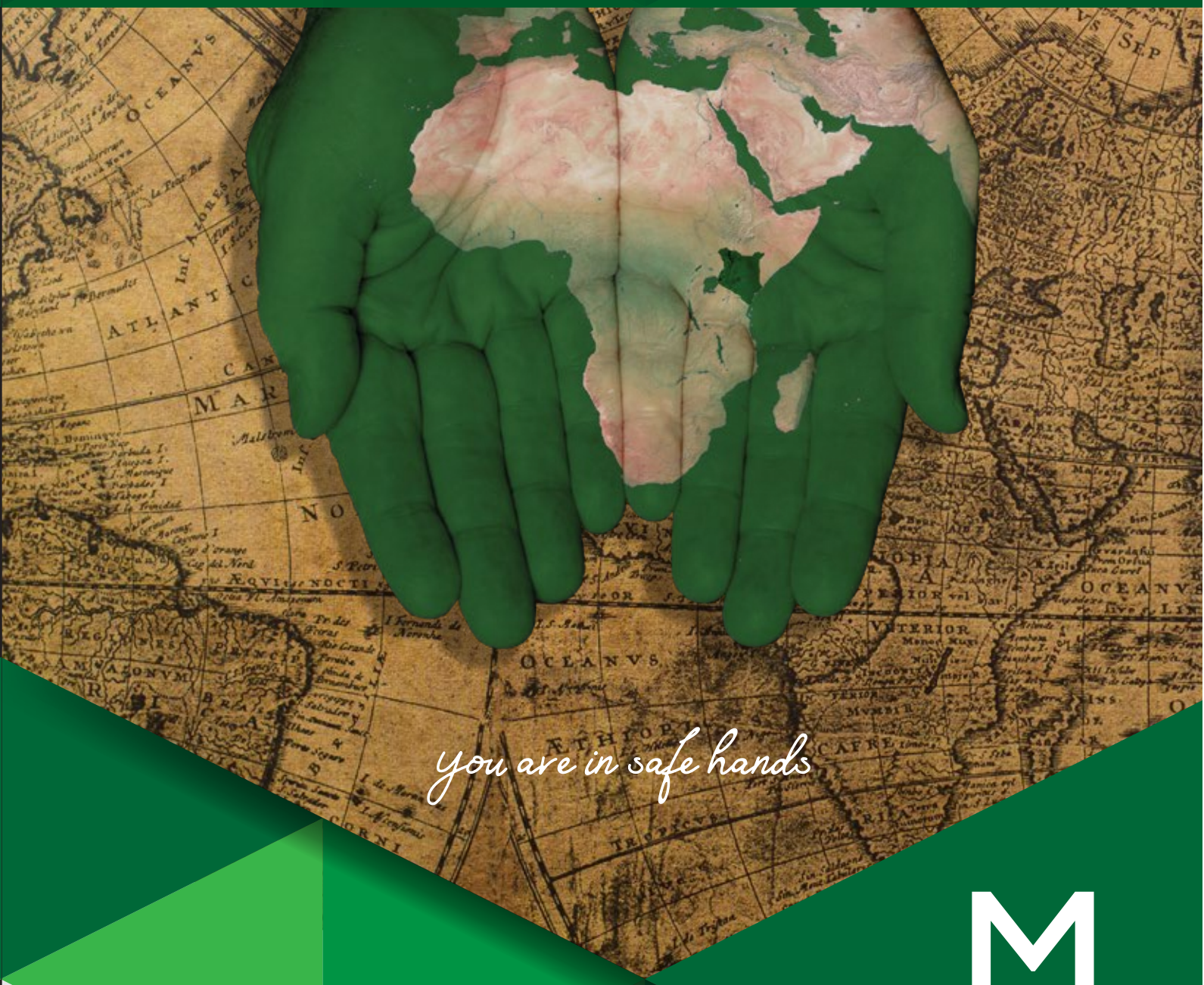


MAYFAIR
INSURANCE

2017

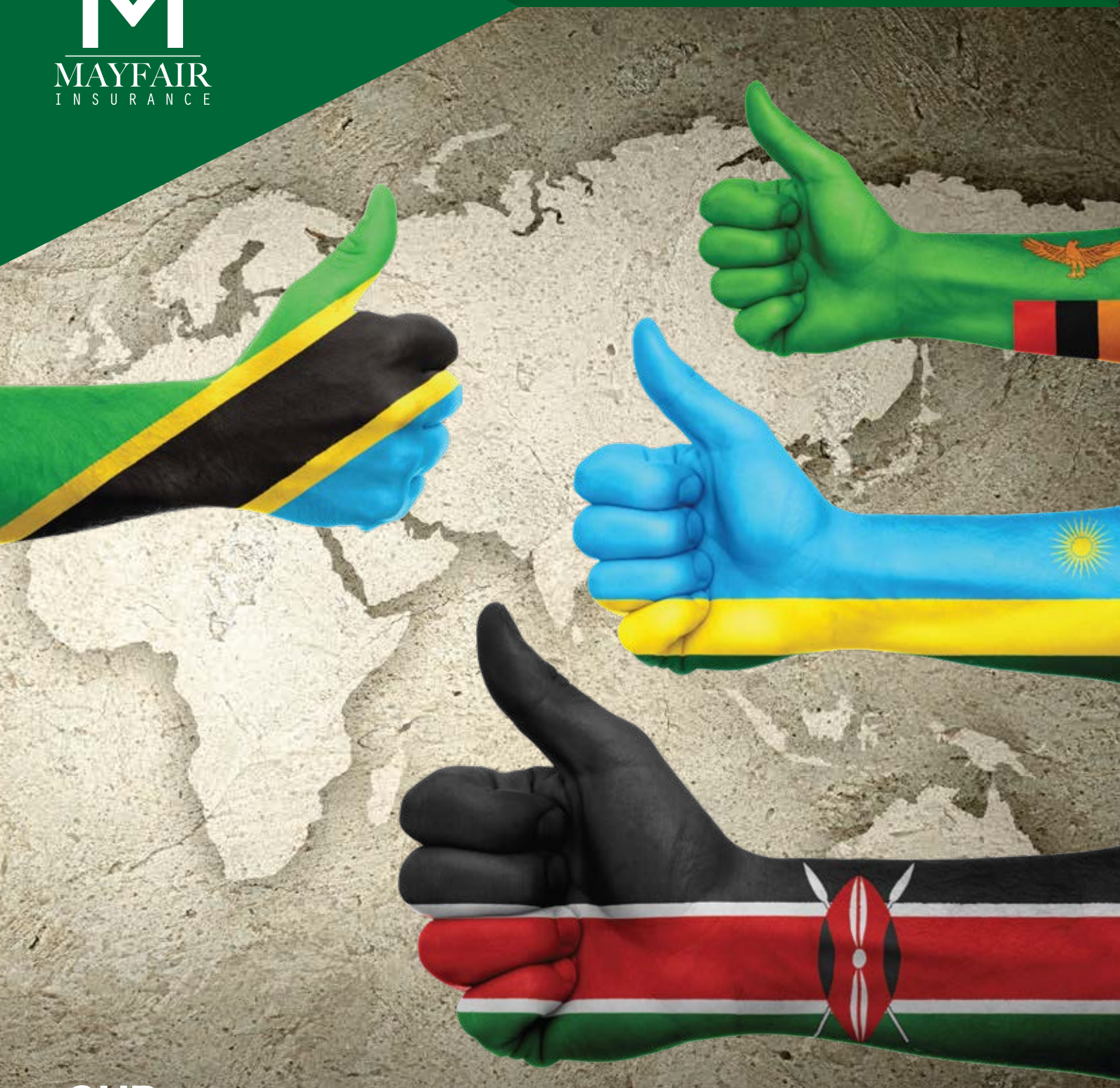
GLOBAL CREDIT RATING
A-
(KE)
MAYFAIR INSURANCE CO. LTD

ANNUAL REPORT

AND FINANCIAL STATEMENTS

KENYA
ZAMBIA
TANZANIA
RWANDA

MAYFAIR
INSURANCE



OUR REGIONAL PRESENCE

We have an expanding regional network to better serve our clients. Our branch offices in Kenya include Nairobi, Mombasa, and Eldoret

you are in safe hands

KENYA ZAMBIA TANZANIA RWANDA

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CORPORATE INFORMATION

DIRECTORS

Joe Okwach - Chairman (Deceased Jul 2017)
Vishal Patel - Chairman (Appointed in Sep 2017)
Joshua Chiira - Managing Director
Shehnaz Sumar
Ambrose D Rachier
Harish Shah
Bharat V Shah
Edward K Muriu - Resigned in Jun 2017
Christopher Harrison
Diana Bird
Rajnikant Varia - Appointed in May 2017

MANAGEMENT

Joshua Chiira - Managing Director
Rajiv Ranjan - Executive Director
Sawtantar Singh - General Manager
Gurbux Singh - Assistant General Manager
James Ndegwa - Reinsurance Manager
Anand Lakhani - Regional Manager
Gibson Ndungu - Business Development Manager
James Macharia - Underwriting Manager
Eva Wambui - Claims Manager
Catherine Ngure - Human Resource & Administration Manager
Fredrick Karanja - Assistant Underwriting Manager
Emma Mwangi - Assistant Claims Manager
George Nyakomitta - Assistant Bancassurance Manager
Darshna Patel - Assistant Manager - Accounts
Gladys Gichogo - Assistant Finance Manager
Peter Ngugi - Deputy IT Manager

AUDITORS

PricewaterhouseCoopers
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 - 00100, Nairobi

SECRETARY

Susan Wanjiru Gichina
Certified Company
Secretary (Kenya)
P O Box 45761 – 00100, Nairobi

REGISTERED OFFICE

MAYFAIR CENTRE, 8TH FLOOR
RALPH BUNCHE ROAD
P O BOX 45161 – 00100, NAIROBI

ADVOCATES

Coulson Harney
5th Floor, West Wing, ICEA Lion Centre
Riverside Park, Chiromo road
P O Box 10643 – 00100, Nairobi

BANKERS

Stanbic Bank Kenya Limited
Kenyatta Avenue
P O Box 72833 – 00200, Nairobi

Kenya Commercial Bank Limited
Kipande House
P O Box 30012 – 00100, Nairobi

Mayfair Bank
Mayfair Center Branch
P O Box 2051 – 00606, Nairobi

OUR GOALS & VALUES

VISION

To be distinguished as a reliable and innovative Pan-African financial services leader

MISSION

To provide financial security through reliable and innovative insurance solutions

CORE VALUES

- Integrity
- Professionalism
- Reliability
- Respect

CUSTOMER VALUE PROPOSITION

- Personalization
- Simplicity
- Convenience
- Transparency

GLOBAL CREDIT RATING AGENCY
A-
(KE)
MAYFAIR INSURANCE CO. LTD

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BOARD OF DIRECTORS

AMBROSE D RACHIER
Director

VISHAL PATEL
Chairman

SHEHNAZ SUMAR
Director

RAJNIKANT VARIA
Director

CHRISTOPHER HARRISON
Director

BOARD OF DIRECTORS (CONTINUED)

