Fidelity INSURANCE

Annual Report and Financial Statements

31st December 2017

Annual Report and Financial Statements

For the year ended
31st December 2017

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Corporate Information

Corporate Information

DIRECTORS

R. Kemoli	-	Chairman
M. Koech	-	Managing Director
A. A. Kurji		
S. Shollei		
S. Merali		
R. Likami		
Tandala Investment Ltd.	-	J. Koskey (Alternate Director)
G. Kemei	-	Resigned (25 October 2017)
A. Kurji	-	Resigned (17 March 2017)

AUDIT, RISK AND COMPLIANCE COMMITTEE

S. Merali	-	Chairman
A. Kurji		
R. Likami		

FINANCE AND INVESTMENT COMMITTEE

S. Shollei	-	Chairman
R. Likami		
J. Koskey		

COMPENSATION & REMUNERATION COMMITTEE

S. Shollei	-	Chairman
J. Koskey		
S. Merali		
A. Kurji		

MANAGEMENT

M. Koech	-	Managing Director
R. Marisin	-	Head of Finance & Administration
N. Malesi	-	Business Development Manager
A. Andayi	-	Branch Manager - Eldoret, North Rift
A. Kiragu	-	Manager - Branches
M. Njoroge	-	Manager - Human Resources
J. Mboya	-	Manager - ICT
S. Kamau	-	Claims Manager
M. Kimeu	-	Underwriting Manager
D. Gitau	-	Branch Manager - Nairobi, CBD
N. Shariff	-	Branch Manager - Mombasa, Coast
T. Amina	-	Branch Manager - Nakuru
S. Kiano	-	Branch Manager - Thika
S. Wendot	-	Reinsurance Manager
V. Mwau	-	Assistant Manager, Underwriting
D. Wainaina	-	Assistant Manager, Business Devt
J. Waga	-	Quality Management Representative
J. Munene	-	Chief Accountant

Corporate Information (contd)

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P O Box 40092 - 00100
Nairobi, Kenya

SECRETARY

Equatorial Secretaries & Registrars
Certified Public Secretaries
P O Box 47323-00100
Nairobi, Kenya

ADVOCATES

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

CONSULTING ACTUARIES

Zamara Actuaries, Administrators and Consultants Limited
10th Floor Landmark Plaza
Argwings Kodhek Road, Opposite Nairobi Hospital
P O Box 52439 – 00200
Nairobi, Kenya

BANKERS

Spire Bank Limited
Mwalimu Towers
Hill Lane, Upper Hill
P O Box 52467 – 00200
Nairobi, Kenya

Commercial Bank of Africa
CBA Centre
Mara and Ragati Road, Upper Hill
P O Box 30437 – 00100
Nairobi, Kenya

Branch Network

NAIROBI

Head Office • Fidelity Insurance Centre • Waridi Lane, off Waiyaki Way
T: 0709 988 000, 0733 620 001 • **E:** info@fidelityshield.com

Nairobi CBD
Transnational Plaza, 8th Floor • Mama Ngina Street
T: 0702 420 747, 0732 808 089 • **E:** nairobicbd@fidelityshield.com

UPCOUNTRY

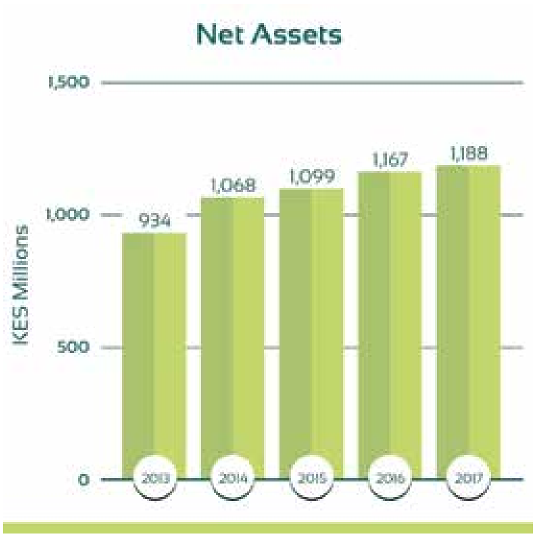
Mombasa
Fidelity Shield Insurance House
T: 0727 102 482, 0733 620 001
E: mombasa@fidelityshield.com

Eldoret
Zion Mall, 1st floor, Uganda Road
T: 0718 406 365
E: eldoret@fidelityshield.com

Kisumu
Kenya Re Plaza, Oginga Odinga street
T: 0728 606 549
E: kisumu@fidelityshield.com

Nakuru
West Side Mall, 3rd Floor, Kenyatta Lane
T: 0710 577 947 /0733 620 005
E: nakuru@fidelityshield.com

Five Year Financial Highlights



Board of Directors

RICHARD KEMOLI
Chairman & Independent Non-Executive Director

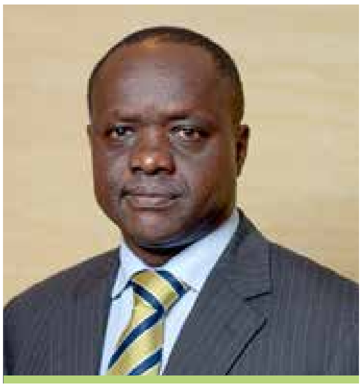
MATHEW KOECH
Managing Director

ABDULALI KURJI
Non-Executive Director

JOSEPH KOSKEY
Non-Executive Director

REBECCA LIKAMI
Independent Non-Executive Director

SAMEER NAUSHAD MERALI
Independent Non-Executive Director



SAM SHOLLEI
Independent Non-Executive Director

Fidelity @ A Glance

Who We Are

At Fidelity, we provide insurance solutions that enable our customers to live free of fear of everyday uncertainties. We build strong relationships that inspire confidence and give peace of mind. We aim to create sustainable value for all our stakeholders: our customers, employees, shareholders and the communities in which we live and work.

Our 5 Core VALUES

1. Professionalism

We foster a culture that upholds high standards of service, delivered with reliability and consistency.

2. Quality

We continually review our operating processes and services to ensure they sustainably deliver quality that exceeds customers' expectations.

3. Integrity

We establish processes that facilitate practice of good governance, honesty and transparency in our dealings with our customers.

4. Flexibility

We respond to the needs of our clients and align our processes, products, services and relationships towards giving our customers a delightful experience.

5. Efficiency

We deploy and use resources in the most optimal manners and adopt efficient processes.

Gross Rev.	Employees	Clients	Branches	Agents
2.3bn	103	65,000+	7	1,200+

Chairman's Statement

Chairman's Statement

INRODUCTION

It is my pleasure once again to present on behalf of the Board of Directors, the Company Annual Report and Financial Statements for the year ended 31 December 2017

ECONOMIC OVERVIEW

Year 2017 was uncertain and challenging but the economy demonstrated remarkable resilience in the face of shocks on several fronts. The drought which started in the last half year of 2016 persisted through the first half of 2017 and thereafter the Country also experienced the longest electioneering period. With the increased political uncertainty, most investors postponed their investments pending a return to tranquillity.

GDP growth slowed slightly with the IMF estimating that the Kenyan economy grew by 4.9% in 2017 compared to 5.8% in 2016. The economy was affected by a slowdown in the agriculture and investment due to the severe drought in the first half of the year. This resulted in a decrease in the supply of food leading to an inflationary spike with headline inflation at 11.7% and food inflation 21.5% in the month of May as per Kenya National Bureau of Statistics data. However, this trend reversed when the rains came resulting in a normalization of inflation with headline inflation closing the year at 4.5% within the Central Bank of Kenya's target of 2.5% - 7.5%.

OPERATING ENVIRONMENT

The effects of interest rate cap by Central Bank manifested during the year through the sluggish growth in overall credit to private sector touching as low as 2.3% and the corresponding subdued private investments. The enactment of The Banking (Amendment) Act in August 2016 introduced a cap on the interest rates that banks are able to charge their customers. The main effect of this was a decline in the bank's willingness to lend funds to risky borrowers and sectors.

The Central Bank of Kenya kept its base rate at 10% throughout the period indicating their confidence in the resilience of the economy in the face of temporary shocks. Market interest rates declined marginally over the period but Investment in government securities grew by 15.2% outpacing loan growth of 6.3%, showing increased lending to the government by banks as they avoid limited profitability from lending. The Kenya Shilling remained resilient in 2017 only depreciating by 0.7% against the USD during the year to close at Kshs 103.2 from Kshs 102.5 at the beginning of the year. This was supported by weakening of the USD in the global markets and CBK's intervention activities.

Nairobi stock exchange recorded impressive performance with the NSE 20 Share Index rising by 17% following a decline of 21% in the previous year.

