Over 30 years of excellence

OCCIDENTAL
LIVE LIFE CONFIDENT

Annual Report & Financial Statement 2017

Vision

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

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 so they can serve our customers exceptionally well.

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

What guides us

Contents

Company Information

Board of Directors	Jimnah Mbaru	-	Chairman
	Asok Ghosh	-	Managing Director
	Dipak Shah		
	Tejal Ketul Dodhia		
	Mayank Patel		
	Maganlal Dodhia	-	(Alternate to Archna Bulsara)
	Mike Eldon	-	(Appointed 26th September 2017)
	Archna Bulsara		
	Fukunda Mbaru		
	Isaac P. Ngaru		
	Shailen M. Shah		

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 Secretaries

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

Consulting Actuaries

Agency Advisory Actuarial Services
P.O. Box 45607, 00200
NAIROBI

Principal Bankers

Guaranty Trust Bank (Kenya) Limited
P.O. Box 20613, 00200 NAIROBI

Diamond Trust Bank Kenya Limited
P.O. Box 66213, 00800 NAIROBI

Habib Bank A. G. Zurich
P.O. Box 90131, 80100 NAIROBI

Guardian Bank Limited
P.O. Box 30584, 00100 NAIROBI

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

"The company continues to assist its staff to undertake continuous professional development programs to fulfil their potential. These training programs have covered all aspects of our business and will continue in future."

I am delighted to present to you the 30th Annual Report and Financial Statements for the year ended 31 December 2017. The year presented a very challenging business environment given it was an electioneering year but the company managed to post the highest premium growth rate in the recent past of 28% and also maintained an overall profitable trend despite the hostile and highly competitive business environment.

The Economy: The prolonged political uncertainty following the nullification of the presidential elections held in August and the subsequent repeat election in October is expected to have taken a toll on the economy and it is expected the economy will record lower growth rates compared to last year. In view of this, the economy is forecast to grow at 5.0% in 2017 compared to the growth of 5.9% experienced in 2016. Other reasons cited for the slower growth include depressed agricultural sector growth, the interest rate cap and low private sector credit growth. Looking ahead, the Kenyan economy is expected to rebound to a growth of 5.5% in 2018 before accelerating to 5.9% in 2019 as headwinds such as drought, slowing credit access and politics that hurt growth this year subside.

2017 average inflation came in at 8.0% (6.3% in 2016) which is above the government annual target of 2.5% - 7.5%. During the year, inflation was characterized by rising food inflation due to drought in the first half of the year, causing inflation to hit a high of 11.7% in May. Towards the tail end of the year, inflation declined to 4.5% in December driven by declining food prices, albeit the rising fuel prices.

In the first full year of interest rate capping, interest rates remained stable throughout the year with the Central Bank Rate (CBR) being maintained at 10.0%. In the latest interest rate review, the Monetary Policy Committee (MPC) maintained the CBR at 10.0% citing lower inflationary pressure. The MPC expects the cost of living index to continue falling in the short-term period and continues to monitor the impact of the interest rate caps on the effective transmission of monetary policy.

The Kenyan Shilling remained resilient in 2017, only depreciating by 0.7% against the US Dollar (USD) during the year to close at Kshs 103.2 from Kshs 102.5 at the beginning of the year. This was supported by a weak USD in the global markets and the Central Bank of Kenya (CBK) intervention activities.

During the year, the equity market recorded very strong performance, with the NASI, NSE 25 and NSE 20 indices gaining by 28.4%, 21.3% and 16.5% respectively, as a result of gains in large cap stocks. Despite the stable interest rate environment, there was decreased activity in the secondary bonds market as local institutional investors opted for the equities market. The real estate sector experienced a slow-down due to political uncertainty brought about by the extended electioneering period, oversupply in some segments such as the commercial office and credit constrains due to the interest rate cap that led to reduced lending to the private sector.

Chairman's Statement

Chairman's Statement (continued)

The Insurance Industry: The Insurance Regulatory Authority industry (IRA) release for Q4 2017 showed that Insurance premium grew by 6.6% during the period to December 2017 compared to an annual growth of 12.3% in 2016. This growth was largely driven by a growth of 13.6% in the long term insurance business segment compared to a growth of only 2.5% in the general insurance business segment. The insurance industry premium stood at 207.68 billion by the end of the fourth quarter of 2017, with 60.0% of the industry business comprising of general insurance while long-term business equated to 40.0%. The insurance industry asset base grew by 11.3% to Kshs 584.84 billion as at the end of 2017 from the Kshs 525.25 billion held as at the end of 2016. 81.8% (Kshs 478.20 billion) of these assets were held in income generating investments. The total insurance industry's liabilities grew by 13.4% to Kshs 436.68 billion from Kshs 384.96 billion registered in 2016.

Our Performance: During the year under review, the company performed commendably well despite the daunting challenges and an increasingly competitive business environment. The company experienced a commendable premium growth of 28%: from Kshs 2.03 billion in 2016 to Kshs 2.60 billion in 2017. The total asset base of the company also grew from Kshs 3.28 billion in 2016 to Kshs 3.77 billion in 2017, while shareholder's funds grew from 1.05 billion to 1.12 billion. The company posted an underwriting loss of Kshs 38.66 million during the year, down from the Kshs 16.33 million underwriting profit recorded in 2016.

This reduction in underwriting profit was mainly attributed to the strengthening of our reserves leading to the delay in the realisation of underwriting profit and our ongoing expansion rally that has seen a rise in our management expenses. We however expect a reversal in the underwriting result in the coming periods given our prudent underwriting practices and cost management initiatives . Our investment income grew by 10%: from Kshs 212 million to Kshs 233 million. Profit before tax posted in 2017 is Kshs 115 million, down from the Kshs 186 million recorded in the previous year. Ultimately, our profit after tax declined by 32% to close at Kshs 93 million, down from the Kshs 137 million posted the previous year.

Strategic Plan Review: Following an initial formulation of a 5-year strategic plan at the beginning of 2015, the board and senior management conducted a review of the strategy to gauge the progress made and re-engineer our business processes and policies to strengthen the company and improve both the top and bottom lines. I am extremely pleased with the progress achieved so far and I am confident that the company shall continue aiming at achieving the set targets as stipulated in the Strategic Plan. Further, our national claims paying ability was affirmed at A-(KE), with a Stable outlook by the Global Credit Rating Company (GCR), a major milestone in our focus on business excellence and market leadership.

Going to the counties: In line with our expansion plans and the need for improved service delivery and close customer interaction, I am extremely delighted with the recent opening and subsequent success that has been demonstrated by our Kisumu branch and by the retail business segment generally. I am very pleased to inform all stakeholders that we shall increase our presence at the county level by opening more branches and satellite offices to serve our wide network of clients and other intermediaries.