BHARAT V SHAH
Director

JOSHUA CHIIRA
Managing Director

DIANA BIRD
Director

HARISH SHAH
Director

LEADERSHIP WITH DIVERSE SKILLS AND EXPERIENCE

MANAGEMENT TEAM

JOSHUA CHIIRA
Managing Director

RAJIV RANJAN
Chief Marketing Officer
Executive Director

SAWTANTAR SINGH
General Manager

GURBUX SINGH
Assistant General Manager

EVA WAMBUI
Claims Manager

CATHERINE NGURE
H.R & Administration Manager

PETER NGUGI
Deputy IT Manager

FREDRICK KARANJA
Assistant Underwriting Manager

EMMA MWANGI
Assistant Claims Manager

MANAGEMENT TEAM (CONTINUED)

JAMES NDEGWA
Reinsurance Manager

ANAND LAKHANI
Regional Manager

JAMES MACHARIA
Underwriting Manager

GIBSON NDUNGU
Business Development Manager

GEORGE NYAKOMITTA
Assistant Bancassurance Manager

PRIYA SHAH
Branch Manager, Mombasa

GLADYS GICHOGO
Assistant Finance Manager

DARSHNA PATEL
Assistant Manager - Accounts

ANDREW KARANJA
Assistant Branch Manager, Eldoret

COMPANY ACTIVITIES

Mayfair Football team at one of their weekly trainings in preparation for the AKI Football Games

Mayfair staff at the annual AKI sports day games

Directors and management join in to congratulate and celebrate the monthly staff Birthday Celebrations

Mayfair participated at the IRA Exhibition held at the KICC

'Outstanding Employee of the Year Winner' Carole Kinuthia cuts the cake at the Annual End of Year Christmas Staff Party

Successful participants of the Balance Score card/Performance training held at our offices

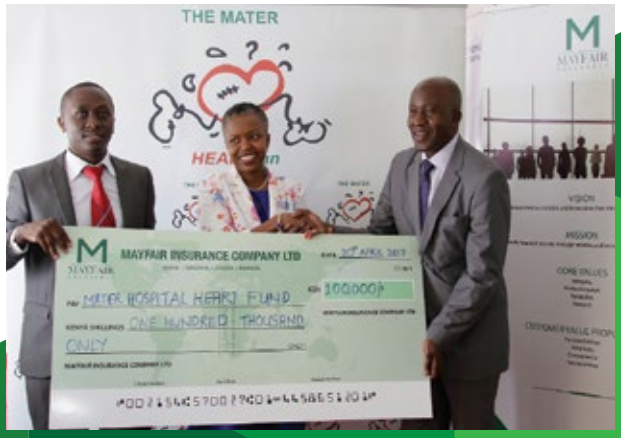
CORPORATE SOCIAL RESPONSIBILITY (CSR)

Mayfair Insurance Company through its educational sponsorship program over the years has and continues to extend support to needy children in the community. We believe education is a necessary investment as it is the backbone to any developing nation. The continued success of the students we are supporting, affirms the future progress & security of each student as well as the community at large.

In 2017 our programme supported students both in Primary and Secondary levels of their education. More specifically we sponsored students at Starehe Boys' Centre and School as well as children with Albinism at the Salvation Army Thika Primary & High School for the Blind.

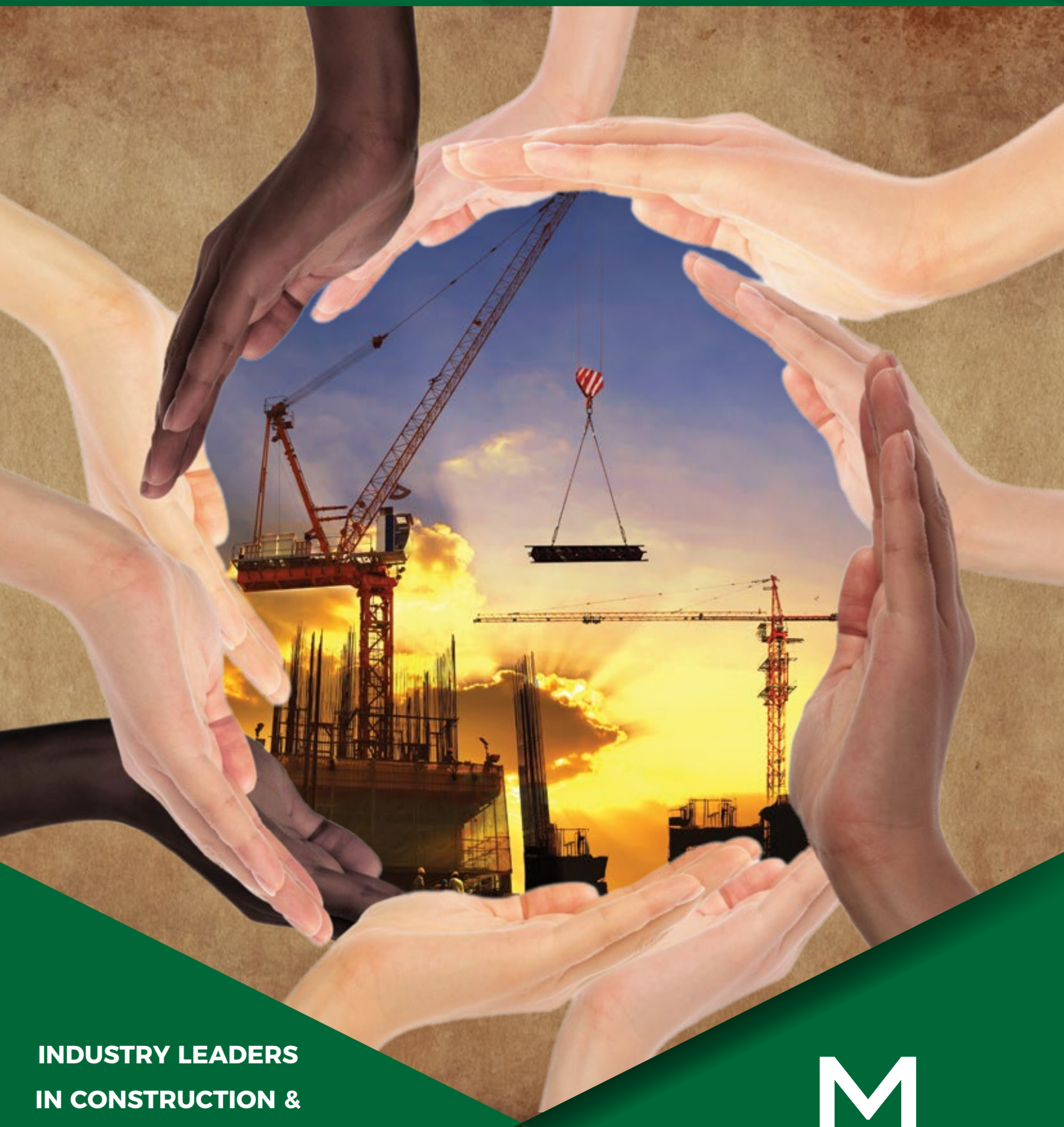
Mayfair also participated in its inaugural sponsorship of the 2017 Mater Hospital Heart Run. This was a success as we had several staff as participants.

Among our 2017 activities also included donations to the Shree Cutchi Leva Patel Samaj in Eldoret, Ronald Koch Children trust in Mombasa and the Cerebral Palsy Foundation Centre.



Mayfair presenting a cheque to Mater Heart Run a programme that has provided over 3000 heart surgeries to needy children.

SUPPORTING THE NEEDY IN OUR SOCIETY



INDUSTRY LEADERS IN CONSTRUCTION & ENGINEERING INSURANCE

MAYFAIR INSURANCE

you are in safe hands

CHAIRMAN'S STATEMENT

Vishal Patel
(Chairman)

A-

(OUTLOOK POSITIVE)

GLOBAL CREDIT RATING

DEAR STAKEHOLDERS

I am pleased to present to you the Mayfair Insurance Company Limited Annual Report and Financial Statements for the year ended 31st December 2017 which have been prepared in accordance with the International Financial Reporting Standards (IFRS).

The company has maintained a strong financial position despite the challenging political environment in 2017. The Company was upgraded in its Global Credit Rating to A- (Outlook Positive) for the period 2017/2018, compared to the A- (Outlook Stable) for 2016/2017 by the Global Credit Rating Agency (GCR). The rating reflects Mayfair's strengthened earnings capacity, very strong capitalization, solvency and liquidity metrics which have been maintained at strong levels, diversification while maintaining healthy underwriting margins as well as a sustained improvement in asset quality.

These results were achieved against the backdrop of a difficult year for the insurance industry. Appropriate pricing of risk by industry participants continues to be weak, and the drive to gain market share by a number of competitors resulted in severe price undercutting. Additionally, the Country experienced a slowdown in some sectors of the economy and this was further accompanied by the tightening credit conditions and delays in new investment in infrastructure and other major projects.

"The Company was upgraded in its Global Credit Rating from A- (Outlook Stable) to A- (Outlook Positive). The rating reflects Mayfair's strengthened earning capacity.

CHAIRMAN'S STATEMENT (CONTINUED)

BUSINESS ENVIRONMENT

According to the African Economic Outlook report, the real GDP growth declined to an estimated 5% in 2017, due to subdued credit growth caused by caps on commercial banks' lending rates, drought, and the prolonged political impasse over the presidential election. The half-year estimates show that the economy remained fairly resilient, growing by 4.8%.

BUSINESS AND FINANCIAL RESULTS

Mayfair Insurance Company Limited recorded a fairly good performance in 2017, with Gross Written Premiums amounting to Sh. 2.391 billion, a 6% growth from prior period. Insurance premium growth slowed down during the one-year period to December 2017, with the Industry's General insurance business (Gross Premium Income – GPI) growing by 1.3%, while the long-term insurance business grew by 13.6%.

BUSINESS AND FINANCIAL RESULTS (CONTINUED)

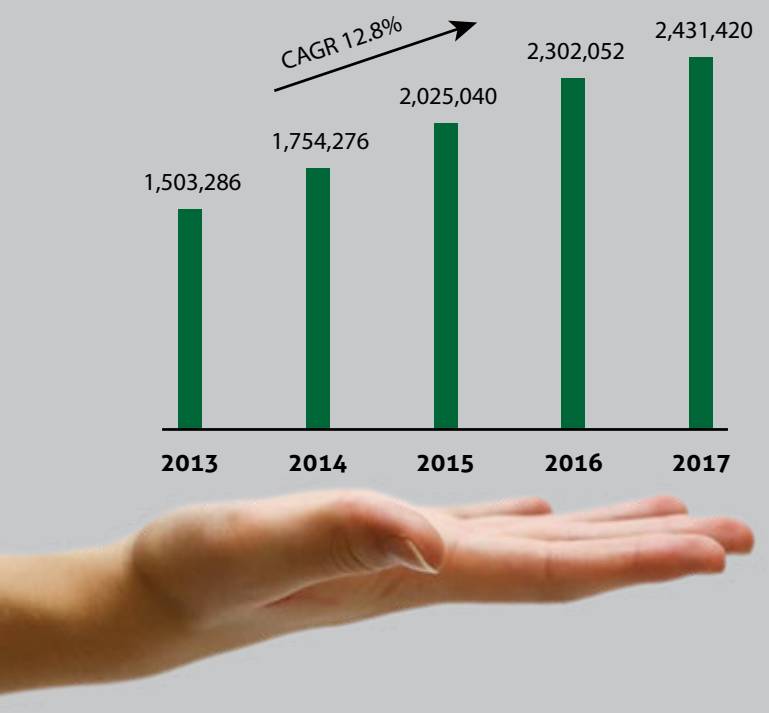
The Company recorded an underwriting profit of Sh. 260 million, and an operating gross profit of Sh. 420 million after taking into account earnings from Associates and other investment vehicles. The shareholder's funds amounted to Sh 2.25 billion as at 31st December 2017. Total assets grew by 9.85% to close at Sh. 5.37 billion.