THE INSURANCE INDUSTRY

The Insurance industry recorded a lower growth of 6.6% during the year to reach premiums of Ksh. 208 billion compared to a growth of 12.3% with respective premium Ksh. 195 billion in 2016. Insurance penetration continues to remain at a rate of below 3% of GDP but this is however seen to be presenting an opportunity for exponential growth in the sector. The regulator and various market players have put in place various initiatives aimed at increasing insurance penetration and seizure of opportunities in the long run. Some of the initiatives deployed include product innovation, enhancements of distribution channels through digital platforms and mobile telephony, awareness campaigns and more recently, the domestication of marine cargo imports insurances.

In line with the Insurance amendment Act 2016, Insurers adopted the capital adequacy methodology in determination of core capital to be held at any one time as guided by the risk based capital guidelines. This model of supervision is expected to assist Insurers in effective risk management through better management of exposures such as credit risk, market fluctuations, insurance and other operational risks.

Chairman's Statement (contd)

RESULTS AND DIVIDEND

The gross written premium grew by 39% to Ksh 2,390 million compared to Ksh 1,717 million in 2016. Net Earned premiums grew by 16% to Ksh 1,505 however, the growth in net earned premiums was lower than the growth in gross written premium due to the increase in revenues in an insurance class of business with higher reinsurance premium cessions. The high growth in revenues is attributed to the acquisition of new clients and expansion of distributions networks mostly targeting the retail business. Our brand presence and various initiatives to promote brand equity are also yielding positive contribution to our performance.

Profits for the Company were negatively affected by the 23% increase in claims benefits payable mainly as a result of poor performance in our motor commercial class of business. Overall, profit after tax declined to Ksh 17 million from Ksh 60 million registered in year 2016. In view of the decline in profits and adoption of risk based capital guidelines, the Board does not recommend the payment of a dividend for the year 2017.

FUTURE OUTLOOK

Following the end of elections and formation of Government coupled with declining aggressiveness from political opposition, we expect to see positive performance in the economy which should percolate in the insurance sector. The World Bank projects that Kenya's GDP will grow by 5.5% in 2018 and further to 5.9% by 2019.

We expect that our continued investment in building our brand essence, expansion of distribution networks and channels and improvements in customer experience will yield positively in the medium term.

The Board is confident on the Company's positive growth and we look forward for better performance in year 2018 and beyond.

Finally, I wish to take this opportunity to thank the management for their diligence and hard work during a difficult year and more importantly, I am grateful to the Board members for their unfailing support and wise counsel during our deliberations. I would also like to thank all our clients, insurance intermediaries for the continued confidence they have in our Company and giving us the opportunity to serve them

Richard Kemoli FIoD, MBE
Chairman

16th March 2018

Corporate Governance Statement

Corporate governance is the process by which companies are directed, controlled and held to account. It is used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders value while taking into account the interests of other stakeholders.

The Board is responsible for the Company's corporate governance practices and recognizes its responsibilities to shareholders and other stakeholders to uphold the highest standards in economic, social, environmental and ethical matters by ensuring that the Company conducts its business in accordance with best practice in corporate governance. Fidelity Shield Insurance continues to put in place mechanisms to fully comply with the provisions and principles of good corporate governance.

Board of Directors Composition and Operations

The Board consists of nine Directors, one of whom is executive and eight are non-executive. The Board is composed of Directors with a good mix of skills, experience and competencies in the relevant fields of expertise and is well placed to take the business forward. Two new Directors were made during the year.

The full Board meets at least four times a year. It is responsible for the strategic direction of the company, setting policy guidelines for management and ensuring competent management of the business. The Board is also responsible for establishing and maintaining the Company's overall internal control of financial, operational and compliance issues. The Directors are given appropriate and timely information on key activities of the business regularly and on request in order to carry out their roles. The Board has in place a Board Charter and a Work Plan. The Charter governs its operations in conformity with practices of good corporate governance. Among the provisions in this charter are:

- A formal induction programme for newly appointed directors and a training programme for all directors
- Tenure of directors
- Procedures for determining the remuneration of directors
- Board performance self-evaluation
- How to manage potential conflicts of interest in the Board.

The Work Plan has schedule of matters specifically reserved for the Board's attention to ensure it exercises full control over significant strategic, financial, operational and compliance matters.

The Board has delegated authority for conduct of day-to-day business to the Managing Director. The Board nonetheless retains responsibility for establishing and maintaining the Company's overall internal control of financial, operational and compliance issues and monitoring the performance of executive management.

Chairman versus Chief Executive

The roles of the Chairman and the Managing Director are clearly defined and separated. The Chairman is responsible for managing the Board while the Managing Director is responsible for running the business of the Company in accordance with instructions given by the Board.

Committees of the Board

The Board has in place three standing committees which meet regularly under the terms of reference set by the Board.

Audit and Governance Committee

The Board has in place an audit and governance committee which meets four times a year or as necessary. Its responsibilities includes review of financial information in particular half year and annual financial statements, compliance with accounting standards, liaison with the external

Corporate Governance Statement (contd)

auditors, remuneration of external auditors and maintaining oversight on internal control systems. The Committee is made up of the three non-executive directors namely Mr. Sameer Merali (Chairman), Abdulali Kurji and Mrs. Grace Kemei. The Managing Director, The Head of Finance and Administration, The Head of Internal Audit & Compliance and the Company Secretary attend meetings of the committee. External auditors also attend the meeting as required.

Finance and Investments Committee

The Board has in place a finance and investments committee which meets four times a year. Among its responsibilities are to receive and consider the company's annual budget, formulation of the company's investment policy and monitoring the overall financial performance of the company.

Nominations and Compensation Committee

The Board has in place a nominations and compensation committee which meets ones a year. Among its responsibilities are to review the leadership needs of the organization and recruitment of executive managers, approving policies on salary remunerations, bonuses, trainings and other staff benefits.

Risk management and Internal Controls Risk Management

The Board recognises that managing risks to ensure the optimal mix between risk and return is an integral part of achieving corporate goals. The Board has put in place procedures for identifying risks and implementing risk mitigation actions to ensure the risk of failure to achieve business objectives is reduced if not eliminated. In this regard the Board is aware, at any one time, of all the key risks facing the Company and ensures that risk mitigation procedures are in place. As a key risk management initiative the Company has put in place a comprehensive system of setting and implementing objectives, measuring performance against the objectives and implementing corrective action to ensure that objectives are achieved. A risk management and compliance function in place.

Internal Controls

The Board has a collective responsibility for the Company's systems of internal control and for reviewing their effectiveness. Executive directors have the responsibility for establishing and implementing appropriate systems and controls in the running of the business of the Company and providing assurance to the Board that they have done so. The system of internal control in place has defined procedures and operational and financial controls to ensure that assets are safeguarded, transactions are authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. In reviewing the effectiveness of the systems of internal control and risk management, the Board takes into account the results of all the work carried out to audit and review the activities of the Company. The Board has reviewed the Company's system of internal control and is satisfied that the system is effective.

Conduct of Business

The Company's business is conducted within a developed control framework, underpinned by defined processes and objectives, policy statements, written procedures and control guidelines. The Board has established a management structure which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

Performance Reporting

The Business performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and

Corporate Governance Statement (contd)

the safeguarding of assets. These controls also include segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

Ethical Standards
The Company has established clear ethical guidelines embedded in the values of the company. These values have been cascaded downward to staff in form of a code of ethics and in the employee's staff handbook. All employees must comply with these provisions. A statement to confirm compliance with the code of ethics is signed by every member of staff every year.

Health, Safety and Employee Welfare
The welfare of our clients, staff, contractors and members of the public is an essential principle for the Company, which strives to provide all employees with safe working conditions at work and a safe environment for our clients, contractors and members of the public. The Company maintains a policy of equal opportunity of employment for all qualified persons and strives to provide all employees with fair terms of employment.

Corporate Social Responsibility
Fidelity continues to seek opportunities to support the communities around which our business thrives. Focus is paid to four key areas; Sports, Health, Environment and Education. In this regard, for the last two years and looking into the coming years, we have partnered with the Sports Journalist Association of Kenya to recognize the efforts by football coaches in nurturing the talent in the various football clubs.

This is done through monthly awards given to the winning coach on any given month based on the votes gotten from the club members. This incentive gives the coaches the motivation they need to improve the game and take the trainings to higher levels which in turn translates to improved way of lives for the players, who sometimes get selected to international foreign teams due to their prowess.

We conduct our business with care for the environment by supporting activities that minimize the degradation of our natural heritage. The Company to do this, sets aside a proportion of its gross income to social responsibility issues. This, the company seeks to entrench in its system by having a Corporate Social Responsibility Policy.

The Company continues to support numerous other events and activities that aide social responsibility. It prides itself in the contribution it has made to support other CSR programs ranging from Cerebral Palsy Walk, the Mater Heart Run, the Lohana Golfing Society and many more.