Developing our people: Training and development of human resource continues to be a major priority in the growth of our company. The company continues to assist its staff to undertake continuous professional development programs to fulfil their potential. During the year in review, we carried out various training programs at all levels of staff to enhance skill and professionalism, including a leadership and management training course for senior management. These training programs 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 Association of Kenya Insurance (AKI) competition. We also participated in industry oriented quiz competitions where there were a few notable individual performances. We congratulate all staff members who participated in such events and aspire to maintain our pre-eminence not only in our core business of insuring risks but also in social activities.

Active Corporate Social Responsibility: 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 donation of classroom furniture to Kasusini (Kilifi) and Nyweri (Meru) primary schools, textbooks donations to Rt. Demco (Bungoma) and Kaumoni (Makueni) primary schools, and provision of roofing and fencing materials to AIC Maili Saba Dandora (Nairobi), St. Francis Catholic Church Ruaka (Kiambu) and Nekishon Children's home Namanga (Kajiado). We also offered further support through donations of sport kits, food items and water tanks to needy cases. The beneficiaries included St. Anthony Primary School (Embu), Kakuswi Special School for The Deaf-Mbooni (Makueni), Beacon of Hope Rongai (Kajiado) and Art of Music Foundation-Kia Maiko (Nairobi). We shall incorporate more environmental and mentorship programs aimed at spreading our Corporate Social Responsibility outreach.

Appreciation: Finally, I wish to extend my sincere appreciation to all our customers, business associates and service providers for their endearing trust, support and loyalty to our company, which inspires our commitment to provide the best insurance solutions in the region. I am equally grateful to my fellow 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 expect the same in future while assuring them of our commitment to the industry's development in all respects.

JIMNAH M. MBARU
CHAIRMAN

Staff Team Building





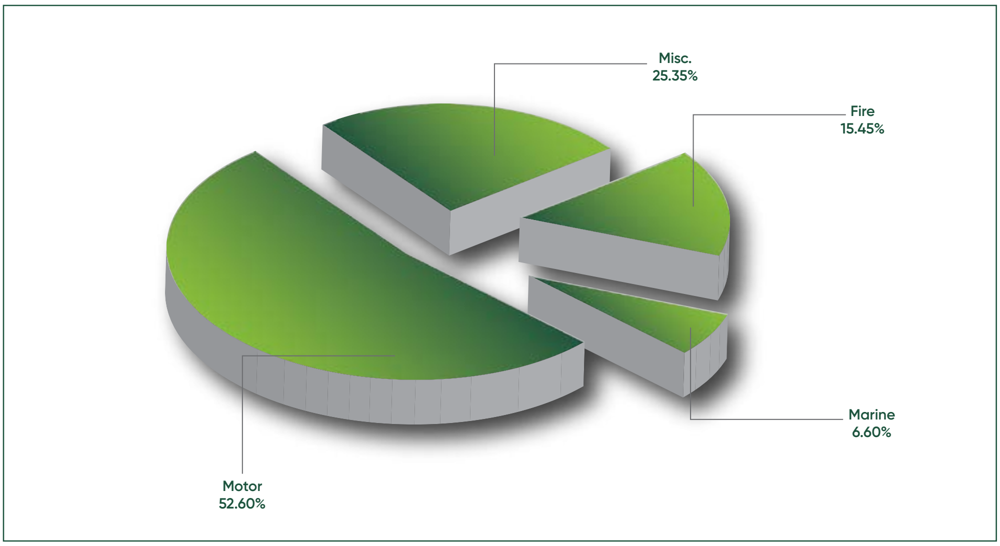



Financial Highlights

Gross Premium Written (Millions)

Total Assets (Millions)

Classwise Premium Written 2017



JIMNAH MBARU
CHAIRMAN

Jimnah Mbaru is one of the leading investment bankers in Kenya. He has a wealth of experience in banking and insurance, as well as in leadership.

He sits on the boards of several major investment, insurance and other companies in Kenya.

He is a graduate in management in addition to having earned a law degree, and he is a former chairman of the Nairobi Securities Exchange.

ASOK GHOSH
MANAGING DIRECTOR

Mr Asok Ghosh a post graduate in economics and an Insurance Fellow with extensive experience in the insurance industry, both locally and abroad.

He is a board member of AKI, where he has also served on various committees. He works closely with them, contributing to the strengthening of the Kenyan insurance industry.

DIPAK SHAH
DIRECTOR

Dipak Shah has deep experience in management and marketing.

He leads Dodhia Packaging Limited, which enjoys a significant market share in sector. As a result of this, he is very conversant with Kenya's manufacturing and service sectors.

Board of Directors

Board of Directors

TEJAL DODHIA
DIRECTOR

Tejal Dodhia is well known for the role she has played and continues to plays as an investor and a leader in Kenya's textile industry. She owns and leads Thika Cloth Mills Ltd, one of the most prominent textile companies in Kenya, one that employs a substantial local workforce.

She also sits on the boards of a number of companies, whose activities range from manufacturing to real estate.

She is a business administration graduate with a wealth of knowledge in company management.

MAYANK PATEL
DIRECTOR

Mayank Patel is an economics graduate with wide knowledge in finance. He currently runs a financial institution offering financial advisory services and sits on the boards of a number of other companies.

SHAILEN SHAH
DIRECTOR

Shailen Shah is an experienced administrator, marketer and financial planner with deep knowledge in banking and finance.

He currently runs a number of companies, ranging from manufacturing to real estate.

ARCHNA BULSARA
DIRECTOR

Archna Bulsara is an economics graduate, a chartered accountant from the Institute of Wales, a strategic planner and a management consultant. She is well conversant with financial matters in the daily running of corporations both locally and abroad.

She sits on the boards of various other companies in Kenya and overseas.

MIKE ELDON
DIRECTOR

Mike Eldon is the founder and chairman of management consultancy, The DEPOT (The Dan Eldon Place of Tomorrow), which supports change management by aligning energy around common visions and healthy values. He's ealier career was in the ICT sector, in London and from 1977 in Kenya where he also now sits on other boards.

He is an economics graduate and Sloan Masters Fellow on the London Business School.

He is former Chairman of the Council of the Kenya Institute of Management, where is a Fellow,; he chairs the council of KCA University and he was founder director and later vice Chairman of KEPSA, where he is now on the advisory council. He writes a regular column in the Business Daily.

ISMAIL MAWJI
COMPANY SECRETARY

Ismail Mawji was appointed as the Company Secretary in August 2013. He is the founder and senior partner of Mawji Sennik and Company, Certified Public Accountants.

He is a member of the Institute of Certified Public Secretaries of Kenya, a Chartered Accountant from the United Kingdom and a member of the Kenya Chapter of the Institute of Directors.

For many years he has served in the Insurance Committee of the Institute of Certified Public Accountants of Kenya and on the Corporate Governance Committee of The Institute of Certified Public Secretaries of Kenya.