BOARD OF DIRECTORS

Our Board of Directors remains strong with a diverse mix of skills and a wealth of experience. Mr. Rajnikant Varia was appointed to the Board in May 2017, to further enhance the board capacity. He brings over 30 years of experience in the insurance industry and will be a great asset to the Company.

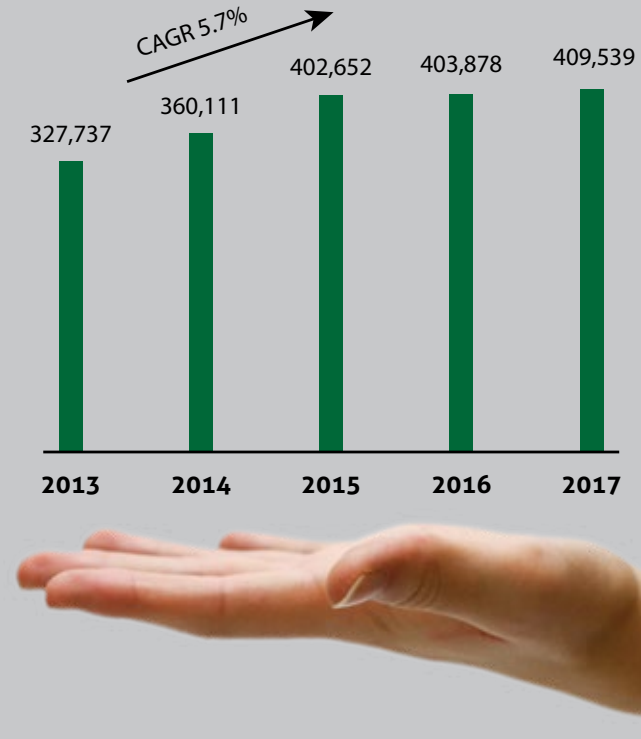
GROSS WRITTEN PREMIUM

Figures in Thousands (Shs '000)



PROFIT BEFORE TAX

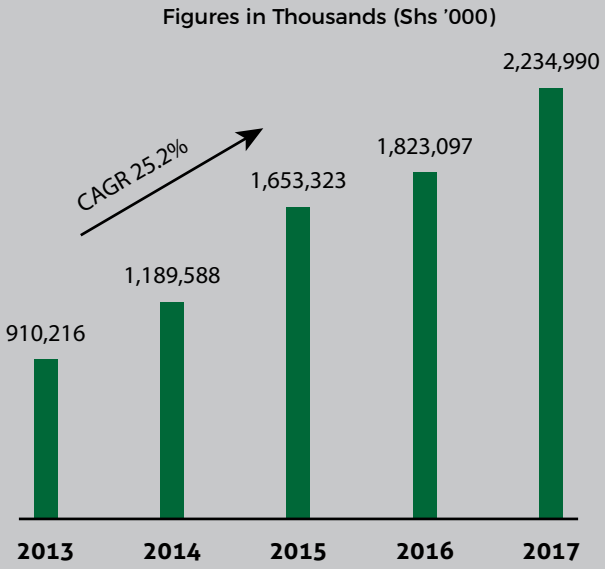
Figures in Thousands (Shs '000)



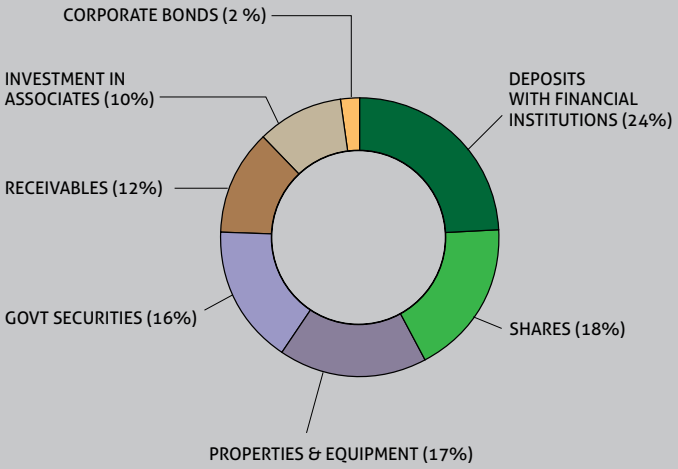
Total assets grew by 9.85% to close at Sh 5.39 billion

CHAIRMAN'S STATEMENT

SHAREHOLDER'S FUNDS



DISTRIBUTION OF ASSETS IN 2017



CORPORATE GOVERNANCE

We are committed to the highest standards of Corporate Governance and have put in place the requisite structures to ensure adherence to corporate best practices as well as regulatory requirements as detailed below:

The Board Strategic Committee is headed by Mr. Rajnikant Varia and includes Directors Mr. Christopher Harrison, Mrs. Shehnaz Sumar, Mrs. Diana Bird and Mr. Joshua Chiira. The Board Audit, Risk and Compliance Committee is chaired by Mr. Harish Shah, and includes Directors, Mr. Rajnikant Varia, Mrs. Shehnaz Sumar, Mr. Christopher Harrison and Mr. Joshua Chiira

The Board Investment Committee is headed by Mr. Bharat Shah, and includes Directors Mr. Ambrose Rachier, Mr. Harish Shah, Mrs Shehnaz Sumar and Mr. Joshua Chiira.

The Human Resources & Remuneration Committee is headed by Mrs. Diana Bird and includes Directors Mr. Rajnikant Varia. Mr. Ambrose Rachier, Mr. Bharat Shah and Mr. Joshua Chiira.

The responsible Committees charged with compliance to corporate governance standards report regularly to the Board of Directors.

We have put in place the requisite structures to ensure adherence to corporate best practices as well as regulatory requirements

CHAIRMANS STATEMENT (CONTINUED)

OUTLOOK FOR 2018

Kenya's economy is projected to rebound to GDP growth of 5.6% in 2018 (African Economic Outlook report). Backed by increased agricultural output, supported by more favorable weather conditions, an expansion in construction activity for planned infrastructure projects and an upturn in investment anticipated to bump up growth this year.

Partnerships and superior services leveraged on proficient human capital and technology continue to be pivotal in our strategy for the local market. We aim to enhance these to exploit the opportunities for insurance presented by the economy on its path of recovery in 2018.

On the regional front, we remain resolute in our commitment to the vision of being distinguished as a reliable and innovative Pan-African financial services leader.

We shall continue to extend our world-class services to the Kenyan multinationals with regional presence as well as new clients within the various economies in the East African region and beyond. Our Associates in Zambia, Rwanda and Tanzania are anticipated to keep up the growth through 2018. We are optimistic that the economic expansions together with the political stability enjoyed in these regions, continue to offer Mayfair a bright future in these markets.

We are pleased to report that Mayfair Bank commenced its full operations in 2017. We have also seen our associates in Zambia and Tanzania (still in their early years) begin to realize commendable market shares.

Cognizant of the emerging opportunities beyond our current markets and keen on getting a pioneer's advantage, we are targeting new markets in Botswana, Zimbabwe and Uganda to advance our Pan-African dream. There is a notable trend of economic growth and market liberizations in these countries.

APPRECIATION

The unwavering support and demonstration of the confidence from all our highly esteemed customers, partners, directors, shareholders, management, staff and other stakeholders are our pillars of success. I wish to thank each one of you most sincerely for your valued role in the accomplishments of 2017 and call on your continued support onward into a greater 2018.

Vishal Patel
Chairman

"Stop Press"

Mayfair has been upgraded in its Global Credit Rating to A (Outlook Stable)

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2017.

BUSINESS REVIEW

PRINCIPAL ACTIVITIES

The principal activities of the Company are the underwriting of all classes of non-life insurance risk as defined by the Insurance Act.

PRINCIPAL RISKS AND MITIGATION STRATEGIES

The following are the principal risks and related mitigation strategies:

- Capital adequacy risk – The Company intends to maintain the Capital Adequacy Ratio at above 200% (2017 – 216%) through additional capital injection and retained earnings.
- Credit risk – The Company's credit control policy is to contain the premium outstanding within the recommended company aged limit of 60 days.

THE COMPANY'S PERFORMANCE

The year was characterized by various challenges to the Insurance industry in Kenya including rising inflationary pressures and uncertainty arising from the prolonged electioneering period.

The Company recorded a profit before tax of Shs 410 million (2016: Shs 404 million profit). The improved performance was as a result of a growth in net earned premium which increased by Shs 188 million to Shs 1.32 billion (2016: Shs 1.13 billion) coupled with a tightened control on operational costs.

KEY PERFORMANCE RATIOS

The table below highlights some of the key performance indicators over a period of 4 years

Performance ratios	2014 Shs'000	2015 Shs'000	2016 Shs'000	2017 Shs'000
Underwriting profit	188,190	238,417	236,501	260,756
Gross loss ratio %	39%	31%	42%	35%
Profit before income tax	360,111	402,652	403,879	409,539
Net assets	1,189,588	1,653,323	1,823,097	2,234,990
Capital adequacy ratio %	117%	165%	170%	216%

DIVIDEND

The Directors recommend a first and final cash dividend of Shs 10 per share amounting to Shs 75,000,000 and a bonus share for the year amounting to Shs. 75,000,000 in respect of the year ended 31 December 2017 (2016: Cash dividend of Shs. 16.67 per share amounting to Shs. 100,000,000)

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 2.

REPORT OF THE DIRECTORS (CONTINUED)

AUDITOR

DISCLOSURES TO AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

a) there was, so far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITORS

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract which sets out the terms of the auditor's appointment and the associated fees on behalf of the shareholders.

By order of the Board

Susan Wanjiru Gichina
Secretary
Nairobi
21st March 2018

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its profit or loss for that year. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Companies Act. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii) Selecting suitable accounting policies and then apply them consistently; and

iii) Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

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

Vishal Patel
Chairman

Bharat Shah
Director

Joshua Chiira
Managing Director

21st March 2018

REPORT OF THE CONSULTING ACTUARY

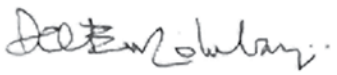
For the year ended 31 December 2017

I have conducted an Insurance Liability Valuation of the short term business of Mayfair Insurance Company Limited as at 31st December 2017.

The valuation was conducted in accordance with the generally accepted actuarial principles and the requirements of The Kenya Insurance Act. These principles require prudent provision for insurance liabilities in the financials on a best estimate basis.

I verify that the calculation of the short term insurance liabilities as at 31st December 2017 is appropriate.

I am satisfied that the Unearned Premium Reserve, Deferred Acquisition Cost, Outstanding Claims Reserve, Incurred But Not Reported Reserve as per the valuation are sufficient and appropriate given the nature of the business and existing liabilities.