The company will continue to pursue other opportunities especially on environmental conservation to participate in to counter the changing climatic conditions.

Richard Kemoli FIoD, MBE
Chairman

19th March 2018

CSR Activities

@ NATIONAL LEVEL

Our Business Development & Marketing Manager, Mr. Nicholas Malesi, presents a cheque of Kshs.75,000/= to George Nsimbe of Tusker FC as the coach of the month in one the SJAK Presentations.

@ INDUSTRY LEVEL

Our Human Resource Manager, Ms. Mercy Njoroge, presents a cheque to one of our Agents during the Loyalty Awards Programme.

@ COMMUNITY LEVEL

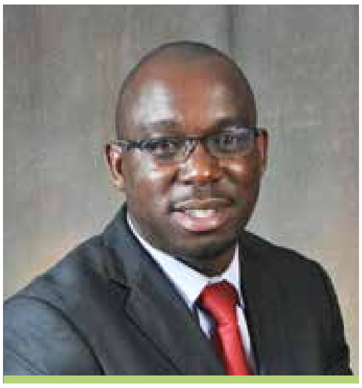
Fidelity staff presents computers to Kimirose Primary and Secondary Schools in Bomet County.

Management Team

MATHEW KOECH
Managing Director

RICHARD MARISIN
Head of Finance & Administration

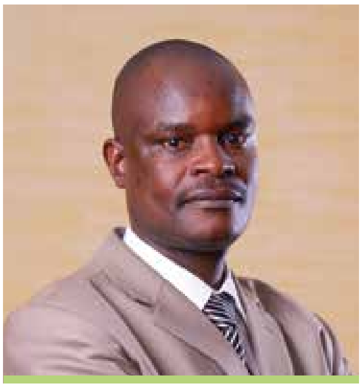
NICHOLAS MALESI
Manager - Business Development & Marketing



ALEX Z. ANDAYI
Branch Manager - Eldoret

ANTHONY KIRAGU
Manager - Branches

MERCY NJOROGE
Manager - Human Resource



JULIUS MBOYA
Manager - ICT

SAMMY KAMAU
Manager - Claims

MAXWELL KIMEU
Manager - Underwriting

Management Team (contd)

DAVID GITAU
Manager - Underwriting

NHAAMAN SHARIFF
Branch Manager - Mombasa

TERRY AMINA
Branch Manager - Nakuru

STEVEN KIANO
Branch Manager - Thika

SAMMY WENDOT
Reinsurance Manager

VETERIS MWAU
Assistant Manager - Underwriting

DIANA WAINAINA
Assistant Manager - Business Development

JAMES WAGA
Quality Management Representative

JOHN MUNENE
Chief Accountant

Quality Management Systems (QMS)

ISO 9001:2015 CERTIFICATION

A Quality Management System enables an organization to achieve the goals and objectives set out in its policy and strategy. It provides consistency and satisfaction in terms of methods, materials, equipment among others, and interacts with all activities of the organisation, beginning with the identification of customer requirements and ending with their satisfaction, at every transaction interface.

In February 2015, we were awarded the ISO 9001:2008 certification. With the launch of the 2015 version in September 2015, we embarked on a journey to upgrade our QMS to the new edition of the standard and obtain certification. Training and awareness programs were conducted for both management and staff in an effort to enable them understand the requirements of the new standard. We carried a gap analysis after which we conducted two internal audits in readiness for the re-certification audit that was conducted on 5th March 2018. Having conformed to ISO 9001:2015 requirements, we were recommended for Re-Certification to ISO 9001:2015

Management is fully committed to the implementation of the QMS by providing direction to the integration of the QMS requirements into each business process. We have a Quality Policy in place and all the departments have established Quality Objectives which are in line with the Company's Vision and Strategic Plan.

Customer satisfaction is core to our QMS. We strive to build and maintain good client relationship by providing a consistent and rewarding experience from our products and services. In line with the standard and to monitor our customers' perceptions of the degree to which their needs and expectations have been fulfilled, we shall conduct a Customer Satisfaction Index within the coming few months.

Reports and Financials

Report of the Directors

The Board of Directors has pleasure in presenting their annual report together with the audited financial statements of Fidelity Shield Insurance Company Limited ("the Company") for the year ended 31 December 2017, which disclose the state of financial affairs of the Company.

PRINCIPAL ACTIVITIES
The principal activity of the company, Fidelity Shield Insurance Company Limited, is the transaction of general insurance business.

	2017 Ksh' 000	2016 Ksh '000
Profit before tax	17,748	47,026
Tax credit	(496)	13,605
Proft for the year	**17,252**	**60,631**

DIVIDEND
The directors do not propose a dividend in respect of the year ended 31 December 2017.

DIRECTORS
The current directors are as listed on page 6. On 17th March 2017 A Kurji resigned as a director and on 25th October 2017 G Kemei ceased being a director.

BUSINESS REVIEW
The year 2017 was quite uncertain and with some challenges mainly as a result of the prolonged electioneering period. Despite this, the Company was able to successfully achieve the following strategic goals:

- Development of risk management policy framework policy that is aligned to the principles of best practise corporate governance and regulatory regulations. In line with this, the Company also set up enterprise risk management procedures and risk appetite framework.
- Opening a branch in Thika town and a satellite office in Kakamega.
- Strengthened competitive position by enhancing distribution channels and enrolment of new intermediaries and Bancassurance partnerships.
- Enhancing brand recognition and presences through several publicity media including digital platforms.

Financial performance highlights
Gross earned premiums grew by 24% to 2.1 B from 1.7 B in 2016 mainly through acquisition of new corporate accounts and enrolment of new intermediaries who were able to enhance our retail market reach.

The net claims ratio deteriorated from 59% to 63% due to bad claims experience for motor commercial class of business. This led to a decline in profits before tax to Ksh 18 M from a profit before tax of Ksh 47 M in 2016.

Operational risk
Pricing of risk continued to be a challenge due to the deteriorating premium rates in the market and general price undercutting. We expect some positive changes in this regards following the implementation of risk based capital management regime by the Insurance regulator. The business and insurance sector is also facing challenges of fraudulent insurance claims mostly under motor classes of business. In order to minimize this risk and generally improve the quality of underwriting the motor business, Insurance Companies have come together to form an Integrated Motor Insurance Database System (IMIDS) in February 2018 which will enable underwriters to get access to information about the risk being insured.

Report of the Directors (contd)

Our people
The Company is committed in developing talents and improvement in staff capacities. A performance system has been put in place in order to ensure that the trainings, promotions and other rewards are provided in an objective manner to all employees. Total number of staff at the end of the year was 103.

Environmental matters
The Company is cognizant and conscious about environmental matters. We operate and comply with the National Environmental Management Authority (NEMA) and the Occupational Safety and Health Act regulations.

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS
Each of the persons who is a director at the date of approval of this report confirms that:
- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS
Deloitte & Touche, having expressed their willingness, continue in office in accordance provisions of section 719 (2) of the Kenyan Companies Act, 2015 and subject to approval by the Commissioner of Insurance under Section 56(4) of the Kenyan Insurance Act. The Directors monitor the effectiveness, objectivity and independence of the auditors. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditors appointment and the related fees.

BY ORDER OF THE BOARD

Equatorial Secretaries & Registrars
Company Secretary
Nairobi, Kenya

16 March 2018

Statement of Directors' Responsibilities

The Kenyan Companies Act 2015, requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure that the Company maintains proper accounting records that are sufficient to show and explain the transactions of the Company and disclose, with reasonable accuracy, the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company, and for taking reasonable steps for the prevention and detection of fraud and error.

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

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

Having made an assessment of the Company's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

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

Richard Kemoli FIoD, MBE
Chairman

16th March 2018

Mathew Koech
Managing Director

16th March 2018

Report of the Consulting Actuary

I have conducted an actuarial valuation of the insurance liabilities of the insurer as at 31 December 2017.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act and Insurance Regulations. These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies. In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the Company's insurance liabilities and reserves as at 31 December 2017 were adequate.