ISAAC NG'ARU
DIRECTOR

Isaac Ng'aru has over 40 years' experience in insurance and risk Management. A well-known figure in the local insurance industry. He has been instrumental in formulating strategy documents for both listed and non-listed insurance companies.

He currently runs his own consultancy, which specialises in risk and insurance management.

He holds a Master of Science Degree in risk management and insurance.

FUKUNDA MBARU
DIRECTOR

Fukunda is a graduate in economics, politics and international studies. He is quite knowledgeable on various economic aspects of corporations across the world.

He is an economic investment analyst in various companies around the globe.

He has also sat in the councils of a number of global organizations with mandates to drive economic and political agenda in various countries.

Board of Directors

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017, 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. **Result's and dividend**
   Profit for the year of KShs 93,410,756 (2016: KShs 137,369,402) has been added to retained earnings. The Directors propose a final dividend of KShs 12,474,000 (2016: KShs 30,000,000) and an interim divided of KShs 20,097,000 proposed and paid (2016: KShs 45,045,000) 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 and 9 to 11.
   In accordance with the Company's Articles of Association, no directors are due for retirement by rotation.

5. **Business review**
   During the year 2017, the Company performed commendably well despite the challenges and an increasingly competitive business environment. The Company experienced a premium growth of 27.8% from KShs 2.03 billion in 2016 to KShs 2.60 billion in 2017. The total asset base of the Company also improved by 15.0%, growing from KShs 3.28 billion in 2016 to KShs 3.77 billion in 2017. The Company posted an underwriting loss of KShs 38.66 million during the year versus a profit of KShs 16.33 million recorded in 2016 as we improved our reserves and increased management expenses to cater for growth. Profit before tax posted in 2017 was KShs 115.03 million against KShs 185.95 million recorded in 2016.

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 of; 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 2017 was 143 (2016 – 104).

8. **Independent auditor**
   The Company's auditor, KPMG Kenya, will continue in office in accordance with the Kenyan Companies Act, 2015.

9. **Approval of financial statements**
   The financial statements were approved and authorised for issue at a meeting of the Directors held on 20 March 2018.

By order of the board

Sabre Registrars
Certified Public Secretaries
Secretary
Nairobi
Date: 20 March 2018

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and fair presentation of the financial statements of Occidental Insurance Company Limited set out on pages 18 to 50 which comprise the statement of financial position of the Company as at 31 December 2017, and the Company's 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.

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 financial position of the Company as at the end of the financial year and of the profit or loss of the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Company.

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 a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements
The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 20 March 2018.

Shailen M. Shah
Director

Tejal K. Dodhia
Director

Date: 20 March 2018

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

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Email info@kpmg.co.ke
Website www.kpmg.com/eastafrica

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 financial statements of Occidental Insurance Company Limited (the "Company") set out on pages 14 to 46 which comprise the statement of financial position as at 31 December 2017, 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 2017 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 and these balances require judgement to be applied by directors and the management 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: - 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 premium receivable analysis and recoveries as at 31 December 2017. - 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.

Report of the Independent Auditor to the Members of Occidental Insurance Company Limited (continued)

Insurance contract liabilities	
See Note 3 and 25 to the financial statements.	
The key audit matter	**How the matter was addressed**
Short term insurance contract liabilities constitute about 54% 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 and reserving of insurance liabilities. 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. Consequently, we have determined the valuation of short term insurance contract liabilities to be a key audit matter.	Our audit procedures in this area included, among others - 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; - 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 reviewing 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**
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.	In this area our audit procedures included, among others: - 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.

Report of the Independent Auditor to the Members of Occidental Insurance Company Limited (continued)

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, Statement of Directors` responsibilities, Company Information 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 we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this information, 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 9, 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.

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 mistatement 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.

Report of the Independent Auditor to the Members of Occidental Insurance Company Limited (continued)

- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company or business activities of the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of Company`s audit. We remain solely responsible for our audit opinion.

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 and regulatory requirements

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

(i) In our opinion, the information given in the Directors report on page 8 is consistent with the financial statements; and
(ii) We have issued unqualified audit report on the financial statements.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Alexander Mbai – P/2172.

KPMG Kenya

Date: 20 March 2018

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December 2017

	Notes	2017 KShs	2016 KShs
Gross written premium		2,597,391,543	2,033,090,004
Net (increase)/decrease in unearned premium reserves	26	(227,235,446)	28,642,802
Gross earned premiums	**5**	**2,370,156,097**	**2,061,732,806**
Less: reinsurance premium ceded		(674,257,650)	(652,273,989)
Net earned premiums		**1,695,898,447**	**1,409,458,817**
Investment and other income	6	193,459,265	162,697,575
Gain on revaluation of investment properties	15	40,000,000	49,317,072
Commissions earned		205,519,693	251,554,948
Net income		**2,134,877,405**	**1,873,028,412**
Claims payable	7	(1,599,095,440)	(1,461,990,385)
Less: amounts recoverable from reinsurers		446,694,504	401,618,399
Net claims payable		**(1,152,400,936)**	**(1,060,371,986)**
Operating and other expenses	8	(490,006,205)	(310,377,350)
Commissions payable		(377,441,537)	(316,333,480)
Profit before tax		**115,028,727**	**185,945,596**
Income tax expense	10	(21,617,971)	(48,576,194)
Profit for the year after tax		**93,410,756**	**137,369,402**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of quoted shares	22(a)	34,726,509	(15,272,856)
Deferred tax on fair value gain/(loss)	23	(10,417,953)	4,581,857
Total other comprehensive income		**24,308,556**	**(10,690,999)**
Total comprehensive income for the year attributable to shareholders of the company		**117,719,312**	**126,678,403**
Earnings per share	30	**169.87**	**182.80**
Interim dividend proposed and paid for the year	32	**20,097,000**	**45,045,000**
Final dividend proposed for the year	32	**12,474,000**	**30,000,000**

The notes on pages 22 to 49 form an integral part of these financial statements.