James I. O. Olubayi
Fellow of the Institute of Actuaries
Zamara Actuaries, Administrators & Consultants Limited
21st March 2018

OUR PASSION IS IN YOUR SATISFACTION

REPORT OF THE AUDITOR

Independent auditor's report to the shareholders of Mayfair Insurance Company Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the accompanying financial statements of Mayfair Insurance Company Limited ("the Company") set out on pages 24 to 68 which comprise the statement of financial position at 31 December 2017 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Mayfair Insurance Company Limited at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our 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 Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REPORT OF THE AUDITOR (CONTINUED)

Independent auditor's report to the shareholders of Mayfair Insurance Company Limited

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of outstanding claims provision The insurance contract liabilities included in Note 27 of the financial statements is made up of reported claims and incurred but not reported ("IBNR") claims. As disclosed in Note 3 to the financial statements, the estimation of outstanding claims involves significant judgement given the size of the liability and the inherent uncertainty in estimating expected future claims incurred. This is particularly the case for liabilities have been incurred at the reporting date but have not yet been reported. There is generally less information available in relation to these claims. The IBNR provision is determined annually by the company's consulting actuaries on the basis of the best information available at the time the records for the year are closed because of the impact of estimation uncertainty on the projected claim development pattern. As a material change in the actual claims pattern or a change in timing or value can cause a material change in the provision, we considered this a Key audit matter.	To test the valuation of the insurance contract liabilities our actuarial experts performed amongst other the following procedures: We evaluated and tested controls around the claim handling and reserving; To test the reasonableness of the Company's estimation process, for a sample of claims, we compared actual claim payments in the year to the prior year claims estimate provisions and no material differences were noted; Verified the validity of claims outstanding by testing for a sample of claims to supporting documents; We performed reconciliations between the claims data and that used to calculate the reserves; We performed a review of the methodology and assumptions used by the appointed actuary to compute the actuarial reserves as at 31 December 2017 and compared the assumptions to expectations based on the Company's historical experiences, current trends and our own industry knowledge; and We obtained and reviewed the actuarial valuation reports to confirm that the balances reported in the financial statements were consistent with the results of the independent actuarial valuation.
Valuation of unquoted investments The Company has investments in unquoted shares as detailed in Note 18 to the financial statements. Determination of the fair value for unquoted investments is a significant area of judgement as the prices are not derived from actively traded markets which creates a level of subjectivity in determining the value of these assets. Management uses a range of valuation techniques to determine their fair values.	We assessed the valuation methodologies and assumptions applied for appropriateness against generally accepted market practice; We verified inputs in the valuation model, and subjected the management estimate to sensitivity analysis.

REPORT OF THE AUDITOR (CONTINUED)

Independent auditor's report to the shareholders of Mayfair Insurance Company Limited

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

REPORT OF THE AUDITOR (CONTINUED)

Independent auditor's report to the shareholders of Mayfair Insurance Company Limited

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

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

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

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

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

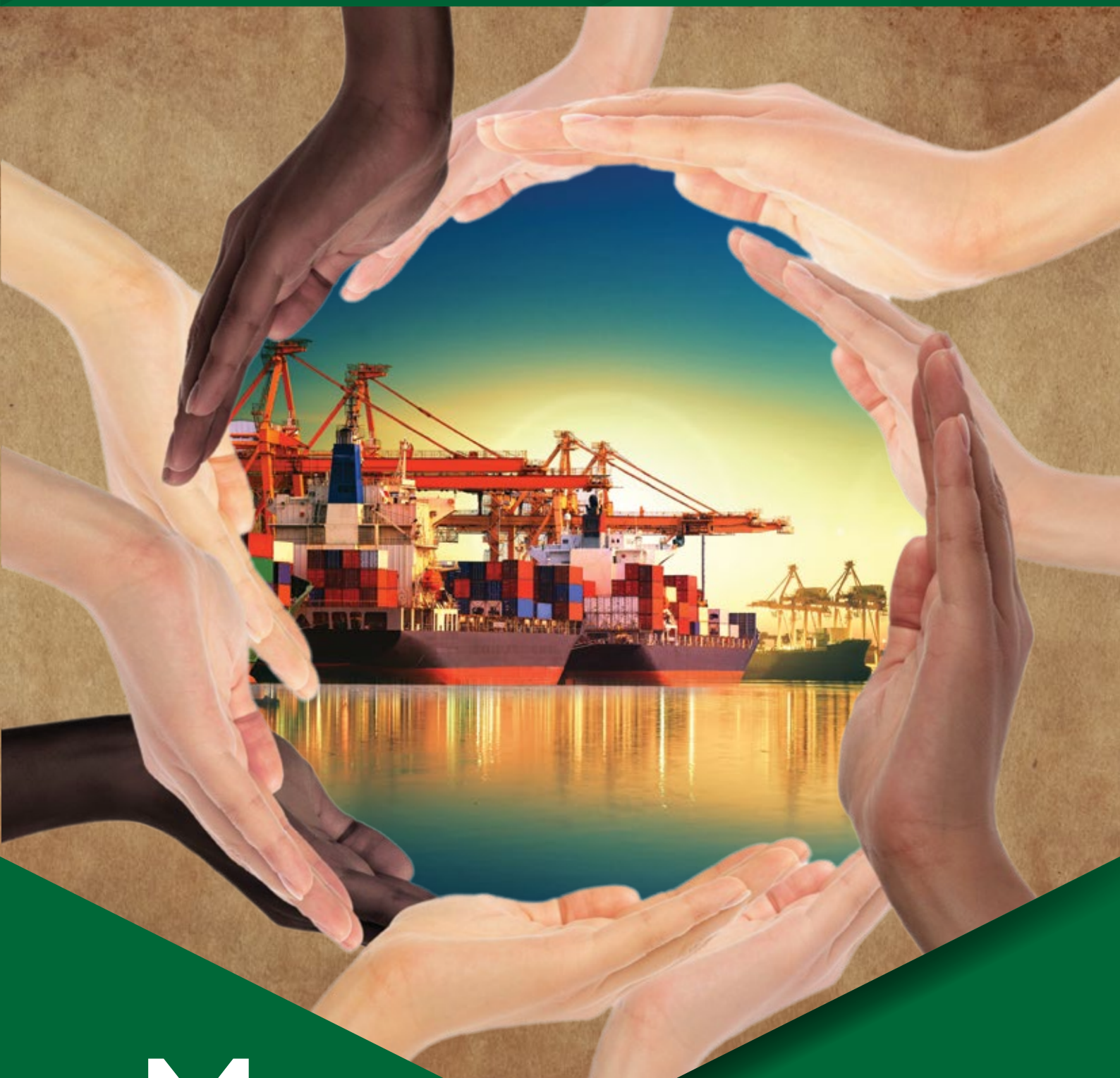
From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public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

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

In our opinion the information given in the report of the directors on page 2 – 3 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Bernice Kimacia – Practising Certificate No. 1457

Certified Public Accountants
Nairobi (27th March 2018)



MAYFAIR
INSURANCE

EXPERIENCED & TRUSTED PROVIDERS OF MARINE CARGO INSURANCEE

you are in safe hands

INCOME STATEMENT

For the year ended 31 December 2017

	Notes	2017 Shs '000	2016 Shs '000
Gross earned premiums	5	2,391,427	2,268,746
Less: reinsurance premiums ceded		(1,068,744)	(1,134,667)
Net earned premiums		1,322,683	1,134,079
Investment income	6	218,960	207,401
Commissions earned		282,628	273,599
Other income	7	1,768	19,885
Total income		1,826,039	1,634,964
Net claims incurred	8	(618,724)	(522,538)
Operating and other expenses	9	(381,145)	(374,506)
Commissions payable		(381,716)	(342,391)
Total expenses		(1,381,585)	(1,239,435)
Share of profit of associate after tax	16	(34,915)	8,350
Profit before income tax		409,539	403,879
Income tax expense	11	(139,023)	(118,755)
Profit for the year		**270,516**	**285,124**

The notes on pages 29 to 69 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 Shs '000	2016 Shs '000
Profit for the year		270,516	285,124
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Fair value (losses) /gains on available for sale equity investments	18	84,712	(81,885)
Exchange gain on available for sale equity investments	18	533	531
Surplus on revaluation of building		17,547	16,846
Deferred income tax on revaluation surplus	31	(11,415)	(842)
		91,377	(65,350)
Total comprehensive income for the year		**361,893**	**219,774**

The notes on pages 29 to 69 are an integral part of these financial statements.

FOR US ITS NOT JUST ABOUT INSURANCE...

...ITS ABOUT BUILDING LASTING RELATIONSHIPS

STATEMENT OF FINANCIAL POSITION

As At 31 December 2017

	Notes	2017 Shs '000	2016 Shs '000
ASSETS			
Property and equipment	13	302,896	300,153
Intangible assets	14	11,149	17,858
Investment properties	15	460,459	434,974
Investment in joint arrangements	17	269,822	269,822
Investment in associate	16	185,053	65,372
Available for sale equity investments	18	805,441	714,140
Receivables arising out of direct insurance arrangements		403,231	415,440
Receivables arising out of reinsurance arrangements		70,032	11,642
Reinsurers' share of technical provisions and reserves	19	759,149	826,386
Deferred acquisition costs	20	155,878	147,217
Other receivables	21	48,326	49,507
Government securities - held to maturity	22	730,458	430,268
Corporate bonds - held to maturity	23	98,895	111,380
Deposits with financial institutions	24	1,062,042	1,039,416
Current income tax	11	-	2,075
Cash and cash equivalents		14,572	69,776
TOTAL ASSETS		**5,377,403**	**4,905,426**
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	26	750,000	600,000
Investment revaluation reserve		327,581	242,336
Property revaluation reserve		101,984	95,852
Retained earnings		905,425	784,909
Proposed dividends		150,000	100,000
Total equity		2,234,990	1,823,097
Liabilities			
Outstanding claims provision	27	1,740,264	1,560,348
Unearned premiums reserve	29	952,551	966,042
Payables arising from insurance arrangements		8,533	20,444
Payables arising out of reinsurance arrangements		237,003	337,403
Deferred reinsurance commissions	30	83,566	83,388
Deferred income tax	31	71,052	43,621
Other payables	32	45,300	71,083
Current income tax	11	4,144	-
Total liabilities		3,142,413	3,082,329
TOTAL EQUITY AND LIABILITIES		**5,377,403**	**4,905,426**

The financial statements on pages 24 to 69 were approved for issue by the Board of Directors on 21 March 2018 and signed on its behalf by:

Vishal Patel *Chairman*

Bharat Shah *Director*

Joshua Chiira *Managing Director*

The notes on pages 29 to 69 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Notes	Share Capital	Investments Revaluation Reserve	Property Revaluation Reserve	Retained Earnings	Proposed Dividends	Total Equity
		Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Balance at 1 January 2016		525,000	323,690	84,746	594,887	125,000	1,653,323
Profit for the year		-	-	-	285,124	-	285,124
Other comprehensive income:		-	(81,354)	16,004	-	-	(65,350)
Transfer of excess depreciation		-	-	(4,665)	4,665	-	-
Deferred tax on excess depreciation		-	-	(233)	233	-	-
Transactions with owner:							
Dividends:							
Issue of bonus shares - 2015		75,000	-	-	-	(75,000)	-
Proposed dividends - 2016		-	-	-	(100,000)	100,000	-
Total transactions with owners recognised directly in equity		75,000	-	-	(100,000)	(25,000)	(50,000)
Balance at 31 December 2016		**600,000**	**242,336**	**95,852**	**784,909**	**100,000**	**1,823,097**
Balance at 1 January 2017		600,000	242,336	95,852	784,909	100,000	1,823,097
Profit for the year		-	-	-	270,516	-	270,516
Other comprehensive income:		-	85,245	6,132	-	-	91,377
Transactions with owner:							
Additional share capital		150,000	-	-	-		150,000
Dividends:							
Dividends Paid - 2016		-	-	-	-	(100,000)	(100,000)
Dividends Paid - 2017		-	-	-	(150,000)	150,000	-
Balance at 31 December 2017		**750,000**	**327,581**	**101,984**	**905,425**	**150,000**	**2,234,990**

