343)	(984,309)	(8,394,173)	(182,659,948)	(169,027,641)
Commissions payable	23,072,802	10,064,529	73,363,908	2,333,464	26,075,346	40,544,189	47,175,760	7,402,006	19,593,610	61,618,637	5,089,229	316,333,480	293,159,711
Less:													
Deferred acquisition cost	(1,835,000)	(2,059,000)	(3,784,000)	(237,000)	(1,285,000)	(17,748,000)	(18,216,000)	(417,000)	(2,038,000)	(20,921,000)	(355,000)	(68,895,000)	-
Expenses of management	4,047,406	6,334,781	10,162,966	553,312	14,746,768	67,401,575	87,246,185	1,962,426	11,603,305	61,686,783	2,228,499	267,974,006	244,575,608
Total expenses and commissions	(1,787,146)	8,614,871	(2,605,788)	419,631	17,037,499	88,000,080	113,922,328	1,181,825	8,000,572	101,400,111	(1,431,445)	332,752,538	368,707,678
Underwriting profit/(loss)	3,981,968	(22,839,884)	29,125,396	1,860,516	22,965,590	17,900,247	110,576,330	(700,397)	22,727,732	(156,665,314)	(12,597,891)	16,334,293	156,367,818



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