Statement of Financial Position

For the year ended 31st December 2017

	Notes	2017 KShs	2016 KShs
CAPITAL EMPLOYED			
Share capital	11	693,000,000	693,000,000
Retained earnings	12	401,758,167	340,918,411
Revaluation reserve	13	15,123,862	(9,184,694)
Proposed dividend	32	12,474,000	30,000,000
Shareholders' funds		**1,122,356,029**	**1,054,733,717**
REPRESENTED BY:			
Assets			
Vehicles and equipment	14	46,143,867	39,291,204
Investment properties	15	531,000,000	491,000,000
Intangible assets	16	38,467,446	32,952,873
Deferred aquisition cost	17	131,268,908	107,743,000
Kenya Motor Insurance Pool	18	11,441,155	10,619,259
Deferred tax asset	23	-	1,099,819
Reinsurers' share of technical provisions and reserves	19	369,255,664	359,100,615
Other receivables and prepayments	20	27,994,093	37,334,914
Current tax recoverable	10	30,526,885	22,122,777
Government securities - 'Held to maturity'	21(a)	1,201,393,528	1,056,675,488
Corporate bonds	21(b)	14,545,321	11,182,821
Equity investments 'Available-for-sale':-			
- quoted investments	22(a)	131,380,284	95,961,167
- unquoted investments	22(b)	100,824,875	100,824,875
Receivables arising out of reinsurance arrangements		285,666,748	196,309,222
Receivables arising out of direct insurance arrangements		666,589,231	475,060,317
Deposits with financial institutions	24	135,152,196	170,999,891
Cash and cash equivalents	24	47,747,447	67,174,300
TOTAL ASSETS		**3,769,397,648**	**3,275,452,542**
Liabilities			
Deferred tax liabilities	23	11,782,349	-
Insurance contract liabilities	25	1,381,759,180	1,236,362,462
Unearned premium reserve	26	960,191,548	736,952,000
Creditors arising from reinsurance arrangements		198,486,566	154,211,761
Other payables	27	94,821,976	93,192,602
Total liabilities		**2,647,041,619**	**2,220,718,825**
NET ASSETS		**1,122,356,029**	**1,054,733,717**

The financial statements on pages 18 to 50 were approved and authorised for issue by the Board of Directors on 20 March, 2018 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 45 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31st December 2017

Year ended 31 December 2017	**Share KShs**	**Retained KShs**	**Revaluation KShs**	**Proposed KShs**	**Total KShs**
At 1 January 2017	693,000,000	340,918,411	(9,184,694)	30,000,000	**1,054,733,717**
Comprehensive income:					
Profit for the year	-	93,410,756	-	-	**93,410,756**
Other comprehensive income:					
Change in fair value of 'Available-for-sale' investments (Note 22(a))	-	-	34,726,509	-	**34,726,509**
Deferred income tax relating to components of other comprehensive income (Note 23)	-	-	(10,417,953)	-	**(10,417,953)**
Total comprehensive income for the year	**-**	**93,410,756**	**24,308,556**	**-**	**117,719,312**
Transaction with owners					
Dividends:					
- Final dividend paid for 2016 (Note 32)	-	-	-	(30,000,000)	**(30,000,000)**
- Interim dividend proposed 2017 (Note 32)	-	(20,097,000)	-	20,097,000	**-**
- Interim dividend paid 2017 (Note 32)	-	-	-	(20,097,000)	**(20,097,000)**
- Final dividend proposed 2017 (Note 32)	-	(12,474,000)	-	12,474,000	**-**
Total transaction with owners	**-**	**(32,571,000)**	**-**	**(17,526,000)**	**(50,097,000)**
At 31 December 2017	**693,000,000**	**401,758,167**	**15,123,862**	**12,474,000**	**1,122,356,029**

Year ended 31 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	-	-	-	(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**

The notes on pages 22 to 49 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31st December 2017

	Notes	2017 KShs	2016 KShs
Operating activities			
Cash from operations	28	59,751,993	176,916,872
Tax paid	10	(27,557,864)	(80,978,451)
Net cash from operations		**32,194,129**	**95,938,421**
Investing activities			
Movement in government securities	21(a)	(144,718,040)	(406,082,494)
Interest received from current bank accounts	6	1,566,217	2,038,834
Interest income from fixed deposits	6	15,165,301	40,921,214
Interest income from Held-to-Maturity investments	6	120,304,808	90,600,676
Share of profit from Kenya Motor Insurance Pool	6	821,896	296,056
Proceeds from disposal of vehicles and equipment		519,000	1,211,000
Purchase of vehicles and equipment	14	(21,461,178)	(22,026,170)
Proceeds on disposal of shares	22(a)	5,882,792	-
Purchase of intangible assets	16	(5,514,573)	(3,632,903)
Net movement in corporate bonds	21(b)	(3,362,500)	3,681,100
Purchase of quoted shares	22(a)	(6,575,400)	-
Net cash from investing activities		**(37,371,677)**	**(292,992,687)**
Financing activities			
Dividend paid	32	(50,097,000)	(85,239,000)
Net cash (used in) financing activities		**(50,097,000)**	**(85,239,000)**
Net decrease in cash and cash equivalents		**(55,274,548)**	**(282,293,266)**
Movement in cash and cash equivalents			
At start of year		238,174,191	520,467,457
Decrease		(55,274,548)	(282,293,266)
At end of year	24	**182,899,643**	**238,174,191**

The notes on pages 22 to 49 form an integral part of these financial statements.

Financial Statements

For the year ended 31st December 2017

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 2017, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2017. The nature and effects of the changes are as explained here in.

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

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)

Disclosure initiative (Amendements to IAS7)

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 apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

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

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

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
FRS 12 Disclosure of Interest in Other Entities	Disclosure of Interests in Other Entities Clarifies that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below:

-	IFRS 15 Revenue from Contracts with Customers	1 January 2018
-	IFRS 9 Financial Instruments (2014)	1 January 2018
-	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
-	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance	1 January 2018
-	IFRIC 22 Foreign Currency Transactions and Advance	1 January 2018
-	IAS 40 Transfers of Investment Property	1 January 2018
-	IFRS 16 Leases	1 January 2019
-	IFRIC 23 Income tax exposures	1 January 2019
-	IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
-	IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
-	IFRS 17 Insurance contracts	1 January 2021
-	Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

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. Management have assessed the standards impact and expect that the new standard`s requirements. The impact will be on Deferred Acquisition Costs, of which the company is in alignment with.

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 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 period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (continured)

IFRS 9: Financial Instruments (2014) (continued)

The adoption of these changes is expected to affect the amounts and disclosures of the Company's financial statements. The impact is in the process of being quantified.

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
- Classification of share-based payment transactions with net settlement features
- Accounting for modifications of share-based payment transactions from cash-settled to equity-settled
  - 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 adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

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.

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 adoption of these changes is expected to affect the amounts and disclosures of the Company's financial statements. The impact is in the process of being quantified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (continued)

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non- monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or
(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

Transfers of Investment property (Amendments to IAS 40)
The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

The adoption of this standard will not have an impact on the financial statements of the Company.

(ii) New and amended standards and interpretations in issue but not yet effective for 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 recognise:
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 recognises 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 recognises 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
c) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017

IFRS 16: Leases (continued)

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

(a) short-term leases (i.e. leases 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 insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The Company is currently assessing the potential impact on its financial statements resulting from the application.

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements,

(a) judgments made;

(b) assumptions and other estimates used; and

(c) potential impact of uncertainties not reflected.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017 (continued)

IFRS 17 Insurance Contracts

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

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

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:
(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

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

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit
(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

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

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes is expected to affect the amounts and disclosures of the Company's financial statements. The impact is in the process of being quantified.

Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)
The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company 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 Company 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 adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

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. The methods used estimating the provision for

- Basic Chain-Ladder Method ("BCL")
- Bornhuetter-Ferguson Method ("BF")
- IRA Standard Development Model ("SD")

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)).

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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets (continued)

(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.

(iii) Available-for- sale financials 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
- 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.

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.

(ii) 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 profir 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 judgments 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 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 assumption, methodology and risks manged in the determination of insurance contract liabilities are described in note 2(c) and note 4.

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 judgment 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.

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:

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

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.

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.

	2012 Kshs	2013 Kshs	2014 Kshs	2015 Kshs	2016 Kshs	2017 Kshs	Total KShs
At end of accident year	356,055,292	361,188,542	398,942,475	441,453,397	494,649,201	622,504,679	
One year later	705,674,631	707,416,705	744,421,935	849,169,672	888,679,463		
Two years later	772,171,705	779,205,414	827,395,992	979,102,511			
Three years later	825,977,515	819,114,423	913,145,572				
Four years later	859,548,718	860,159,993					
Five years later	892,653,847						
Ultimate Claims Estimate	892,653,847	860,159,993	966,232,940	1,123,447,737	1,199,425,943	1,460,901,031	6,502,821,492
Reserves relating to years before 2012							34,002,214
Less:- Cumulative payments to date	(892,653,847)	(860,159,993)	(913,145,572)	(979,102,511)	(888,679,463)	(622,504,679)	(5,156,246,066)
Total gross claims liability in financial statements	**-**	**-**	**53,087,368**	**144,345,226**	**310,746,480**	**838,396,352**	**1,380,577,640**

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

	2017 KShs	2016 KShs
Claims reported and claims handling expenses (Note 25)	869,935,696	727,555,418
Gross claims Incurred but not reported (IBNR)	510,641,944	507,625,504
As above	**1,380,577,640**	**1,235,180,922**
Less reinsurance share of IBNR (Note 19)	(88,090,528)	(109,350,504)
Insurance contract liabilities	**1,292,487,112**	**1,125,830,418**

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 35, 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:	2017 KShs	2016 KShs
Index		
Increase	**2,387,372**	**3,358,641**

(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 1,384,293,171 (2016: KShs 1,294,849,679) representing a significant portion of total assets.

At 31 December 2017, 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 69,214,658 (2016: KShs 64,742,484).

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 counter party, or groups of counter party, 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

Maximum exposure to credit risk before collateral held	2017 KShs	2016 KShs
Receivables arising out of direct insurance arrangements	666,589,231	475,060,318
Receivables arising out of reinsurance arrangements	285,666,748	196,309,222
Reinsurers' share of insurance liabilities	369,255,664	83,140,111
Government securities	1,201,393,528	1,056,675,488
Corporate bonds	14,545,321	11,182,821
Deposits with financial institutions	135,152,196	170,999,891
Cash and cash equivalents	47,747,447	67,174,300
Kenya Motor Insurance Pool	11,441,155	10,619,259
Other receivables	27,994,093	30,303,119
	2,759,785,383	**2,101,464,529**

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:

	2017 KShs	2016 KShs
Past due but not impaired	**666,589,231**	**475,060,318**

Receivables arising out of direct insurance arrangements past due but not impaired:

Past due but not impaired:

- by up to 30 days	199,445,763	96,892,295
- by 31 to 60 days	247,830,017	248,055,366
- over 60 days	219,313,451	130,112,657
Total past due but not impaired	**666,589,231**	**475,060,318**

The Company does not hold any collateral for receivables arising out of direct insurance receivables arising out of direct insurance arrangements individually impaired relates to receivables arising out of reinsurance arrangements are summarised as follows:

Past due but not impaired (over 60 days)	3,156,086	9,105,535
Impaired	14,033,140	-
Gross	**17,189,226**	**9,105,535**
Less: allowance for impairment	(14,033,140)	-
Net	**3,156,086**	**9,105,535**
Allowance for impairment		
At start of year	-	-
Impairement allowance for the period	14,033,140	-
At end of year	**14,033,140**	**-**

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	2017 KShs	2016 KShs
Insurance contract liabilities	1,381,759,180	1,236,362,462
Unearned premium	960,191,548	736,952,000
Creditors arising from reinsurance arrangements	198,486,566	154,211,761
Other payables	94,821,976	93,192,602
Total financial liabilities	**2,635,259,270**	**2,220,718,825**

(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);
- 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 2017 and 31 December 2016.

31 December 2017

Assets - financial assets	Level 1 KShs	Carried at cost KShs	Total KShs
Equity instruments at fair value through profit or loss:			
- unquoted	-	100,824,875	100,824,875
- quoted	131,380,284	-	131,380,284
	131,380,284	**100,824,875**	**232,205,159**

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Financial risk (continued)

(d) Fair value estimation (continued)

31 December 2016

Assets - financial assets	**Level 1 KShs**	**Carried at cost KShs**	**Total KSh**
Equity instruments at fair value through profit or loss:			
- unquoted	-	100,824,875	100,824,875
- quoted	95,961,167	-	95,961,167
	95,961,167	**100,824,875**	**196,786,042**

(e) Financial assets by category

Financial assets	**Receivables KShs**	**Financial assets at fair value through profit or loss upon initial recognition KShs**	**Held to maturity KShs**	**Total KShs**
As at 31 December 2017				
Reinsurers' share of insurance contract liabilities	369,255,664	-	-	369,255,664
Investments at fair value through profit or loss:				
- unquoted investments	-	100,824,875	-	100,824,875
- quoted investments	-	131,380,284	-	131,380,284
Government securities	-	-	1,201,393,528	1,201,393,528
Commercial paper	14,545,321	-	-	14,545,321
Receivables arising out of reinsurance arrangements	285,666,748	-	-	285,666,748
Receivables arising out of direct insurance arrangements	666,589,231	-	-	666,589,231
Deposits with financial institutions	135,152,196	-	-	135,152,196
Cash and cash equivalents	47,747,447	-	-	47,747,447
Other receivables and prepayments	27,994,093	-	-	27,994,093
Kenya Motor Insurance Pool	11,441,155	-	-	11,441,155
	1,558,391,855	**232,205,159**	**1,201,393,528**	**2,991,990,542**
As at 31 December 2016				
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**

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

Financial risk (continued)

(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:

	2017	2016
General insurance business:	**KShs**	**KShs**
Motor	1,144,437,941	848,839,204
Fire and engineering	500,287,386	471,561,274
Personal accident	49,439,596	41,363,891
Marine	171,374,285	168,305,234
Theft	130,890,354	144,116,549
Workmens compensation	326,915,031	333,996,817
Public liability	12,168,657	11,646,456
Miscellaneous	34,642,847	41,903,381
Gross earned premiums	**2,370,156,097**	**2,061,732,806**