The notes on pages 29 to 69 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 Shs '000	2016 Shs '000
Cash flows from operating activities			
Cash generated from operations	33	464,387	582,772
Income tax paid	11(c)	(116,788)	(109,662)
Net cash generated from operating activities		347,599	473,110
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(5,315)	(29,781)
Purchase of intangible assets	14	(6,531)	(20,246)
Net investment in associate	16	(119,681)	(8,350)
Investment in joint arrangements	17	-	(5,600)
Purchase of investment property	15	(4,983)	-
Purchase of available for sale equity investments	18	(6,056)	(57,904)
Net investments in treasury bonds/ bills maturing after 90 days	22	(300,096)	(27,769)
Net investments in corporate bonds	23	12,485	(1,903)
Net cash used in investing activities		(430,177)	(151,553)
Cash flows from financing activities			
Dividends paid to shareholders		(46,191)	(50,000)
Issue of new shares	26	96,191	-
Net cash generated from financing activities		50,000	(50,000)
Net (decrease)/increase in cash and cash equivalents		(32,578)	271,557
Cash and cash equivalents at beginning of year		1,109,192	837,635
Cash and cash equivalents at end of year	33(b)	**1,076,614**	**1,109,192**

The notes on pages 29 to 69 are an integral part of these financial statements.

NOTES

Notes to the Financial Statements

1 GENERAL INFORMATION

Mayfair Insurance Company Limited ("the Company") deals with general insurance business and is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability Company. The Company is domiciled in Kenya and the address of its registered office is:

Mayfair Centre, 8th floor, Ralph Bunche Road
PO Box 45161
Nairobi 00100.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

( ) **New standards, amendments and interpretations adopted by the Company**

The following standards and amendments have been applied by the Company for the first time for the financial year beginning 1 January 2017:

Amendments to IAS 12, 'Income taxes' titled Recognition of Deferred Tax Assets: The amendments provide additional guidance on the estimation of future taxable profits when considering the recoverability of deferred tax assets. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

It also clarifies certain other aspects of accounting for deferred tax assets.

NOTES

Notes to the Financial Statements (continued)

(ii) New and revised standards and interpretations not yet adopted

The Company has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2017.

- IFRS 9 Financial Instruments (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:

- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

- For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

- For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.

- The de-recognition provisions are carried over almost unchanged from IAS 39.

Management has assessed the effects of applying the new standard on the Company's financial statements and has identified the following areas are likely to be affected:

(a) Changes in the classification of financial assets:

- Apply the fair value option to meet the criteria set forth in IFRS 9 in form and in substance.

- Have in place appropriate risk management systems prior to initial application of the fair value option.

(b) The introduction of the expected versus the incurred model of estimating the credit risk and use of forward looking information:

- Policies and procedures in place to appropriately validate models used to assess and measure expected credit losses

- Amendments to IFRS 4 titled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued in September 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial assets.

- IFRS 17 Insurance Contracts (issued in May 2017) - establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.

NOTES

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(ii) New and revised standards and interpretations not yet adopted (continued)

- IFRS 16 Leases (issued in January 2016) - The new standard, effective for annual periods beginning on or after 1 January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014) - The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.

  The Company derives its revenue from insurance premiums, interest income, investment income and dividends. Thus IFRS 15 will not have any effect in the Company's financial statements.

- Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) - The amendment, applicable to annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.

- Amendments to IAS 40 titled Transfers of Investment Property (issued in December 2016) – The amendments, applicable to annual periods beginning on or after 1 January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.

  There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

b) FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The financial statements are presented in Kenya Shillings in thousands rounded to the nearest thousands (Shs) which is the Company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income or expenses'.

NOTES

Notes to the Financial Statements (continued)

c) REVENUE RECOGNITION

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below.

Premium income for general business is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less unearned premiums. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the reporting date, and are calculated using the 365ths basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Commissions receivable are recognised as income in the period in which they are earned.

Interest income for all interest bearing financial instruments is recognised using the effective interest method. Dividends income on available for sale equities is recognised as income in the period in which the right to receive payment is established. Rental income from operating leases is recognised on a straight line basis over the term of the lease.

d) REINSURANCE

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

NOTES

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

e) INSURANCE RECEIVABLES

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in profit or loss.

f) CLAIMS INCURRED

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 provisions 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 provisions 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") at the reporting date based on the Company's experience but subject to the minimum percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

g) COMMISSIONS PAYABLE AND DEFERRED ACQUISITION COSTS

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

h) OUTSTANDING CLAIMS PROVISION

The outstanding claims provision, which is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims and therefore the ultimate cost of this category of claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

i) UNEARNED PREMIUM RESERVE

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract at which time it is recognised as premium income.

j) INVESTMENT PROPERTY

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined periodically by external independent valuers. Fair value is based on open market basis determined using the highest and best use valuation model.

Investment properties are not subject to depreciation. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss for the year.

NOTES

Notes to the Financial Statements (continued)

k) PROPERTY, PLANT AND EQUIPMENT

(i) Cost model

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

Partitioning	12.5%
Motor vehicles	25%
Furniture, fittings and equipment	12.5%
Computer hardware	30%

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts.

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.

(ii) Revaluation model

Buildings are stated at valuation less accumulated depreciation and any accumulated impairment losses. Any surplus arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation reserve. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss. On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

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

Building	Over the period of the lease

The annual depreciation on the revaluation surplus element of property, plant and equipment is transferred from the revaluation surplus to retained earnings net of the resultant deferred tax.

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

l) LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

m) FINANCIAL ASSETS

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The directors determine the classification of its financial assets at initial recognition and depends on the purpose for which the investments were acquired.

NOTES

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

m) FINANCIAL ASSETS (CONT.)

Classification

(i) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified into the 'financial assets at fair value through profit or loss' category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets designated as at fair value through profit or loss at inception are those that are:

- Held in internal funds to match insurance and investment contracts liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and

- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The Company's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

(ii) 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 intends to sell in the short term or that it has designated as at fair value through profit or loss;
(b) those that the Company upon initial recognition designates as available-for-sale; or
(c) 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 trade and other receivables' and cash and cash equivalents' in the statement of financial position.

(iii) Available for sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

(iv) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the positive intention and ability to hold to maturity, other than:

(a) those that the Company upon initial recognition designates as at fair value through profit or loss;

(b) those that the Company designates as available-for-sale; and

(c) those that meet the definition of loans and receivables.

NOTES

Notes to the Financial Statements (continued)

Recognition and measurement

Regular purchases and sales of financial assets 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, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. 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 them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables 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.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as net realised gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss. 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.

De-recognition of financial instruments

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement and either

(a) the Company has transferred substantially all the risks and rewards of the asset, or

(b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

NOTES

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

m) FINANCIAL ASSETS (CONT.)

(iv) Held-to-maturity financial assets (continued)

De-recognition of financial instruments (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expired. When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Determination of fair value

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

n) IMPAIRMENT OF ASSETS

(a) Financial assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or 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 the initial recognition of the asset (a 'loss event') and that loss

NOTES

Notes to the Financial Statements (continued)

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.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss.

(b) Assets classified as available for sale

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

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

(c) Impairment of other non-financial assets

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

o) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities

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Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

p) SHARE CAPITAL

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

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

q) 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.

r) JOINT ARRANGEMENTS

The Company has applied IFRS 11 to all joint arrangements as of 1 January 2017. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. Joint operations are accounted for using the equity method.

Under the equity method of accounting, interests in joint operations are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Company's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint operation.

s) INCOME TAX EXPENSE

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

(a) Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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Notes to the Financial Statements (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

t) EMPLOYEE BENEFITS

(i) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and the employer, with the employer contributing 10% while the employee contribution is voluntary. The Company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to these schemes are determined by local statute and are currently limited to Shs 200 per employee per month.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The ultimate liability arising from claims made under insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the statement of financial position date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty.

All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying techniques applied in the estimation of this liability is that the Company's past claims experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years , as well as by significant business lines. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

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Notes to the Financial Statements (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT.)

The ultimate liability arising from claims made under insurance contracts (continued)

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims' inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of insurance and financial risks. Financial risks include credit risk, liquidity risk and market risk which includes the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates.

The Company's overall risk management programme focuses on the unpredictability of financial markets, identification and management of risks. It 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.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors. The board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity

4.1 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

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Notes to the Financial Statements (continued)

the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

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

Insurance risk in the Company arises from:

(a) Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;

(b) Unexpected claims arising from a single source;

(c) Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;

(d) Inadequate reinsurance protection or other risk transfer techniques; and

(e) Inadequate reserves

(a), (b) and (c) can be classified as the core insurance risk, (d) relates to reinsurance planning, while (e) is about reserving.

Core insurance risk
This risk is managed through:

- Diversification across a large portfolio of insurance contracts;
- Careful selection guided by a conservative underwriting philosophy;
- Continuous monitoring of the business performance per class and per client and corrective action taken as deemed appropriate;
- A minimum of one review of each policy at renewal to determine whether the risk remains within the acceptable criteria;
- Having a business acceptance criteria which is reviewed from time to time based on the experience and other developments; and
- Having a mechanism of identifying, quantifying and accumulating exposures to contain them within the set underwriting limits.

Reinsurance planning
Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the Company. The bases of these purchases is underpinned by the Company's experience, financial modelling by and exposure of the reinsurance broker. Reinsurance is placed with providers who meet the Company's counter-party security requirements.

Claims reserving
The Company's reserving policy is guided by the prudence concept. Estimates are made of the estimated cost of settling a claim based on the best available information upon registration of a claim, and this is updated as and when additional information is obtained and annual reviews done to ensure that the reserves are adequate. Management is regularly provided with claims settlement reports to inform on the reserving performance.

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Notes to the Financial Statements (continued)

Concentration of premium

The table below sets out the concentration of general insurance premium written by type of contract:

31 December 2017	Gross premium written Shs'000	Premium ceded Shs'000	Net premium written Shs'000
Fire	798,673	659,529	139,144
Motor	581,607	11,635	569,972
Workmen's compensation	342,306	6,485	335,821
Engineering	230,194	164,559	65,635
Marine	150,734	39,193	111,541
Theft	124,977	89,133	35,844
Miscellaneous	95,180	51,467	43,713
Liability	55,521	21,481	34,040
Personal accident	41,554	14,592	26,962
Aviation	10,674	10,670	4
Total	2,431,420	1,068,744	1,362,676

31 December 2016	Gross premium written Shs'000	Premium ceded Shs'000	Net premium written Shs'000
Fire	728,895	610,839	118,056
Motor	513,861	34,852	479,009
Workmen's compensation	359,550	17,206	342,344
Engineering	198,210	153,880	44,330
Marine	151,875	77,589	74,286
Theft	116,139	71,801	44,338
Miscellaneous	148,829	118,214	30,615
Liability	33,245	8,958	24,287
Personal accident	35,410	25,448	9,962
Aviation	16,037	15,880	157
Total	2,302,051	1,134,667	1,167,384

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Notes to the Financial Statements (continued)

4.2 FINANCIAL RISK

(i) Financial risk management

The Company is exposed to financial risk through its financial assets, 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 components of this financial risk are interest rate risk, equity price risk, currency risk and credit risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk. Appraisal of investment portfolio is done on a regular basis and the investment spread reviewed depending on the existing interest rates.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and comprises of three types of risk: interest rate risks, equity price risk and foreign exchange currency risk. The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant:

i Interest rate risk

The Company is exposed to the risk that the level of interest income and in effect the cash flows will fluctuate due to changes in market interest rates. To manage this risk, the Company ensures that the investment maturity profiles are well spread.