James Olubayi
Fellow of the Institute of Actuaries

16th March 2018

Independent Auditors' Report to The Members of Fidelity Shield Insurance Company Limited

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Fidelity Shield Insurance Company Limited set out on pages 33 to 77, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its profit 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 ("ISA"). 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 other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report to The Members of Fidelity Shield Insurance Company Limited (contd)

Key Audit Matter	*How Our Audit Addressed This Key Audit Matter*
Significant judgement is required by the Directors in determining the technical liabilities and for the purposes of our audit, we identified the valuation of technical liabilities as representing a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the judgement and estimation uncertainty associated with determining the liabilities. *The determination of future contractual cash flows in relation to the liability for reported claims and claims incurred but not reported involves a significant estimation process. There are several sources of uncertainty that are considered in the estimate of the liability that the Company will ultimately pay for such claims.* *Estimates of the liability for reported claims are determined on the basis of the best information available at the time the records for the year are closed. Claims incurred but not reported (IBNR) are determined on the basis of prevailing claims reported and settlement patterns. Further details on the process used to estimate IBNR are set out in note 27 to the financial statements.* *The liabilities are calculated by the Company's appointed external Actuary.*	*We evaluated the appropriateness of the relevant controls directors' have implemented over the determination of insurance contract liabilities. Additionally, our procedures included challenging the directors on the suitability of the approach and methodology adopted by the actuaries to ensure these are consistent with the requirements of International Financial Reporting Standards (IFRS) and industry norms.* *Procedures performed included:* • *Assessing the competence, capabilities and objectivity of the Company's actuaries;* • *Evaluating the consistency of the approach and methodology adopted by the actuaries with IFRS and industry norms;* • *Involving our in-house actuarial experts in evaluating judgements and models adopted in the determination of insurance contract liabilities;* • *Reviewing the data used in the computations of reserves and emerging reserves for accuracy through a comparison to reported values, and* *We validated the appropriateness of the related disclosures in note 27 of the financial statements. Based on our procedures, we noted no material exceptions and consider the directors' key assumptions and methodology applied to be reasonable.*

Independent Auditors' Report to The Members of Fidelity Shield Insurance Company Limited (contd)

Other Information
The directors are responsible for the other information which comprises the report of the directors and chairman's statement which were obtained prior to the date of the auditor's report. The other information comprises 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and those Charged with Governance for the Financial Statements
The Directors are responsible for the preparation and fair presentation of the Company financial statements that give a true and fair view 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 are necessary to enable the preparation of Company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Company 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.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

Independent Auditors' Report to
The Members of Fidelity Shield Insurance Company Limited (contd)

Auditors Responsibilities for the Audit of the Financial Statements (contd.)

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

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

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

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

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

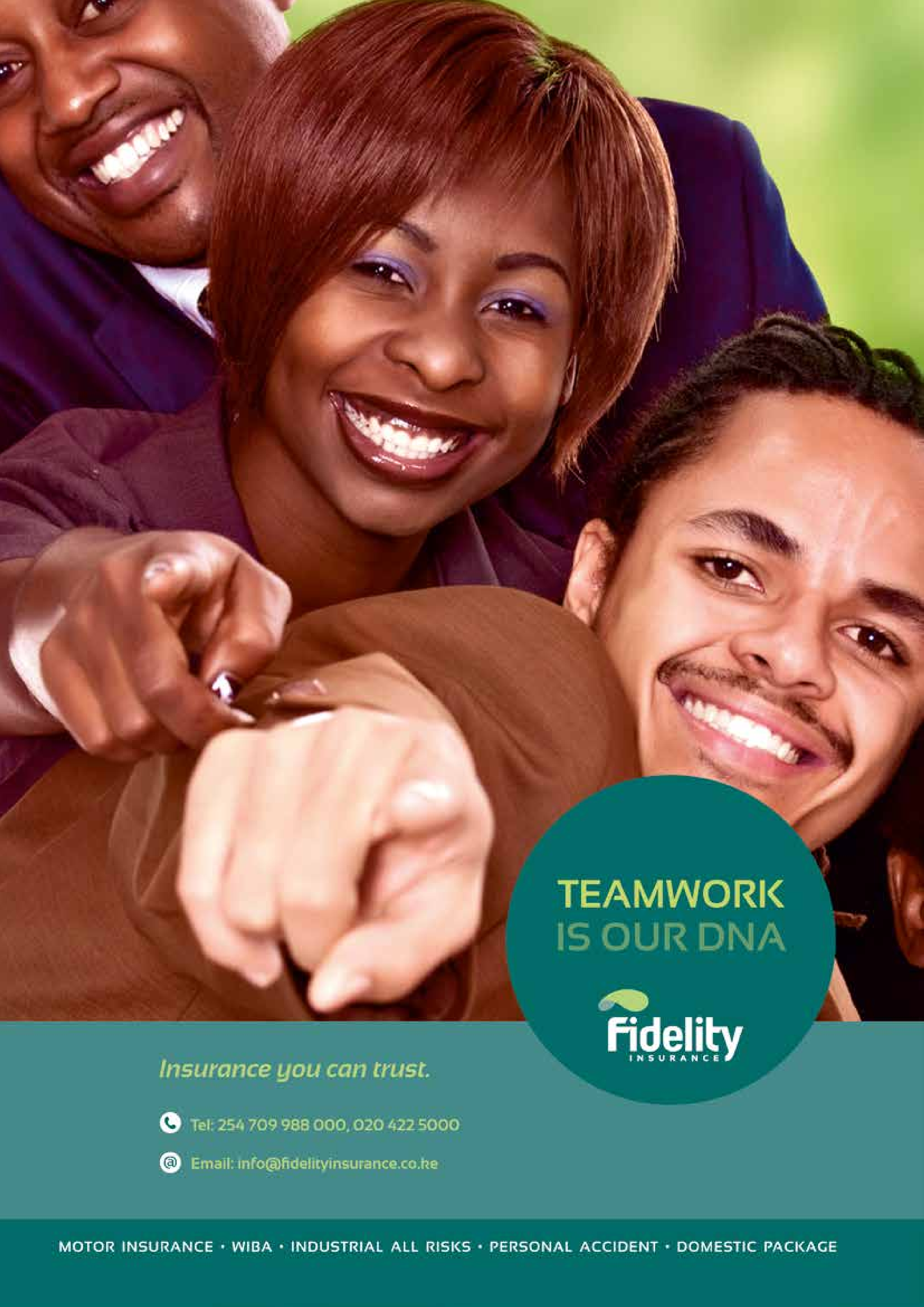
Report on Other Legal and Regulatory Requirements
In our opinion the information given in the report of the Directors on page 24 to 25 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Charles Munkonge Luo – P/No 2294.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya

27th March 2018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Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2017

	NOTES	2017 KSH '000	2016 KSH '000
Gross earned premiums	5	**2,116,702**	**1,754,548**
Less: reinsurance premiums ceded		(611,593)	(452,594)
Net earned premiums		**1,505,109**	**1,301,954**
Investment income	6	144,023	148,089
Commissions earned		138,959	123,337
Other income	7	2,889	9,686
Total investment and other income		**285,871**	**281,112**
Claims payable		(1,116,763)	(884,345)
Less: amounts recoverable from reinsurers		169,690	114,236
Net claims payable	8	**(947,073)**	**(770,109)**
Operating and other expenses	9	(553,709)	(514,285)
Commissions payable		(272,450)	(251,646)
		(826,159)	**(765,931)**
Profit before income tax		**17,748**	**47,026**
Income tax (charge)/ credit	11	(496)	13,605
Profit for the year		**17,252**	**60,631**
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Gain on land and buildings revaluations	14	4,793	11,074
Deferred tax on revaluation gain		(1,438)	(3,322)
Total comprehensive income		**20,607**	**68,383**

Statement of Financial Position

For The Year Ended 31 December 2017

	NOTES	2017 KSH '000	2016 KSH '000
SHAREHOLDERS' FUNDS			
Share capital	13	600,000	600,000
Revaluation reserve	14	109,027	105,672
Retained earnings	15	478,846	461,594
		1,187,873	**1,167,266**
REPRESENTED BY:			
Assets			
Property and equipment	16	298,257	307,330
Intangible assets	17	25,352	20,586
Deferred tax asset	30	31,560	33,494
Investment properties	18	1,126,882	1,121,766
Investment in the Kenya Motor Insurance Pool		23,819	22,112
Equity investments at fair value through profit or loss	19	120,405	90,590
Mortgage loans	20	12,822	26,240
Receivables arising out of reinsurance arrangements		-	410
Receivables arising out of direct insurance arrangements	21	506,569	557,570
Reinsurers' share of insurance contract liabilities	22	591,600	474,252
Tax recoverable	11(iii)	36,189	36,189
Other receivables	23	33,673	35,672
Deferred acquisition costs	24	60,168	46,336
Government securities held to maturity	25(i)	369,264	234,751
Government securities at fair value	25(ii)	49,517	-
Deposits with financial institutions	34	282,356	150,465
Cash and bank balances	34	122,072	80,016
Total assets		**3,690,505**	**3,237,779**
Liabilities			
Insurance contract liabilities	27	1,460,347	1,329,049
Unearned premiums	29	911,132	638,219
Payables arising from reinsurance arrangements		15,649	-
Other payables	31(i)	115,504	103,245
Total liabilities		**2,502,632**	**2,070,513**
Net assets		**1,187,873**	**1,167,266**

The financial statements on pages 33 to 77 were approved and authorised for issue by the board of directors on 16 March 2018 and signed on its behalf by:

Richard Kemoli FIoD, MBE
Chairman

Joseph Koskey
Director

Mathew Koech
Principal Officer

Statement of Changes in Equity

For The Year Ended 31 December 2017

	NOTES	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2016					
At 1 January 2016		450,000	97,920	550,963	1,098,883
Profit for the year		-	-	60,631	60,631
Other comprehensive income					
Gains on revaluation of land and buildings, net of tax	14	-	7,752	-	7,752
Transactions with owners Capitalisation of retained earnings		150,000	-	(150,000)	-
At 31 December 2016		**600,000**	**105,672**	**461,594**	**1,167,266**
Year ended 31 December 2017					
At 1 January 2017		600,000	105,672	461,594	1,167,266
Profit for the year		-	-	17,252	17,252
Other comprehensive income					
Gains on revaluation of land and buildings, net of tax	14	-	3,355	-	3,355
At 31 December 2017		**600,000**	**109,027**	**478,846**	**1,187,873**

Statement of Cash Flows

For The Year Ended 31 December 2017

	NOTES	2017 KSH '000	2016 KSH '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	336,171	86,674
Interest received		51,280	48,149
Income tax paid	11(iii)	-	(399)
Net cash generated from operating activities		**387,451**	**134,424**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	16	(4,931)	(5,543)
Purchase of intangible assets	17	(12,702)	(24,760)
Purchase of investment property	18	(3,429)	(42,940)
Purchase of quoted shares	19	(159,450)	(1,370)
Loans advanced	20	-	(8,280)
Loans repaid	20	13,418	7,502
Purchase of treasury bills and treasury bonds	25(i)	(164,446)	(69,402)
Purchase of treasury bonds at fair value	25(ii)	(48,142)	-
Proceeds of disposal of property and equipment		-	315
Proceeds of disposal of quoted shares		136,178	-
Maturity of treasury bonds		30,000	70,000
Proceeds of sale of investment property		-	215,472
Net cash (used in)/generated from investing activities		**(213,504)**	**140,994**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans repaid	31(ii)	-	(282,477)
Net cash (used in) financing activities		**-**	**(282,477)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		173,947	(7,059)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		230,481	237,540
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	**404,428**	**230,481**

Notes to the Financial Statements

For The Year Ended 31 December 2017

1 ACCOUNTING POLICIES

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

(i) New standards and amendments to published standards effective for the year ended 31 December 2017

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to IAS 12 Income Taxes clarify the following aspects:
- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The application of these amendments has had no impact on the Company's financial statements as the company already assesses the sufficiency of the future taxable profits in a way that is consistent with these amendments.

Annual Improvements to 2010-2012

The annual improvements to IFRSs 2012-2014 cycle include a number of amendments to various IFRSs, which are summarised below:
- The amendments to IFRS 5 add specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
- The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. It clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
- The amendments to IAS 19 clarify that the high quality corporate bonds used in estimating the discount rate for post-employment

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

Annual Improvements to 2010-2012 (contd)	benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level). • The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference. The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.
Amendments to IAS 7 Disclosure Initiative	The amendments to IAS 7 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: a) Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply; b) Clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements; c) Clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and d) Additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The amendments to the standard has had no impact on the Company's financial statements.

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

New standards and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

IFRS 9 Financial Instruments
IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) Impairment requirements for financial assets; and

b) Limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The directors of the Company are assessing the impact of the application of IFRS 9 in the current year. It is not practical to provide a reasonable estimate of the effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to identification of performance obligations, principal versus agent considerations as well as licensing application guidance. The Company recognises revenue mainly from underwriting short term insurance risk. Based on preliminary assessment, the Directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Company.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to identification of performance obligations, principal versus agent considerations as well as licensing application guidance.

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability be recognized for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Company is assessing the potential impact on the company financial statements resulting from the application of these changes.

IFRS 17 Insurance Contracts

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

(a) Insurance contracts, including reinsurance contracts, it issues;

(b) Reinsurance contracts it holds; and

(c) Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) The fulfilment cash flows - the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) The contractual service margin - the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

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

The entity:

(a) Accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

Accounting Policies (contd)

(b) Chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

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

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

The company is assessing the potential impact on the financial statements arising from these changes.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
The amendments clarify the following:

(i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments

(ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

(iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- The original liability is derecognised
- The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
- Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Directors of the company do not anticipate that the application of the amendments in future will have a significant impact on the company financial statements as the Company does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. (e.g. a non-refundable deposit or deferred revenue)

The interpretation specifies that the date of transactions is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

iii) Early adoption of standards:

The Company did not early adopt new or amended standards in 2017.

Significant accounting policies

The principal accounting policies adopted are set out below.

Basis of accounting

The financial statements are presented in Kenya Shilling and are prepared under the historical cost basis of accounting. The financial statements have been prepared in accordance with International Financial Reporting Standards and the Kenyan Companies Act. The principal accounting policies adopted, which remain unchanged from the previous year, are set out below:`

Kenya Motor Insurance Pool

The Kenya Motor Insurance Pool balances represent the company's share of the surplus and net assets of the pool.

Results of the company's share of the two Kenya Motor Insurance Pools are accounted for in the statement of comprehensive income in accordance with the Pool's accounting year which runs from October of the previous year to September of the current year. As a result, the Pool's results for the 4th quarter of the company's accounting year are accounted for in the subsequent year.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

Income recognition

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations/lapses and less unearned premium. 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 end of each reporting period, and are calculated using the $1/24^{th}$ method on written premiums less reinsurance commissions and other acquisition costs.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Rental income is recognised as income in the period in which it is earned.

Commissions receivable are recognised as income in the period in which they are earned. To achieve this, a proportion of reinsurance commissions receivable is deferred and recognised as income over the term of the policy.

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 represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of each reporting period, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR") at the end of each reporting period based on the company's experience but subject to the minimal percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

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 the consolidated statement of comprehensive income 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 recognized in 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 recognized 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.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

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

Commissions payable and deferred policy acquisition costs
A proportion of commissions 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. The deferred policy acquisition costs are subsequently amortised over the life of the contracts. All other costs are recognised as expenses when incurred.

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 rate 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.

Property and equipment
All property and equipment are initially recorded at cost. Buildings are subsequently carried at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation. All other property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Any revaluation increase arising on the revaluation of such buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation
Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight line basis to write down the cost of each asset, or the revalued amount to its residual value over its estimated useful life, using the following annual rates:

Motor vehicles	25%
Computer equipment	30%
Furniture, fittings and equipment	20%
Buildings	2.5%

Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The impairment loss is recognised in profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

Investment properties
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 annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets represent computer software. These are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives, not exceeding a period of six years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Financial instruments

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets

Classification

The company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification adopted for a particular financial asset depends on the purpose for which the asset was acquired. Management determines the classification of its financial asset at initial recognition and re-evaluates this at every reporting date.

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

This category has 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 this 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. Investments in shares of other enterprises that give the company a residual interest in the assets of that enterprise after deducting all of its liabilities are classified as equity instruments. Investments in equity instruments quoted on the Nairobi Stock Exchange or other equity markets are stated at market values ruling as at the year-end and are classified as held for trading. Their fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the end of each reporting period. Gains or losses on revaluation of equity instruments are dealt with in 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. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Fixed deposits and commercial paper are classified as originated loans. These are carried at amortised cost (i.e. cost plus accrued income), using the effective yield method.

iii) Held-to-maturity financial assets

Securities issued by the Government of Kenya are classified as held to maturity. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs, other than for an insignificant amount of held-to-maturity financial asset, the entire category would be reclassified as available-for-sale.

iv) *Available-for-sale financial assets*
This classification represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

The fair value gains/(losses) of amortised costs investments and originated loans are credited/(debited) to profit or loss.

Recognition of financial assets
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

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 investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are dealt with in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Derecognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Financial liabilities
Financial liabilities are classified as other financial liabilities.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

Impairment of financial assets
The company assesses at the end of each reporting period whether there is objective evidence that a financial asset (or company of financial assets) is impaired. Impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that have occurred after

the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the term of the lease.

The company as lessor

Rental income from operating leases is recognised on the straight-line basis over the term of the relevant lease.

The company as lessee

Rentals payable under operating leases are charged to income on the straight-line basis over the term of the relevant lease.

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value.

Revaluation surplus

The revaluation surplus represents the surplus on the revaluation of buildings and freehold land (included within property and equipment), net of deferred tax.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Accounting Policies (contd)

Any revaluation increase arising on the revaluation of such land and buildings is credited to other comprehensive income and accumulated in the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Movements in the revaluation reserve are shown in the statement of changes in equity.