6. INVESTMENT AND OTHER INCOME

	2017	2016
	KShs	**KShs**
Interest from government securities	120,304,808	90,600,676
Interest from bank deposits	15,165,301	40,921,214
Interest on current bank accounts	1,566,217	2,038,834
Net rental income from investment properties	42,423,316	39,316,064
Dividends received from equity investments	10,261,403	8,959,754
Impairment of investments	-	(21,487,893
Gain on disposal of quoted equity investments	669,489	-
Gain on disposal of vehicles and equipment	519,000	1,191,125
Share of profit from Kenya Motor Insurance Pool (Note 18)	821,896	296,056
Other income	1,727,835	861,745
	193,459,265	**162,697,575**

7. CLAIMS PAYABLE

	2017 KShs	2016 KShs
Net claims payable by principal class of business:		
Motor	720,926,704	520,673,245
Fire and engineering	279,498,439	289,654,021
Personal accident	28,508,717	41,563,012
Marine	134,264,869	105,001,963
Theft	121,067,052	69,505,877
Workmen's compensation	280,291,530	379,852,581
Public liability	2,725,492	1,525,567
Miscellaneous	31,812,637	54,214,119
Total claims and policyholder benefits payable	**1,599,095,440**	**1,461,990,385**

8. OPERATING AND OTHER EXPENSES

	2017 KShs	2016 KShs
Staff costs (Note 9)	229,922,130	140,617,860
Directors remuneration	41,852,790	23,717,101
Rent	27,827,728	23,170,987
Premium tax	28,765,517	19,503,117
Printing and stationery	42,323,870	11,669,014
Depreciation on vehicles and equipment	14,608,515	11,764,157
Advertising	8,058,660	2,522,913
Postages and telephones	8,039,151	5,025,658
Repairs and maintenance	7,882,996	2,897,631
Insurance and licenses	5,058,259	4,155,070
Policy holder compensation	6,493,556	5,096,123
Donations	4,470,464	5,047,252
Entertainment	4,646,465	2,756,252
Legal and professional fees	10,242,152	11,033,562
Audit fees	3,310,712	3,344,883
Travelling and transport	3,082,647	3,097,362
Vehicle running expenses	2,859,189	10,694,747
Security expenses	2,273,012	2,156,114
Bank charges, interest on overdraft and commission	1,992,217	1,326,266
Fines and penalties	1,451,449	1,865,400
Association charges	1,029,673	1,223,755
Secretarial fees	1,113,600	1,113,600
Other administrative expenses	13,698,302	8,852,805
Miscellaneous	4,070,935	3,323,666
Subscriptions, newspapers and periodicals	899,076	4,402,055
Impaired reinsurance amounts	14,033,140	-
Total expenses	**490,006,205**	**310,377,350**

9. STAFF COSTS

	2017 KShs	2016 KShs
Staff costs include the following:		
Salaries and wages	214,849,950	161,052,663
Defined benefit scheme and National Social Security Fund	10,845,250	8,317,600
Staff redundancy costs	-	(30,811,472)
Other staff expenses	4,226,930	2,059,069
	229,922,130	**140,617,860**

9. STAFF COSTS (continued)

The average staff numbers categorised per department during the period is as shown below:

	2017	2016
Accounts	11	9
Audit	2	2
Claims and legal	20	18
Human resource and administration	18	16
Information technology	6	6
Marketing	5	2
Retail	21	10
Risk and compliance	3	3
Underwriting and reinsurance	43	26
Branches	14	12
Average number of staff	**143**	**104**

10. TAX CHARGE

	2017 KShs	2016 KShs
Recognised in profit or loss		
Current tax	19,153,756	46,138,555
Deferred tax charge (Note 23)	2,464,215	5,821,153
Prior year over provision of deferred tax (Note 23)	-	(3,383,514)
	21,617,971	**48,576,194**
Recognised in other comprehensive income		
Fair value gains/(losses)	10,417,913	(4,581,857)
Total tax charge	**32,035,884**	**43,994,337**

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

	2017 KShs	2016 KShs
Profit before tax		
Profit & loss	115,028,727	185,945,596
Other comprehensive income	34,726,509	(15,272,856)
	149,755,236	**170,672,740**
Tax calculated at a tax rate of 30% (2016: 30%)	44,926,571	51,201,822
Tax effect of:		
- expenses not allowable for tax purposes	6,450,406	10,570,436
- non-taxable gain on investment property	(12,000,000)	(14,795,122)
- fair value gain investment property (taxed at 5%)*	2,000,000	2,465,854
- prior year over-provision of deferred tax (Note 23)	-	3,383,514
- income not subject to tax	(9,341,054)	(8,832,167)
	32,035,923	**43,994,337**
Movement in tax balances		
At the beginning of the year	22,122,777	(12,717,119)
Tax charge	(19,153,756)	(46,138,555)
Tax paid	27,557,864	80,978,451
At the end of the year	**30,526,885**	**22,122,777**

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

11. SHARE CAPITAL

	2017 KShs	2016 KShs
Authorised:		
1,000,000 (2016: 1,000,000) Ordinary shares of KShs 1,000 each	**1,000,000,000**	**1,000,000,000**
Issued and fully paid:		
693,000 (2016: 693,000) Ordinary shares of KShs 1,000 each	**693,000,000**	**693,000,000**

12. RETAINED EARNINGS

Included within retained earnings of 2017 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 2017, the cumulative fair value gains on the investment properties amounted to KShs 273,712,372 (2016: KShs 233,712,372).

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 15,123,862 (2016: KShs (9,184,694)).

14. VEHICLES AND EQUIPMENT

2017	Motor vehicles KShs	Computers KShs	Fittings and equipment KShs	Total KShs
Cost				
At start of year	9,850,577	36,773,745	61,498,885	108,123,207
Additions	1,501,998	7,927,555	12,031,625	21,461,178
Disposals	(850,000)	(1,799,961)	(24,759)	(2,674,720)
At end of year	**10,502,575**	**42,901,339**	**73,505,751**	**126,909,665**
Depreciation				
At start of year	5,895,804	33,673,480	29,262,719	68,832,003
Charge for the year	1,722,991	5,298,930	7,586,594	14,608,515
Disposals	(850,000)	(1,799,961)	(24,759)	(2,674,720)
At end of year	**6,768,795**	**37,172,449**	**36,824,554**	**80,765,798**
Net book value	**3,733,780**	**5,728,890**	**36,681,197**	**46,143,867**

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**

15. INVESTMENT PROPERTIES

	2017	2016
	KShs	KShs
At start of year	491,000,000	441,682,928
Fair value gain	40,000,000	49,317,072
At end of year	**531,000,000**	**491,000,000**

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 2017 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 7,030,970 (2016: KShs 9,641,289).