The sensitivity analysis presented below shows how profit and equity would change if the interest rates had increased/(decreased) on the reporting date with all other variables held constant.

	2017 (Shs'000)		2016 (Shs'000)	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
+ 5 percentage point movement	5,045	5,045	4,384	4,384
- 5 percentage point movement	5,045	5,045	(4,384)	(4,384)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and comprises of three types of risk: interest rate risks, equity price risk and foreign exchange currency risk. The sensitivity analysis above is based on a change in one assumption while holding all other assumptions constant:

ii Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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Notes to the Financial Statements (continued)

The Company is exposed to equity securities price risk as a result of its holdings in equity investments which are listed and traded on the Nairobi Securities Exchange. Exposure to equity price risks in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The Company has a defined investment policy which sets limits on the company's exposure to equity securities both in aggregate terms and by category/share. This policy of diversification is used to manage the Company's price risk arising from its investments in equity securities.

The sensitivity analysis presented below shows how other comprehensive income would change if the market prices increased/(decreased) by 5% on the reporting date with all other variables held constant.

	2017 Shs'000	2016 Shs'000
Effect on other comprehensive income		
+5% movement	35,022	30,457
-5% movement	(35,022)	(30,457)

iii Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations.

The following sensitivity analysis shows how profit and other comprehensive income would change if the exchange rates increased/(decreased) by 5% on the reporting date with all other variables held constant, mainly as a result of translation of US Dollar denominated available for sale equity investments and foreign currency denominated bank balances.

	2017 Shs'000	2016 Shs'000
Effect on other comprehensive income		
+5 percentage point movement	20,232	15,782
-5 percentage point movement	(20,232)	(15,782)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the Company by failing to discharge a contractual obligation. The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties i.e. limits are set for investments and cash deposits, and minimum credit ratings for investments that may be held.
- Reinsurance is placed with counterparties that have a good credit rating.
- Ongoing monitoring by the management credit committee.

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Directors include details of provisions for impairment on receivables and subsequent write offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

NOTES

Notes to the Financial Statements (continued)

4.2 FINANCIAL RISKS (CONTINUED)

(b) Credit risk (continued)

The table below shows the carrying amounts of financial assets bearing credit risk

	Fully performing Shs'000	Past due Shs'000	Impaired Shs'000	Total Shs'000
31 December 2017				
Receivable arising out of direct insurance arrangements	403,231	-	-	403,231
Receivable arising out of reinsurance arrangements	70,032	-	-	70,032
Held to maturity:				
-Government securities	730,458	-	-	730,458
-Corporate bonds	98,895	-	-	98,895
-Deposits with financial institutions	1,062,042	-	-	1,062,042
Other receivables:				
- Deposits with institutions under statutory management	-	10,000	-	10,000
Cash and bank balances	14,572	-	-	14,572
	2,379,230	10,000	-	2,389,230
31 December 2016				
Receivable arising out of direct insurance arrangements	415,440	-	-	415,440
Receivable arising out of reinsurance arrangements	11,642	-	-	11,642
Held to maturity:				
-Government securities	430,268	-	-	430,268
-Corporate bonds	111,380	-	-	111,380
-Deposits with financial institutions	1,039,416	-	-	1,039,416
Other receivables:				
- Deposits with institutions under statutory management	-	-	10,000	10,000
Cash and bank balances	69,776	-	-	69,776
	2,077,922	-	10,000	2,355,729

The debt that is past due relates to amounts held in a local financial institution that is under statutory management. The recoverability of this balance is dependent on resolution of a dispute between the institution and the Central Bank of Kenya but the Government securities are generally considered risk free because the risk of loss is remote.

NOTES

Notes to the Financial Statements (continued)

(c) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Between 1 – 3 months Shs'000	Over 3 months Shs'000	Over 12 months Shs'000	Total Shs'000
31 December 2017				
Payables arising from				
- reinsurance arrangements	237,003	-	-	237,003
- insurance arrangements	8,533	-	-	8,533
Outstanding claims provisions	1,740,264	-	-	1,740,264
	1,985,800	-	-	1,985,800
At 31 December 2016				
Payables arising from				
- reinsurance arrangements	337,403	-	-	337,403
- insurance arrangements	20,444	-	-	20,444
Outstanding claims provisions	1,560,348	-	-	1,560,348
	1,918,195	-	-	1,918,195

(i) Capital Management

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth

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Notes to the Financial Statements (continued)

4.2 FINANCIAL RISKS (CONTINUED)

(i) Capital Management (continued)

- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

- to comply with the capital requirements as set out in the Insurance Act.

- to comply with the regulatory solvency requirements as set out in the Insurance Act.

An important aspect of the Company's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Company is focused on the creation of value for shareholders.

The Company has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

Externally imposed capital requirements

The Insurance Act requires a general insurance Company to hold the minimum level paid up capital as the higher of:

- Shs 600 million; or

- risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or

- 20% of net written premiums of the preceding financial year

During the year the Company met requirements for the minimum paid up capital for an insurance business as prescribed by section 41 (1) of the Insurance Act. There are plans to take necessary action to ensure the Company meets the statutory requirements.

The Capital Adequacy Ratio of the Company as at 31 December 2017 and 2016 is illustrated below.

	2017 Ratio (%)	2016 Ratio (%)
Capital Adequacy Ratio	216%	170%

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Notes to the Financial Statements (continued)

(iv) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2017				
Available for sale				
- Equity instruments	197,161	-	608,280	805,441
31 December 2016				
Available for sale				
- Equity instruments	164,948	-	549,192	714,140

THE NEEDS OF OUR CLIENTS COME FIRST

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Notes to the Financial Statements (continued)

Financial assets

The following table presents the classification of the Company's financial assets and liabilities at 31 December 2017 and 31 December 2016

Financial assets	Loans and receivable Shs'000	Held to maturity Shs'000	Available for sale Shs'000	Total Shs'000
At 31 December 2017				
Available-for-sale equity investments	-	-	805,441	805,441
Government securities	-	730,458	-	730,458
Receivables arising out of reinsurance arrangements	70,032	-	-	70,032
Corporate bonds	-	98,895	-	98,895
Receivables arising out of direct insurance arrangements	403,231	-	-	403,231
Deposits with financial institutions	-	1,062,042	-	1,062,042
Other receivables	34,261	-	-	34,261
Secured loans to employee	14,065	-	-	14,065
Cash and cash equivalents	-	14,572	-	14,572
Total	521,589	1,905,967	805,441	3,232,997
At 31 December 2016				
Available-for-sale equity investments	-	-	714,140	714,140
Government securities	-	430,268	-	430,268
Receivables arising out of reinsurance arrangements	36,531	-	-	36,531
Corporate bonds	-	98,895	-	98,895
Receivables arising out of direct insurance arrangements	415,440	-	-	415,440
Deposits with financial institutions	-	1,039,416	-	1,039,416
Other receivables	37,968	-	-	37,968
Secured loans to employee	11,539	-	-	11,539
Cash and cash equivalents	-	69,776	-	69,776
Total	501,478	1,638,355	714,140	2,853,973

Financial liabilities by category Financial liabilities	2017 Financial liabilities at amortised cost Shs'000	2016 Financial liabilities at amortised cost Shs'000
Creditors arising from reinsurance arrangements	237,003	337,403
Other payables	45,300	71,083
Total	282,303	408,486

NOTES

Notes to the Financial Statements (continued)

	2017 Shs'000	2016 Shs'000
5 GROSS EARNED PREMIUMS		
Motor	558,954	520,330
Fire	790,731	713,458
Workmen's compensation	345,049	361,225
Marine	166,440	149,262
Personal accident	36,135	34,761
Engineering	219,571	190,762
Aviation	10,709	15,984
Miscellaneous	83,989	141,856
Theft	127,225	112,285
Others	52,624	28,823
Total	2,391,427	2,268,746
6 INVESTMENT INCOME		
Fair value gain on investment properties (Note15)	20,502	19,373
Interest on bank deposits	90,481	88,641
Interest on Government securities	49,817	47,462
Rental income from investment properties (Note 15)	24,176	25,348
Dividends receivable on equity instruments	20,513	12,887
Interest on corporate bonds	13,471	13,690
Total	218,960	207,401
Investment income earned analysed by category, is as follows:		
Loans and receivables (including cash and bank balances)	90,481	88,641
Held-to-maturity investments	63,288	61,152
Available for sale financial assets	20,513	12,887
Investment property	44,678	44,721
Total investment income	218,960	207,401
7 OTHER INCOME		
Miscellaneous income	1,768	19,599
Foreign exchange gains	-	286
	1,768	19,885

NOTES

Notes to the Financial Statements (continued)

	2017 Shs'000	2016 Shs'000
8 CLAIMS INCURRED		
Claims paid by principal class of business:		
Motor	305,661	251,623
Workmen's compensation	159,473	194,320
Marine	42,331	14,898
Theft	9,043	15,599
Fire	55,972	15,445
Engineering	35,843	26,998
Personal accident	(1,389)	4,754
Other	11,790	(1,099)
	618,724	522,538
9 OPERATING AND OTHER EXPENSES		
Staff costs (Note 10)	192,103	171,463
Depreciation of property, plant and equipment	20,025	20,877
Amortisation of computer software (Note 14)	13,240	11,723
Subscriptions	2,334	1,499
Repairs and maintenance expenditure	9,745	4,588
Rent, rates and parking	6,557	6,234
Printing and stationery	7,279	7,804
Telephone and postage	4,273	4,415
Travelling and entertainment	14,350	16,083
Advertising costs	12,473	10,586
Licenses and insurance	6,026	5,143
Auditors' remuneration	5,753	3,635
Directors' emoluments	3,438	2,688
Premium tax	28,470	26,610
Other expenses	55,079	81,158
	381,145	374,506

NOTES

Notes to the Financial Statements (continued)

	2017 Shs'000	2016 Shs'000
10 STAFF COSTS		
Salaries and benefits	176,262	158,760
Defined contribution retirement schemes		
- Pension fund	15,635	12,553
- National Social Security fund	206	150
	192,103	171,463
The average number of employees during the year was as follows		
Underwriting and claims	42	42
Management and administration	47	42
Total	89	84
11 INCOME TAX EXPENSE		
a) Taxation charge		
Current tax expense in respect of the year	123,007	108,305
Deferred income tax – charge recognised (Note 31)	5,150	(7,699)
Over provision of deferred tax in prior years (Note 31)	10,866	18,149
At 31 December	139,023	118,755
b) Reconciliation of taxation charge to expected tax based on accounting profit		
The Company's income tax expense is computed in accordance with income tax rules applicable to general insurance companies		
Profit before income tax	409,539	403,879
Tax calculated at a tax rate of 30%	122,862	121,164
Tax effect of:		
- Income not subject to tax	(12,887)	(28,143)
- Expenses not deductible for tax purposes	18,182	7,585
- Over provision of deferred tax in prior years	10,866	18,149
At 31 December	139,023	118,755