Impairment of assets
At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss and the impairment loss is recognised in profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Retirement benefit obligations
The Company operates a defined contribution pension scheme for its employees. The scheme is administered independently by both ICEA Lion and Jubilee Insurance Company and is funded by contributions from both company and employees at rates that are determined triennially by certified actuaries. Currently, the employer contributes 10% while the employee contributes 10% of the employee's basic pay on the scheme.

The Company also contributes to the statutory defined contribution pension schemes, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute.

The Company's obligations to the retirement benefits schemes are charged to profit or loss as they fall due.

Dividends payable
Dividends payable on ordinary shares are charged to equity in the period in which they are declared.

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.

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Critical Accounting Estimates and Judgements in Applying the Accounting Policies (contd)

experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the critical judgements and key assumptions concerning the future and other sources of estimation uncertainty that directors have made in applying the company's accounting policies:

The ultimate liability arising from claims made under insurance contracts
The main assumption underlying techniques applied in the estimation of this liability is that a 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. 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. A margin for adverse deviation may also be included in the liability valuation

Held-to-maturity financial assets
The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the company evaluates its intention and ability to hold such assets to maturity. If the company fails to hold these financial assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost.

Impairment losses
At each end of the reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Valuation of investment property
Investment property comprises of freehold land and buildings carried at fair value. Fair value is based on valuation performed by an independent valuation expert.

Property and equipment
Management makes estimates in determining the depreciation rates for property and equipment. The rates used are set out in the accounting policy for property and equipment.

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

Provision for doubtful debts
Critical estimates are made by the directors in determining the recoverable amount of receivables.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

3 RISK MANAGEMENT

Governance framework

The primary objective of the company's risk and financial management framework is to protect the company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place. The company has a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to management.

Management of Insurance and financial risk

The company's activities expose it to a variety of risks. The company classifies the various risks it is exposed to into insurance risk and financial risk. Financial risks include credit risk, liquidity risk and market risk which includes the effect of changes in 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. The company has put in place investment policies which help manage liquidity and seek to maximise return within an acceptable level of interest rate risk.

(i) Insurance risk

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.

Risk Management (contd)

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 basis of these purchase is underpinned by the company's experience, financial modelling by and exposure of the reinsurance broker.

The 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 on 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.

Short-term insurance contracts

The Company principally issues the following types of general insurance contracts: Aviation, engineering, fire, liability, marine, motor, personal accident, theft workmen compensation and various miscellaneous general risk classes. The risks under these policies usually cover twelve months duration.

The risks on these contracts do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company.

The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. earthquakes and flood damage).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the company's risk appetite as decided by management. The Board of Directors may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The table below sets out the concentration of unearned premiums and claims liabilities by type of contract:

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Risk Management (contd)

	Claims			UPR		
	Gross Liabilities Ksh'000	Reinsurance Share KSh '000	Net Liabilities KSh '000	Gross Liabilities KSh '000	Reinsurance Share KSh '000	Net Liabilities KSh '000
31 December 2017						
Motor	758,989	42,371	716,618	567,208	26,398	540,810
Fire	348,795	241,321	107,474	81,521	48,582	32,939
Personal Accident	6,345	3,030	3,315	6,000	2,424	3,576
Marine	58,283	17,716	40,567	44,258	26,821	17,437
Others	287,935	62,194	225,741	212,145	120,743	91,403
Total	**1,460,347**	**366,632**	**1,093,715**	**911,132**	**224,968**	**686,164**

31 December 2016						
Motor	650,023	22,322	627,701	382,494	14,626	367,868
Fire	337,445	225,559	111,886	95,498	60,052	35,446
Personal Accident	8,554	5,344	3,210	11,442	6,078	5,364
Marine	48,086	17,389	30,697	19,416	5,923	13,493
Others	284,941	64,127	220,814	129,369	52,832	76,537
Total	**1,329,049**	**334,741**	**994,308**	**638,219**	**139,511**	**498,708**

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The general insurance claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Risk Management (contd)

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit before tax.

The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear.

	Changes in assumptions	Impact on gross liabilities KSh '000	Impact on net Liabilities KSh '000	Impact on profit before tax KSh '000
31 December 2017				
Average claim processing cost	+10%	148,568	108,477	1,991
31 December 2016				
Average claim processing cost	+10%	132,904	99,431	5,225

The uncertainty about the amount and timing of claims payments is typically resolved within one year and the claims development history is generally short, its reduction has no significant impact on the gross liabilities and profit before tax.

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

(ii) Financial risks

(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. Market risk comprises three types of risk: interest rate risks, equity price risk and foreign exchange currency risk. The sensitivity analyses presented below are 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, the company ensures that the investment maturity profiles are well spread.

An increase/decrease of 5 percentage points in interest yields would result in an increase/(decrease) in profit before tax for the year by Ksh 2,747,261, (2016: Ksh 2,493,500).

(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.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Risk Management (contd)

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 which are classified as available for sale financial assets. Exposure to equity price risk 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.

At 31 December 2017, if equity market indices had increased/decreased by 5%, with all other variables held constant, the profit before tax for the year would increase/decrease by Ksh 327,125, (2016: Ksh 1,044,489).

(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. The company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigate the foreign currency exchange rate risk. The currency risk is also effectively managed by ensuring that the transactions between the company and other parties are designated in the functional currencies of the individual companies.

At 31 December 2017, if the Kenya shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the profit before tax for the year would have been Ksh 903,623, (2016: Ksh 417,161) higher/lower, mainly as a result of US dollar denominated deposits with financial institutions in Kenya.

(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 to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Risk Management (contd)

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

	Fully performing KSh '000	Past due KSh '000	Impaired KSh '000	Total KSh '000
31 December 2017				
Receivable arising out of direct insurance arrangements	171,220	335,349	199,778	706,347
Deposits with financial institutions	282,356	-	-	282,356
Government securities held to maturity	369,264	-	-	369,264
Government securities at fair value	49,517	-	-	49,517
Other receivables – rent receivable	23,110	-	-	23,110
Cash and bank balances	122,072	-	-	122,072
Mortgage loans	12,822	-	-	12,822
	859,141	**-**	**-**	**859,141**
31 December 2016				
Receivable arising out of direct insurance arrangements	119,803	437,767	226,049	783,619
Deposits with financial institutions	150,465	-	-	150,465
Government securities held to maturity	234,751	-	-	234,751
Other receivables – rent receivable	17,875	-	-	17,875
Cash and bank balances	80,016	-	-	80,016
Mortgage loans	26,240	-	-	26,240
	509,347	**-**	**-**	**509,347**

With regard to receivables arising out of direct insurance arrangements, the debt that is past due and not impaired continues to be paid. The finance department is actively following this debt.

(c) Liquidity risk

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, banking facilities and reserve borrowing 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 into relevant maturity groupings based on the remaining period at the end of each reporting period 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 amounts, as the impact of discounting is not significant.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Risk Management (contd)

	0 - 1 year KSh '000	Over 1 year KSh '000	Total KSh '000
31 December 2017			
Outstanding claims provision	1,460,347	-	1,460,347
Payables arising from reinsurance arrangements	15,649	-	15,649
	1,475,996	**-**	**1,475,996**
31 December 2016			
Outstanding claims provision	**1,329,049**	**-**	**1,329,049**

(iii) Fair value hierarchy

The company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

a. Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.

b. Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

c. Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

	Level 1 KSh '000	Level 2 KSh '000	Level 3 KSh '000	Total KSh '000
31 December 2017				
Equity instruments	120,405	-	-	120,405
Government securities	49,517	-	-	49,517
Investment property	-	1,126,882	-	1,126,882
31 December 2016				
Equity instruments	90,590	-	-	90,590
Investment property	-	1,121,766	-	1,121,766

4 CAPITAL RISK MANAGEMENT

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- Allocation of capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- Aligning the profile of assets and liabilities taking account of risks inherent in the business.
- Maintaining financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- Maintaining strong credit ratings and healthy capital ratios in order to support its business objectives and maximize shareholders value.

The operations of the company are also subject to regulatory requirements within Kenya. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

The Kenyan Insurance Act requires each insurance company to hold the minimum level of capital of Ksh 600 M.

Under the risk based solvency requirements, solvency is determined based on the volume of business or implied risk of the assets as determined by the regulator. Insurance companies are required to hold capital equal to 100% of the higher of absolute minimum capital, volume of business or risk based capital minimum. During the year the company held minimum but were below the required solvency margins to stand at 68%. Shareholders intend to inject capital to raise the solvency margins to the required 100%.