16. INTANGIBLE ASSETS - WORK IN PROGRESS

	2017	2016
	KShs	KShs
At start of year	32,952,873	29,319,970
Additions	5,514,573	3,632,903
At end of year	**38,467,446**	**32,952,873**

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

17. DEFERRED ACQUISITION COSTS

	2017	2016
	KShs	KShs
At start of year	107,743,000	-
Additions during the year	23,525,908	107,743,000
At end of year	**131,268,908**	**107,743,000**

18. KENYA MOTOR INSURANCE POOL (KMIP)

	2017	2016
	KShs	KShs
At start of year	10,619,259	11,687,053
Claims paid during the year	-	134,043
Share of profit (Note 6)	821,896	296,056
Impaired amount	-	(1,497,893)
	11,441,155	**10,619,259**

19. REINSURERS` SHARE OF TECHNICAL PROVISIONS AND RESERVES

	2017	2016
Reinsurer's share of	KShs	KShs
- Unearned premium reserves	201,462,102	205,458,000
- Outstanding claims	117,850,795	83,140,111
- Incurred but not reported	88,090,528	109,350,504
- Deferred acquisition costs	(38,147,761)	(38,848,000)
	369,255,664	**359,100,615**

20. OTHER RECEIVABLES AND PREPAYMENTS

	2017 KShs	2016 KShs
Prepayments	4,208,760	4,842,442
Staff loans and advances	7,703,787	4,712,463
Rent receivable	6,980,514	5,897,641
Deposits	4,606,636	2,189,353
Restricted cash amounts	10,000	10,000
Other receivables	4,484,396	19,683,015
	27,994,093	**37,334,914**

21. (a) Government securities – 'Held to maturity'

	2017 KShs	2016 KShs
Between 1 and 5 years of the reporting date	731,470,708	496,341,643
After 5 years of the reporting date	469,922,820	560,333,845
	1,201,393,528	**1,056,675,488**

(b) Corporate bonds

	2017 KShs	2016 KShs
At start of year	11,182,821	11,182,821
Additions	7,000,000	-
Disposal	(3,637,500)	-
At end of year	**14,545,321**	**11,182,821**

(c) Weighted average effective interest rates

	2017 %	2016 %
Government securities	11.53	12.14
Deposits with financial institutions	9.16	8.25
Commercial paper	12.50	12.50

22. EQUITY INVESTMENTS

(a) Quoted investments

	2017 KShs	2016 KShs
At start of year	95,961,167	111,234,023
Additions	6,575,400	-
Disposal	(5,882,792)	-
Fair value gain/(loss)	34,726,509	(15,272,856)
At end of year	**131,380,284**	**95,961,167**

(b) Unquoted investments

	2017 KShs	2016 KShs
At start and end of year	**100,824,875**	**100,824,875**

The investment in unquoted investments can be summarised as:

	2017 KShs	2016 KShs
Spire Bank Limited		
22,347 (2016: 22,347) Ordinary shares	824,875	824,875
Victoria Commercial Bank Limited:		
100,000 (2015: 100,000) Ordinary shares of in	100,000,000	100,000,000
At end of year	**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% (2016 – 30%). The movement on the deferred income tax account is as follows:

	2017 KShs	2016 KShs
At start of year	(1,099,819)	1,044,399
Charge to profit or loss (Note 10)	2,464,215	5,821,153
Prior year over provision	-	(3,383,514)
Credit/(charge) to other comprehensive income	10,417,953	(4,581,857)
At end of year	**11,782,349**	**(1,099,819)**

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

2017 Deferred income tax	At start of year KShs	Recognised in profit or loss KShs	Recognised in OCI KShs	At end of year KShs
Excess depreciation over capital allowances	(3,742,268)	(485,752.00)	-	(4,228,020)
Provisions	(4,461,313)	949,947.00	-	(3,511,346)
Fair value loss on quoted investments	(4,581,857)	-	10,417,953	5,836,096
Fair value gain on investment properties	11,685,619	2,000,000	-	13,685,619
Net deferred tax	**(1,099,819)**	**2,464,215**	**10,417,953**	**11,782,349**

2016 Deferred income tax	At start of year KShs	Prior year over provision KShs	Recognised in profit or loss KShs	Recognised in OCI KShs	At end of year
Excess depreciation over capital allowances	(3,932,793)	-	190,525	-	(3,742,268)
Provisions	-	-	(4,461,313)	-	(4,361,313)
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:

	2017 KShs	2016 KShs
Cash and bank balances	47,747,447	67,174,300
Fixed deposits maturing within 90 days	135,152,196	170,999,891
	182,899,643	**238,174,191**

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

Cash and bank balances	182,899,643	238,174,191
	182,899,643	**238,174,191**

25. INSURANCE CONTRACT LIABILITIES

	2017 KShs	2016 KShs
Short term insurance contracts:		
- claims reported and claims handling expenses	869,935,696	727,555,418
- claims incurred but not reported (IBNR)	510,641,944	507,625,504
	1,380,577,640	**1,235,180,922**
Long term insurance contracts:		
- claims reported and claims handling expenses	1,181,540	1,181,540
Total gross insurance liabilities	**1,381,759,180**	**1,236,362,462**

26. UNEARNED PREMIUM RESERVES

	2017 KShs	2016 KShs
At start of year	736,952,000	765,594,802
Net increase/(decrease)	223,239,548	(28,642,802)
At end of year	**960,191,548**	**736,952,000**

27. OTHER PAYABLES

	2017 KShs	2016 KShs
Rental deposits	6,847,521	6,384,392
Other accrued expenses	12,397,391	11,126,173
Deposit on sale of property	5,400,000	-
Accrued leave due	11,704,488	14,871,042
Other liabilities	58,472,576	60,810,995
	94,821,976	**93,192,602**

28. CASH FROM OPERATIONS

	2017 KShs	2016 KShs
Reconciliation of profit before tax to cash from operations:		
Profit before tax	115,028,727	185,945,596
Adjustments for:		
- Investment income	(137,858,222	(133,856,780)
- Gain on revaluation of investment property (Note 15)	(40,000,000)	(49,317,072)
- Gain on disposal of vehicles and equipment	(519,000)	(1,191,125)
- Depreciation on vehicles and equipment (Note 14)	14,608,515	11,764,157
Changes in:		
- restricted bank balances	-	20,000,000
- insurance contract liabilities	145,396,718	276,777,911
- provisions for unearned premium	223,239,548	(28,642,802)
- receivables arising out of direct insurance arrangements	(191,528,914)	(22,539,618)
- other receivables and prepayments	9,340,821	(11,510,035)
- other payables	1,629,374	4,846,490
- increase in creditors arising out of reinsurance arrangements	44,274,805	6,339,127
- movement in reinsurance debtors	(10,155,049)	10,480,696
- movement in deferred acquisition costs	(23,525,908)	(68,895,000)
- net movement in Kenya Motor Insurance Pool	(821,896)	1,067,794
- receivables arising out of reinsurance arrangements	(89,357,526)	(24,352,467)
Cash from operations	**59,751,993**	**176,916,872**