NOTES

Notes to the Financial Statements (continued)

		2017 Shs'000	2016 Shs'000
c)	**Corporate tax payable/(recoverable)**		
	At 1 January	(2,075)	(718)
	Taxation charge – Note (11a)	123,007	108,305
	Tax paid	(116,788)	(109,662)
	At 31 December	4,144	(2,075)

12 EARNINGS PER SHARE - BASIC AND DILUTED

	2017	2016
Profit for the year (Shs '000)	270,516	285,124
Weighted average number of shares in issue during the year	7,500,000	6,000,000
Earnings per share (basic and diluted) (Shs)	36.07	47.52

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NOTES

Notes to the Financial Statements (continued)

13 PROPERTY AND EQUIPMENT

Cost or valuation	Building Shs'000	Partitioning Shs'000	Motor vehicles Shs'000	Computer equipment Shs'000	Furniture fittings and equipment Shs'000	Total Shs'000
At 1 January 2016	205,660	49,036	13,862	15,897	51,874	336,329
Additions	-	14,872	3,000	1,131	10,778	29,781
Surplus on revaluation	10,302	-	-	-	-	10,302
Disposals	-	-	(5,650)	-	-	(5,650)
At 31 December 2016	215,962	63,908	11,212	17,028	62,652	370,762
At 1 January 2017	215,962	63,908	11,212	17,028	62,652	370,762
Additions	-	-	1,550	2,510	1,255	5,315
Surplus on revaluation	10,798	-	-	-	-	10,798
Disposals	-	-	(742)	-	-	(742)
At 31 December 2017	226,760	63,908	12,020	19,538	63,907	386,133
Comprising						
At cost	82,708	63,908	12,020	19,538	63,907	242,081
At valuation 2017	144,052	-	-	-	-	144,052
At 31 December 2017	226,760	63,908	12,020	19,538	63,907	392,882
Depreciation						
At 1 January 2016	-	19,447	6,287	10,953	22,490	59,177
Charge for the year	6,544	5,534	1,957	1,822	5,020	20,877
Eliminated on disposal	-	-	(2,901)	-	-	(2,901)
Reversal on revaluation	(6,544)	-	-	-	-	(6,544)
At 31 December 2016	-	24,981	5,343	12,775	27,510	70,609
At 1 January 2017	-	24,981	5,343	12,775	27,510	70,609
Charge for the year	6,749	4,866	1,832	2,029	4,549	20,025
Eliminated on disposal	-	-	(648)	-	-	(648)
Reversal on revaluation	(6,749)	-	-	-	-	(6,749)
At 31 December 2017	-	29,847	6,527	14,804	32,059	83,237

NOTES

Notes to the Financial Statements (continued)

13 PROPERTY AND EQUIPMENT (CONTINUED)

	Building Shs'000	Partitioning Shs'000	Motor vehicles Shs'000	Computer equipment Shs'000	Furniture fittings and equipment Shs'000	Total Shs'000
Net book value						
At 31 December 2017	226,760	34,061	5,493	4,734	31,848	302,896
At 31 December 2016	215,962	38,927	5,869	4,353	35,042	300,153
Net book value (Cost basis)						
At 31 December 2017	57,153	38,927	5,869	4,353	35,042	141,344
At 31 December 2016	62,014	38,927	5,869	4,353	35,042	146,205

The building was valued by Gimco Limited, registered valuers, on an open market value basis using the highest and best use valuation principle.

The different levels have been defined as follows:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- 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 2).

Details of the fair value hierarchy of the Company's property held at fair value as at 31 December 2017 are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2017				
- Property, plant and equipment	-	-	226,760	226,760
31 December 2016				
- Property, plant and equipment	-	-	215,962	215,962

NOTES

Notes to the Financial Statements (continued)

	2017 Shs'000	2016 Shs'000
14 INTANGIBLE ASSETS - COMPUTER SOFTWARE		
Cost		
At 1 January	47,909	27,663
Additions	6,531	20,246
At 31 December	54,440	47,909
Amortisation		
At 1 January	30,051	18,328
Charge for the year	13,240	11,723
At 31 December	43,291	30,051
Net book value	11,149	17,858

15 INVESTMENT PROPERTIES		
Revaluation		
At 1 January	434,974	404,913
Additions	4,983	10,688
Fair value gain (Note 6)	20,502	19,373
At 31 December	460,459	434,974

Investment properties comprise a building and leasehold land. The building constructed on the land is held for the purposes of earning rental income and capital appreciation. The investment properties are held at fair value. The properties were valued by Gimco Limited, registered valuers, on an open market value basis using the highest and best use valuation principle.

Rental income arising from investment properties during the year amounted to Ksh 24,176,060 (2016: Ksh 25,348,041) as disclosed in note 6. Expenses relating to investment property amounted to Ksh 1,171,729 (2016: Ksh 1,569,400).

Details of the fair value hierarchy of the Company's Investment property held at fair value as at 31 December 2017 are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2017	-	-	460,459	460,459
31 December 2016	-	-	434,974	434,974

NOTES

Notes to the Financial Statements (continued)

16 INVESTMENT IN ASSOCIATES

The Company has a 40% equity interest in Mayfair Insurance Company Zambia Limited, Mayfair Insurance Company Tanzania Limited and Mayfair Insurance Company Rwanda Limited. The share of net assets of the associate as at 31 December is as shown below

	2017 Shs'000	2016 Shs'000
At 1 January	65,372	57,022
Share of net profit		
- Mayfair Zambia	4,200	8,350
- Mayfair Rwanda	(32,148)	-
- Mayfair Tanzania	(6,967)	-
Additions	154,596	-
At 31 December	185,053	65,372

Further information on the associate company is shown below:

Company	% owned	Country of Incorporation
Mayfair Insurance Company Zambia Limited	40	Zambia
Mayfair Insurance Company Tanzania Limited	40	Tanzania
Mayfair Insurance Company Rwanda Limited	40	Rwanda

A summary of financial information as of 31st December 2017 in respect of the associate companies is set out below:

	Zambia Shs'000	Rwanda Shs'000	Tanzania Shs'000
Total assets	1,110,026	155,908	668,062
Total liabilities	(925,389)	(61,795)	(484,180)
Net assets	184,637	94,113	183,882
Company's share of net assets	73,855	37,645	73,553
Net earned premiums	318,992	13,079	279,287
Profit before income tax	49,738	(36,389)	48,495
Income tax expense	(18,933)	-	-
Profit for the year	30,805	(36,389)	48,495

NOTES

Notes to the Financial Statements (continued)

17 INVESTMENT IN JOINT ARRANGEMENTS

The Company holds interests in joint operations for the acquisition and the development of real estate projects in the above companies. Currently, the Company has deposited funds with the Companies that are serving as vehicles for execution of joint arrangement projects. The joint operations have not yet commenced full operation.

	2017 Shs'000	2016 Shs'000
At 1 January	269,822	264,222
Additions	-	5,600
At 31 December	269,822	269,822

Name of joint arrangement	Principal activity	Place of incorporation	Proportion of ownership interest held by the Company	2017 Shs'000	2016 Shs'000
Mayfair Estates Limited	Real Estate	Kenya	50%	69,850	69,850
Kitisuru Development Limited	Real Estate	Kenya	20%	88,503	88,503
Sealine Holdings Limited	Real Estate	Kenya	30%	68,829	68,829
Rushmore Investments Limited	Real Estate	Kenya	20%	42,640	42,640
				269,822	269,822

SIMPLE CLAIMS SETTLEMENT

NOTES

Notes to the Financial Statements (continued)

18 AVAILABLE FOR SALE EQUITY INSTRUMENTS

	Quoted shares Shs'000	Unquoted equity investments Shs'000	Total Shs'000
2017			
At 1 January	164,948	549,192	714,140
Additions	-	6,056	6,056
Exchange gains	-	533	533
Fair value losses through other comprehensive income	32,213	52,499	84,712
At 31 December	197,161	608,280	805,441
2016			
At 1 January	226,352	511,238	737,590
Additions	6,550	51,354	57,904
Exchange gains	-	531	531
Fair value losses through other comprehensive income	(67,954)	(13,931)	(81,885)
At 31 December	164,948	549,192	714,140

The unquoted investments relate to ordinary shares in PTA Reinsurance Company Limited, Family Bank Company Limited, UAP Insurance and Mayfair Bank. The investments are carried at fair value and are denominated in the US Dollar in the case of the investment in PTA Reinsurance and in Kenya shillings in all other cases. The investments denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of reporting period. The exchange gains and losses are dealt with through other comprehensive income.

Details of the fair value hierarchy of the Company's Available for sale financial instruments as at 31 December 2017 are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2017				
Available for sale				
- Equity instruments	197,161	-	608,280	805,441
31 December 2016				
Available for sale				
- Equity instruments	164,948	-	549,192	714,140

NOTES

Notes to the Financial Statements (continued)

		2017 Shs'000	2016 Shs'000
19	**REINSURERS' SHARE OF TECHNICAL PROVISIONS AND RESERVES**		
	Reinsurers' share of		
	- Unearned premiums	456,555	510,039
	- Notifies claims (Note 28)	246,389	254,603
	- Claims incurred but not reported (Note 28)	56,205	61,744
		759,149	826,386
20	**DEFERRED ACQUISITION COSTS**		
	At 1 January	147,217	129,811
	Increase in the year	8,661	17,406
		155,878	147,217
21	**OTHER RECEIVABLES**		
	Deposit held at financial institution under statutory management	10,000	10,000
	Prepayments and deposits	1,656	1,732
	Sundry receivables	36,670	37,775
		48,326	49,507
22	**GOVERNMENT SECURITIES - Held to maturity**		
	Treasury bills and bonds maturing		
	- In 1 to 5 years	381,920	40,261
	- More than 5 years	348,538	390,007
		730,458	430,268
23	**CORPORATE BONDS - Held to maturity**		
	Kengen – Public Infrastructure Bond	5,487	7,972
	Guarantee Trust Bank Limited	-	10,000
	British American Insurance Bond	43,380	43,380
	UAP Holdings Bond	16,467	16,467
	NIC Bank Bond	33,561	33,561
		98,895	111,380

NOTES

Notes to the Financial Statements (continued)

	2017 Shs'000	2016 Shs'000
23 CORPORATE BONDS - Held to maturity (continued)		
Movement in corporate bonds:		
At 1 January	111,380	114,068
Disposals	(12,485)	(2,688)
At 31 December	98,895	111,380
24 DEPOSITS WITH FINANCIAL INSTITUTIONS - Held to maturity		
Deposits maturing within 3 months:	1,062,042	1,039,416
25 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES		
The following table summarises the weighted average effective interest rates realised during the year on interest-bearing investments:	2017 %	2016 %
Government securities	12.2	12.2
Deposits with financial institutions	9.5	11.8
Corporate bonds	12.0	12.0
26 SHARE CAPITAL		
	2017 Shs'000	2016 Shs'000
Authorised:		
7,500,000 ordinary shares of Sh 100 each	750,000	750,000
Issued and fully paid:		
5,250,000 (2016: 3,500,000) ordinary shares of Sh 100 each	750,000	600,000
Movement		
At 1 January	600,000	525,000
Capitalization of dividends	53,809	75,000
Share capital injection	96,191	-
At 31 December	750,000	600,000

NOTES

Notes to the Financial Statements (continued)

27 OUTSTANDING CLAIMS PROVISION

	2017 Shs'000	2016 Shs'000
Outstanding claims	1,495,474	1,337,239
Claims incurred but not reported	244,790	223,109
At 31 December	1,740,264	1,560,348

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The table below illustrates how the Company' estimate of total claims outstanding for each accident year has changed at successive year ends.