5 GROSS EARNED PREMIUMS

	2017 KSh '000	2016 KSh '000
Motor	1,172,647	954,548
Fire	240,013	279,940
Marine	89,009	79,580
Personal accident	25,839	30,305
Theft	109,495	99,605
Workmen compensation	194,674	176,629
Engineering	69,404	64,828
Liability	40,314	17,298
Other	175,307	51,815
	2,116,702	**1,754,548**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

6 INVESTMENT INCOME

	2017 KSh '000	2016 KSh '000
(i) Investment income/(loss) from financial assets at fair value through profit or loss		
Fair value gains/(losses) on equity investments (note 19)	6,543	(20,890)
Fair value gains on government securities (note 25(ii))	1,375	-
Realized gains on disposal of equity investments	7,504	-
Dividends from equity investments	6,599	3,913
	22,021	**(16,977)**
(ii) Investment income from financial assets at amortised cost		
Interest from government securities at amortised cost	33,470	31,480
	33,470	**31,480**
(iii) Income from investment property		
Rental income from investment property	69,035	96,693
Fair value gains/(loss) on investment property	1,687	(8,969)
Gain on disposal of investment properties	-	27,472
Total investment income from property	**70,722**	**115,196**
(iv) Other investment income		
Interest from deposits with financial institutions	15,319	15,741
Interest from mortgage loans	2,491	2,649
	17,810	**18,390**
Total investment income	**144,023**	**148,089**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

	2017 KSh '000	2016 KSh '000

7 OTHER INCOME

	2017 KSh '000	2016 KSh '000
Kenya Motor Insurance Pool	1,707	4,395
Gain on disposal of equipment	-	315
Other	1,182	4,976
	2,889	**9,686**

8 NET CLAIMS PAYABLE

	2017 KSh '000	2016 KSh '000
Claims payable by principal class of business:		
Motor	753,407	565,190
Fire	29,417	39,016
Marine	26,755	20,073
Workmen Compensation	100,316	102,679
Public Liability	3,816	16,042
Others	33,362	27,109
	947,073	**770,109**

9 OPERATING AND OTHER EXPENSES

	2017 KSh '000	2016 KSh '000
Staff costs (note 10)	258,511	258,783
Auditors' remuneration	4,657	3,155
Depreciation (note 16)	18,797	20,695
Amortisation (note 17)	7,936	5,378
Impairment charge for doubtful receivables		
- Premium receivables (Note 21)	61,068	60,000
Impairment charge for rent receivable	9,286	-
Operating lease rentals - land and buildings	14,945	12,439
Marketing and advertising	38,309	26,881
Finance and bank charges	8,406	15,345
Printing, stationery and insurance	11,306	22,960
Consultancy fees	14,055	10,165
Director expenses	6,129	5,398
Other expenses	100,304	73,086
Total expenses	**553,709**	**514,285**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

	2017 KSh '000	2016 KSh '000
10 STAFF COSTS		
Staff costs include the following:		
- Salaries and wages	217,085	206,566
- Retirement benefit costs – defined contribution plan	16,988	16,689
Other staff costs	24,438	35,528
	258,511	**258,783**

11 TAXATION

	2017 KSh '000	2016 KSh '000
(i) Taxation charge/(credit)		
Current income tax	-	29,044
Deferred income tax credit/(expense) (note 30)	2,621	(11,028)
Prior year over provision – deferred tax	(2,125)	(31,621)
	496	**(13,605)**
(ii) Reconciliation of taxation charge/(credit) to expected tax based on accounting loss		
Profit before tax	17,748	47,026
Tax calculated at a tax rate of 30%	5,324	14,108
Less: tax effect of income not subject to tax	(8,295)	(9,958)
Add: tax effect of expenses not deductible for tax purposes	5,592	13,866
Less: Over provision of deferred tax in prior year	(2,125)	(31,621)
Tax charge/(credit)	**496**	**(13,605)**
(iii) Corporate tax recoverable		
At 1 January	(36,189)	(64,834)
Charge for the year	-	29,044
Paid during the year	-	(399)
At 31 December	**(36,189)**	**(36,189)**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

12 DIVIDENDS

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. The directors do not propose dividends for the year ended 31 December 2017 (2016: Nil).

13 SHARE CAPITAL

The total number of authorized ordinary shares is 10,000,000 with a par value of Shs 100 per share. As at 31 December 2017, 6,000,000, (2016: 6,000,000) shares were in issue. All issued shares are fully paid.

14 REVALUATION RESERVE

The revaluation surplus represents solely the surplus on the revaluation of buildings and is non-distributable.

	2017 KSh '000	2016 KSh '000
At 1 January	105,672	97,920
Revaluation gains – gross (note 16)	4,793	11,074
Deferred tax on revaluation gains (note 30)	(1,438)	(3,322)
At 31 December	**109,027**	**105,672**
Revaluation gains – gross (note 16)	4,793	11,074
Deferred taxation	(1,438)	(3,322)
Net revaluation gain	**3,355**	**7,752**

15 RETAINED EARNINGS

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the company, except for cumulative fair value gains on the company's investment properties of Shs 540,805,000 (2016: Shs 539,118,000) whose distribution is subject to restrictions imposed by regulation.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

16 PROPERTY AND EQUIPMENT

	Land and buildings KSh '000	Furniture & Equipment KSh '000	Motor Vehicles KSh '000	Total KSh '000
At 1 January 2016				
Opening net book amount	266,805	40,177	4,426	311,408
Additions	-	5,543	-	5,543
Fair value gains on revaluation	11,074	-	-	11,074
Depreciation charge	(3,845)	(15,209)	(1,641)	(20,695)
Net book amount	**274,034**	**30,511**	**2,785**	**307,330**
At 1 January 2016				
Cost or valuation	281,268	158,391	12,917	452,576
Disposals	-	-	(3,825)	(3,825)
Accumulated depreciation	(7,234)	(127,880)	(10,132)	(145,246)
Accumulated depreciation on disposal	-	-	3,825	3,825
Net book amount	**274,034**	**30,511**	**2,785**	**307,330**
At 1 January 2017				
Opening net book amount	274,034	30,511	2,785	307,330
Additions	-	4,931	-	4,931
Fair value gains on revaluation	4,793	-	-	4,793
Depreciation charge	(3,710)	(13,694)	(1,393)	(18,797)
Net book amount	**275,117**	**21,748**	**1,392**	**298,257**
At 31 December 2017				
Cost or valuation	286,061	163,322	12,917	462,300
Accumulated depreciation	(10,944)	(141,574)	(11,525)	(164,043)
Net book amount	**275,117**	**21,748**	**1,392**	**298,257**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Property and Equipment (contd)

Land and buildings were valued on 31 December 2017 by Knight Frank Valuers Limited. The basis of valuation was current market value with existing use.

Land and buildings are carried at the fair value hierarchy level 2 in the fair value hierarchy.

If the Land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2017 KSh '000	2016 KSh '000
Cost	143,767	143,767
Accumulated depreciation	(24,086)	(20,492)
Net book amount	**119,681**	**123,275**

17 INTANGIBLE ASSETS - COMPUTER SOFTWARE

At 31 December		
At 1 January	20,586	1,204
Additions	12,702	24,760
Amortisation charge	(7,936)	(5,378)
Net book amount	**25,352**	**20,586**
At 31 December		
Cost	39,587	26,885
Accumulated amortisation	(14,235)	(6,299)
Net book amount	**25,352**	**20,586**

18 INVESTMENT PROPERTIES

At 1 January	1,121,766	1,275,795
Additions	3,429	42,940
Disposals	-	(188,000)
Fair value gain/(loss)	1,687	(8,969)
At 31 December	**1,126,882**	**1,121,766**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Investment Properties (contd)

The Company's investment properties were valued as at 31 December 2017 by Knight Frank Valuers Limited. The basis of the valuation was open market value. Direct operating expenses attributable to management of the investment properties amounted to Shs 552,602 (2016: Shs 597,027).

The fair values arising from the open market valuation of investment property is categorised as level 2 in the fair value hierarchy.

	2017 KSh '000	2016 KSh '000
19 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Quoted investments:		
At 1 January	90,590	110,110
Additions	159,450	1,370
Disposals	(136,178)	-
Fair value loss	6,543	(20,890)
At 31 December	**120,405**	**90,590**
20 MORTGAGE LOANS		
Mortgage loans:		
At 1 January	26,240	25,462
Loans advanced	-	8,280
Loan repayments	(13,418)	(7,502)
At 31 December	**12,822**	**26,240**
Maturity profile of mortgage loans:		
Loans maturing:		
Within 1 year	3,299	-
In 1-5 years	1,337	4,106
In over 5 years	8,186	22,134
	12,822	**26,240**

Notes to the Financial Statements
For The Year Ended 31 December 2017 (contd)

21 RECEIVABLES ARISING OUT OF DIRECT INSURANCE ARRANGEMENT

	2017 KSh '000	2016 KSh '000
Gross receivables	706,347	783,619
Provision for bad and doubtful debts	(199,778)	(226,049)
Net receivables	**506,569**	**557,570**
Movement in provision for bad and doubtful debts:		
At 1 January	226,049	166,049
Bad debts written off	(87,339)	-
Impairment charge during the year (Note 9)	61,068	60,000
At 31 December	**199,778**	**226,049**

22 REINSURERS' SHARE OF INSURANCE LIABILITIES

	2017 KSh '000	2016 KSh '000
Reinsurers' share of:		
- notified claims outstanding (note 28)	324,930	298,627
- claims incurred but not reported (note 28)	41,702	36,114
- unearned premium (note 29)	224,968	139,511
	591,600	**474,252**

Amounts due from reinsurers in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position.