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:

	2017	2016
Gross earned premium:	**KShs**	**KShs**
Dyer & Blair Limited	1,006,504	1,992,705
Dodhia Packaging Limited	15,341,136	11,790,717
Biashara Development Limited	507,617	99,495
Paramount Chief Estate Limited	112,928	81,960
VIP Holding	1,302,703	1,688,103
Capet Management Services Limited	233,879	294,948
Reef Securities Limited	59,865	59,865
Eagle Investments Limited	83,200	83,200
Bhagwanji & Company Limited	324,247	181,187
Thika Cloth Mills Limited	13,556,760	9,784,567
Total	**32,528,839**	**26,056,747**

Net claims incurred:		
Dyer & Blair Limited	-	244,919
Dodhia Packaging Limited	1,777,459	6,055,192
Biashara Development Limited	48,600	728,943
Thika Cloth Mills Limited	710,482	1,838,307
Total	**2,536,541**	**8,867,361**

Key management personnel compensation

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

Fees for services as directors	7,050,000	2,150,000
Other remuneration	34,802,790	21,567,101
	41,852,790	**23,717,101**

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.

	2017	2016
	KShs	**KShs**
Net profit for the year attributable to shareholders (KShs)	**117,719,312**	**126,678,403**
Adjusted weighted average number of ordinary shares in issue	**693,000**	**693,000**
Earnings per share - basic and diluted (KShs)	**169.87**	**182.80**

There were no potential dilutive shares outstanding as at 31 December 2017 and 2016.

31. OPERATING LEASE COMMITMENTS

Company as a lessee

Rental expenses incurred during the year was KShs 27,827,728 (2016: KShs 23,170,987). At the end of the reporting period the Company had outstanding commitments under operating leases which fall due as follows:

	2017	2016
	KShs	**KShs**
Not later than 1 year	18,455,407	16,179,716
Later than 1 year and not later than 5 years	47,573,361	30,989,208
	66,028,768	**47,168,924**

31. OPERATING LEASE COMMITMENTS (continued)

Company as a lessor

Rental income earned during the year was KShs 49,454,286 (2016: KShs 48,957,353). At the end of the reporting period the Company had contracted with tenants for the following future lease receivables:

	2017 KShs	2016 KShs
Within 1 year	38,032,575	42,186,498
In the second to fifth year inclusive	100,142,027	72,605,696
	138,174,602	**114,792,194**

32. DIVIDENDS

The Directors propose a final dividend of KShs 12,474,000 (2016: KShs 30,000,000) 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 2017.

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:

	2017 KShs	2016 KShs
2016 and 2015 final dividends paid	30,000,000	40,194,000
2017 and 2016 interim dividends proposed and paid	20,097,000	45,045,000
	50,097,000	**85,239,000**

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:

	2017 KShs	2016 KShs
Software maintenance fees	**2,304,000**	**2,304,000**

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 2017

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	2017 Total KShs	2016 Total KShs
Gross premiums written	105,018,996	61,856,452	339,534,735	12,184,256	171,299,440	692,350,691	673,893,731	49,959,508	132,250,733	323,952,567	35,090,434	2,597,391,543	2,033,090,004
Change in gross UPR	2,330,169	(3,498,619)	(4,954,347)	(15,599)	74,845	(129,341,204)	(92,465,277)	(519,912)	(1,360,379)	2,962,464	(447,587)	(227,235,446)	28,642,802
Gross earned premiums	**107,349,165**	**58,357,833**	**334,580,388**	**12,168,657**	**171,374,285**	**563,009,487**	**581,428,454**	**49,439,596**	**130,890,354**	**326,915,031**	**34,642,847**	**2,370,156,097**	**2,061,732,806**
Less:													
Reinsurance payable	82,917,556	20,037,402	264,008,528	9,039,288	104,432,572	15,055,126	19,192,608	38,870,219	72,834,786	26,541,785	21,327,780	674,257,650	652,273,989
Net earned premiums	**24,431,609**	**38,320,431**	**70,571,860**	**3,129,369**	**66,941,713**	**547,954,361**	**562,235,846**	**10,569,377**	**58,055,568**	**300,373,246**	**13,315,067**	**1,695,898,447**	**1,409,458,817**
Gross claims paid	109,171,485	42,062,619	128,656,836	2,662,390	134,767,514	241,969,753	395,522,111	32,797,353	120,362,056	220,371,250	38,806,063	1,467,149,430	1,174,731,778
Change in gross o/s claims	(1,627,358)	(5,630,466)	6,865,323	63,102	(502,645)	72,718,024	10,716,816	(4,288,636)	704,996	59920,280	(6,993,426)	131,946,010	287,258,607
Less: Reinsurance	69,041,077	12,606,108	64,409,988	1,549,182	82,624,090	2,471,307	66,884,791	24,769,146	97,958,147	-	24,380,668	446,694,504	401,618,399
Net claims incurred	**38,503,050**	**23,826,045**	**71,112,171**	**1,176,310**	**51,640,779**	**312,216,470**	**339,354,136**	**3,739,571**	**23,108,905**	**280,291,530**	**7,431,969**	**1,152,400,936**	**1,060,371,986**
Commissions receivable	(24,807,223)	(5,462,846)	(83,430,159)	(2,257,286)	(25,072,924)	(1,521,232)	(1,575,593)	(9,526,566)	(17,946,560)	(4,034,367)	(5,658,790)	(181,293,546)	(182,659,948)
Commissions payable	21,277,356	11,854,946	80,330,185	2,439,603	29,880,338	68,863,629	67,336,202	9,065,680	18,388,569	64,605,643	3,399,386	377,441,537	316,333,480
Less:- Change													
Deferred acquisition cost	453,488	(790,977)	(952,932)	(3,520)	(37,573)	(13,748,878)	(9,326,991)	(120,979)	(177,529)	495,224	(15,480)	(24,226,147)	(68,895,000)
Expenses of management	5,910,011	9,269,719	17,071,345	756,995	16,193,212	132,550,257	136,004,951	2,556,734	14,043,652	72,660,340	3,220,919	410,238,135	267,974,006
Total expenses and commissions	**2,833,632**	**14,870,842**	**13,018,439**	**935,792**	**20,963,053**	**186,143,776**	**192,438,569**	**1,974,869**	**14,308,132**	**133,726,840**	**946,035**	**582,159,979**	**332,752,538**
Underwriting profit/(loss)	**(16,905,073)**	**(376,456)**	**(13,558,750)**	**1,017,267**	**(5,662,119)**	**49,594,115**	**30,443,141**	**4,854,937**	**20,638,531**	**(113,645,124)**	**4,937,063**	**(38,662,468)**	**16,334,293**

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