Accident year	2013 Shs'000	2014 Shs'000	2015 Shs'000	2016 Shs'000	2017 Shs'000	Total Shs'000
Claims outstanding						
At end of accident year	1,935,716	651,593	727,803	769,828	669,585	4,754,654
One year later	927,564	575,794	845,832	825,405	-	3,174,595
Two years later	899,825	625,718	903,624	-	-	2,429,197
Three years later	915,545	650,596	-	-	-	1,566,171
Four years later	924,303	-	-	-	-	924,303
Current estimate of cumulative claims	924,303	650,596	903,624	852,405	669,585	4,000,513
Less: Cumulative payments to date	(727,634)	(433,351)	(547,804)	(648,544)	(293,154)	(2,650,487)
Liability in the statement of financial position	196,669	217,245	355,820	203,861	376,430	1,350,026
Liability in respect of prior years	-	-	-	-	-	145,448
Incurred but not reported	-	-	-	-	-	244,790
Total gross claims liability included in the statement of financial position						1,740,264

NOTES

Notes to the Financial Statements (continued)

28 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

The table below shows the movement in the Company's outstanding claims provision and related reinsurance share of outstanding claims.

	Gross outstanding claims Shs'000	Reinsurance share Shs'000	Net Shs'000
At 1 January 2017			
Notified claims	1,337,238	254,603	1,082,635
Incurred but not reported	223,109	61,744	161,365
Total at beginning of year	1,560,347	316,347	1,244,000
Claims paid in year	695,911	270,854	425,057
Increase in liabilities:-			
- Arising from current year claims	699,761	228,092	471,669
- Arising from prior year claims	176,066	29,008	147,058
At end of year	1,740,264	302,594	1,437,670
Notified claims	1,495,474	246,389	1,249,085
Incurred but not reported	244,790	56,205	188,585
Total at end of year	1,740,264	302,594	1,437,670
At 1 January 2016			
Notified claims	1,165,389	202,622	962,767
Incurred but not reported	207,891	60,718	147,173
Total at beginning of year	1,373,280	263,340	1,109,940
Claims paid in year	798,418	409,939	388,479
Decrease in liabilities:-			
- Arising from current year claims	793,949	406,119	387,830
- Arising from prior year claims	191,535	56,827	134,708
At end of year	1,560,347	316,347	1,244,000
Notified claim	1,337,238	254,603	1,082,635
Incurred but not reported	223,109	61,744	161,365
Total at end of year	1,560,347	316,347	1,244,000

NOTES

Notes to the Financial Statements (continued)

29 UNEARNED PREMIUMS RESERVE

	2017 Shs'000	2016 Shs'000
At 1 January	966,042	841,313
(Decrease)/increase in the year	(13,491)	124,729
At 31 December	952,551	966,042

30 DEFERRED REINSURANCE COMMISSIONS

	2017 Shs'000	2016 Shs'000
At 1 January	83,388	69,238
Increase in the year	178	14,150
At 31 December	83,566	83,388

31 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2016: 30%). Deferred tax assets and liabilities, and the deferred tax charge / (credit) in the statement of profit or loss (P/L) and in other comprehensive income (OCI) are attributable to the following items:

	2017 Shs'000	2016 Shs'000
At 1 January	43,621	32,329
Charge to statement of profit or loss	16,016	10,450
Charge to statement of comprehensive income	11,415	842
At 31 December	71,052	43,621

NOTES

Notes to the Financial Statements (continued)

31 DEFERRED INCOME TAX (CONT.)

Year ended 31 December 2017	At 1 Jan 2017 Shs'000	(Credited/ charged to P/L Shs'000	(Credited)/ charged to OCI Shs'000	At 31 Dec 2017 Shs'000
Deferred income tax asset				
Leave pay provision	(2,261)	(651)	-	(2,912)
Unrealised exchange losses	-	(223)	-	(223)
Deferred income tax asset	(2,261)	(874)	-	(3,135)
Deferred income tax liability				
Accelerated capital allowances	10,865	16,254	-	27,119
Unrealised exchange gains	928	(928)	-	-
Revaluation surplus	34,089	1,564	11,415	47,068
Deferred income tax liability	45,882	16,890	11,415	74,187
Net deferred tax liability	**43,621**	**16,016**	**11,415**	**71,052**
Year ended 31 December 2016				
Deferred income tax asset				
Leave pay provision	(1,970)	(291)	-	(2,261)
Deferred income tax asset	(1,970)	(291)	-	(2,261)
Deferred income tax liability				
Accelerated capital allowances	8,708	2,157	-	10,865
Unrealised exchange gains	431	497	-	928
Revaluation surplus	14,460	18,787	842	34,089
Interest receivable	10,700	(10,700)	-	-
Deferred income tax liability	34,299	10,741	842	45,882
Net deferred tax liability	**32,329**	**10,450**	**842**	**43,621**

The charge to other comprehensive income relates to:

	2017 Shs'000	2016 Shs'000
Items that will not be reclassified subsequently to profit or loss:		
Surplus on revaluation of property and equipment	11,415	842

NOTES

Notes to the Financial Statements (continued)

	2017 Shs'000	2016 Shs'000
32 OTHER PAYABLES		
Accrued expenses	19,444	8,669
Other liabilities	25,856	62,414
	45,300	71,083
33 NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Cash generated from operations		
Reconciliation of profit before income tax to cash generated from operations;		
Profit before income tax	409,539	403,879
Adjustments for:		
Depreciation (note 13)	20,025	20,877
Amortisation of intangible asset (note 14)	13,240	11,723
Fair value gain on investment properties (note 15)	(20,502)	(19,373)
Changes in:		
- receivables arising out of reinsurance arrangements	(58,390)	(5,528)
- receivables arising out of direct insurance arrangements	12,209	(118,265)
- reinsurers share of technical provisions and reserves	67,237	(144,430)
- deferred acquisition cost	(8,661)	(17,406)
- other receivables	1,181	58,278
- outstanding claims provisions	179,916	187,068
- unearned premiums reserve	(13,491)	124,729
- payables arising out of reinsurance arrangements	(100,400)	25,467
- payables arising out of direct insurance arrangements	(11,911)	7,623
- deferred reinsurance commission	178	14,150
- other payables	(25,783)	33,980
Cash generated from operations	464,387	582,772

NOTES

Notes to the Financial Statements (continued)

		2017 Shs'000	2016 Shs'000
(b)	**Analysis of cash and cash equivalents**		
	Cash and bank balances	14,572	69,776
	Deposits with financial institutions maturing in 3 months (Note 24)	1,062,042	1,039,416
	At 31 December	1,076,614	1,109,192

34 RELATED PARTIES

The following transactions were carried out with related parties:

	2017 Shs'000	2016 Shs'000
Directors' fees	3,438	2,688
Directors and key management remuneration	116,258	77,444
Gross earned premiums Related party	1,521	1,381

35 DIVIDENDS

The Directors recommend a first and final cash dividend of Shs 10 per share amounting to Shs 75,000,000 and a bonus share for the year amounting to Shs. 75,000,000 in respect of the year ended 31 December 2017 (2016 dividends Shs. 100,000,000) The movement in the dividend account is as follows:

	2017 Shs'000	2016 Shs'000
Payable at 1 January	100,000	125,000
Final dividend declared	150,000	100,000
Dividends paid	(100,000)	(125,000)
At 31 December	150,000	100,000

NOTES

Notes to the Financial Statements (continued)

36 OPERATING LEASE COMMITMENTS

	2017 Shs'000	2016 Shs'000
Outstanding commitments under operating leases are as follows:		
Company as a lessor:		
Not later than one year	24,409	27,883
Amounts charged to the profit or loss in the Year in respect of operating leases	24,176	24,176

37 CONTINGENT LIABILITIES

The company received an assessment of Shs 87 million (including interest and penalties) payable to Kenya Revenue Authority. The assessment was with regards to excise duty on excisable revenue streams that the authority assessed the Company should have declared. A provision of Shs 9 million has been carried in the books based on the directors' assessment of what is payable. The matter is still under discussion and the directors are not yet in a position to quantify the amount, if any, that will eventually be paid.

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COMPANY REVENUE ACCOUNTS

For the year ended 31 December 2017

Class of insurance business	Aviation	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Commercial	Personal Accident	Theft	Workmens' Compensation	Miscellaneous	2017 Total	2016 Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross premium written	10,674	230,194	62,432	736,241	55,521	150,734	309,758	271,849	41,554	124,977	342,306	95,180	2,431,420	2,302,051
Unearned premium at the beginning of the year	36	21,771	8,126	43,112	10,739	31,104	100,124	83,765	3,005	13,125	121,942	19,154	456,003	422,698
Unearned premium at the end of the year	1	32,395	9,794	49,388	13,635	15,398	114,656	91,885	8,424	10,878	119,199	30,343	495,996	456,003
Premium ceded to re-insurers	10,670	164,559	35,711	623,818	21,481	39,193	6,227	5,408	14,592	89,133	6,485	51,467	1,068,744	1,134,667
Net earned premium	39	55,011	25,053	106,147	31,144	127,247	288,999	258,321	21,543	38,091	338,564	32,524	1,322,683	1,134,079
Claims paid	-	32,466	10,788	25,907	1,302	28,952	135,515	78,958	1,229	11,393	98,015	532	425,057	388,478
Claims outstanding brought forward	1	27,293	5,073	4,399	12,074	55,346	115,959	365,640	3,839	13,994	627,458	12,925	1,244,001	1,109,940
Claims outstanding carried forward	-	30,671	7,854	20,895	19,286	68,725	156,539	416,249	1,221	11,645	688,915	15,669	1,437,669	1,244,000
Claims incurred	(1)	35,844	13,569	42,403	8,514	42,331	176,095	129,567	-1,389	9,044	159,472	3,276	618,725	522,538
Commissions (net)	(1,360)	(7,197)	130	(24,725)	4,828	20,547	27,907	24,455	2,339	(287)	64,136	(11,684)	99,089	68,792
Expenses of management	280	11,586	7,400	37,112	4,740	21,439	78,874	76,210	3,202	13,272	50,408	11,121	315,644	294,685
Premium tax	125	2,695	731	8,621	650	1,765	3,627	3,183	487	1,463	4,008	1,114	28,469	24,171
Total expenses	(955)	7,084	8,261	21,008	10,218	43,751	110,408	103,848	6,028	14,448	118,552	551	443,202	360,299
Underwriting profit	995	12,083	3,223	42,736	12,412	41,165	2,496	24,906	16,904	14,599	60,540	28,697	260,756	238,417

Vishal Patel
Chairman

Bharat Shah
Director

Joshua Chiira
Managing Director

NOTES

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