23 OTHER RECEIVABLES

	2017 KSh '000	2016 KSh '000
Due from related parties (note 36(ii))	4,195	8,204
Prepayments	289	584
Utilities and rental deposit	2,996	2,665
Accrued rent	23,110	17,875
Others	3,083	6,344
	33,673	**35,672**

All other receivables are classified as current assets except utilities and rental deposit which are classified as noncurrent assets.

24 DEFERRED ACQUISITION COSTS

	2017 KSh '000	2016 KSh '000
At 1 January	46,336	43,897
Additions	30,348	12,906
Amortization charge	(16,516)	(10,467)
At 31 December	**60,168**	**46,336**

As disclosed in Note 1, the Company's policy is to recognise the proportion of acquisition costs that relate to policies that are in force at year end ("deferred acquisition costs").

25 GOVERNMENT SECURITIES

	2017 KSh '000	2016 KSh '000
(i) Government securities held to maturity		
- Maturing within 1 year	81,972	30,360
- Maturing in 1-5 years	128,032	70,656
- Maturing after 5 years	159,260	133,735
	369,264	**234,751**
At 1 January	234,751	233,628
Additions	164,446	69,402
Amortization Charge	67	1,721
Maturities	(30,000)	(70,000)
At 31 December	**369,264**	**234,751**
(ii) Government securities at fair value through profit and loss		
At 1 January	-	-
Additions	48,142	-
Fair value gain (note 6)	1,375	-
At 31 December	**49,517**	**-**

26 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2017 %	2016 %
Mortgage loans	8.0	9.5
Government securities	8.5	12.1
Deposits with financial institutions	10	8.71

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

27 INSURANCE CONTRACT LIABILITIES

	2017 KSh '000	2016 KSh '000
Short term non-life insurance contracts		
- claims reported and claims handling expenses (note 28)	1,259,072	1,127,802
- claims incurred but not reported (note 28)	201,275	201,247
Total – short term	**1,460,347**	**1,329,049**

Movements in insurance liabilities and reinsurance assets are shown in note 28.

Short term non-life insurance contracts

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2017 and 2016 are not material.

The Company uses historical experience to estimate the ultimate cost of reported claims and the IBNR provision. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

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

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Insurance Contract Liabilities (contd)

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

Accident year	2013 KSh '000	2014 KSh '000	2015 KSh '000	2016 KSh '000	2017 KSh '000	Total KSh '000
Cumulative incurred claims estimate:						
– at end of	520,120	660,481	936,989	718,660	1,046,519	**3,882,769**
– one year later	588,605	770,787	1,083,303	807,401	-	**3,250,096**
– two years	640,475	771,147	1,066,562	-	-	**2,478,184**
– three years	659,230	764,542	-	-	-	**1,423,772**
– four years	662,403	-	-	-	-	**662,403**
Current estimate of cumulative incurred claims	662,403	764,542	1,066,562	807,401	1,046,519	**4,347,427**
Less: cumulative payments to date	(599,218)	(715,957)	(812,244)	(608,893)	(497,194)	**(3,233,506)**
Liability in the statement of financial position	63,185	48,585	254,319	198,508	549,325	**1,113,921**
Liability in respect of prior years	-	-	-	-	-	**145,151**
IBNR						**201,275**
Total gross claims liability included in the statement of financial position						**1,460,347**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Insurance Contract Liabilities (contd)

Accident year	2012 KSh '000	2013 KSh '000	2014 KSh '000	2015 KSh '000	2016 KSh '000	Total KSh '000
Cumulative incurred claims estimate:						
– at end of	418,429	520,120	660,481	936,989	718,660	**3,254,679**
– one year later	499,684	588,605	770,787	1,083,303	-	**2,942,379**
– two years	512,837	640,475	771,147	-	-	**1,924,459**
– three years	543,786	659,230	-	-	-	**1,203,016**
– four years	553,060	-	-	-	-	**553,060**
Current estimate of cumulative incurred claims	553,060	659,230	771,147	1,083,303	718,660	**3,785,400**
Less: cumulative payments to date	(491,548)	(568,863)	(681,432)	(735,602)	(349,735)	**(2,827,180)**
Liability in the statement of financial position	61,512	90,367	89,715	347,701	368,925	**958,220**
Liability in respect of prior years	-	-	-	-	-	**169,582**
IBNR						**201,247**
Total gross claims liability included in the statement of financial position						**1,329,049**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

28 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

	2017			2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	1,127,802	(298,628)	829,174	1,001,147	(325,109)	676,038
Incurred but not reported	201,247	(36,114)	165,133	240,459	(51,987)	188,472
Total at 1 January	**1,329,049**	**(334,742)**	**994,307**	**1,241,606**	**(377,096)**	**864,510**
Cash paid for claims settled in year	(1,038,712)	137,820	(900,892)	(830,991)	155,427	(675,564)
Increase in liabilities						
- arising from current year claims	665,585	(97,707)	567,878	850,803	(137,113)	713,690
- arising from prior year claims	504,425	(72,003)	432,422	67,631	24,041	91,672
Total at 31 December	**1,460,347**	**(366,632)**	**1,093,715**	**1,329,049**	**(334,741)**	**994,308**
Notified claims	1,259,072	(324,930)	934,142	1,127,802	(298,627)	829,175
Incurred but not reported	201,275	(41,702)	159,573	201,247	(36,114)	165,133
Total at 31 December	**1,460,347**	**(366,632)**	**1,093,715**	**1,329,049**	**(334,741)**	**994,308**

29 PROVISIONS FOR UNEARNED PREMIUMS

The unearned premium provision represents the liability for short term business contracts where the Company's obligations are not expired at the year end. Movements in the reserves are shown below:

	2017			2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At 1 January	638,219	(139,511)	498,708	675,439	(182,053)	493,386
Change in the period (net)	272,913	(85,457)	187,456	(37,220)	42,542	5,322
At 31 Decemb	**911,132**	**(224,968)**	**686,164**	**638,219**	**(139,511)**	**498,708**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

30 DEFERRED INCOME TAX

Deferred tax is calculated using the enacted income tax rate of 30% (2016: 30%) The movement on the deferred income tax account is as follows:

	31 December 2017 KSh '000	31 December 2016 KSh '000
At 1 January	33,494	(5,833)
Income statement (charge)/credit (note 11)	(2,621)	11,028
Charge to Other Comprehensive Income	(1,438)	(3,322)
Over provision of deferred tax in prior year	2,125	31,621
At 31 December	**31,560**	**33,494**

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

	1 January 2017 KSh '000	Charged to P/L KSh '000	Charged to OCI KSh '000	31 December 2017 KSh '000
Year ended 31 December 2017				
Property and equipment:				
- on historical cost basis	9,491	3,179	-	12,670
Property and equipment:				
- on revaluation surplus	(45,288)	25	(1,438)	(46,701)
Provisions	78,717	(4,054)	-	74,663
Tax Losses	-	438	-	438
Fair value gains on investment property	(9,426)	(84)	-	(9,510)
Net deferred tax asset/(liability)	**33,494**	**(496)**	**(1,438)**	**31,560**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Deferred Income Tax (contd)

	1 January 2016 KSh '000	Credited to P/L KSh '000	Charged to OCI KSh '000	31 December 2016 KSh '000
Year ended 31 December 2016				
Property and equipment:				
- on historical cost basis	10,,651	(1,160)	-	9,491
Property and equipment:				
- on revaluation surplus	(41,966)	-	(3,322)	(45,288)
Provisions	35,181	43,536	-	78,717
Tax losses	175	(175)	-	-
Fair value gain on investment property	(9,874)	448	-	(9,426)
Net deferred tax (liability)/asset	**(5,833)**	**42,649**	**(3,322)**	**33,494**

31

	2017 KSh '000	2016 KSh '000
(i) OTHER PAYABLES		
Accrued expenses	45,606	42,744
Leave accrual	5,946	6,002
Rental Deposits	20,245	17,946
Payroll liabilities	4,386	8,884
Sundry creditors	8,172	2,875
Stale cheques	1,303	1,278
Other liabilities	29,846	23,516
	115,504	**103,245**
(ii) BANK BORROWINGS		
At 1 January	-	282,477
Loan and interest paid	-	(282,477)
At 31 December	**-**	**-**

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

32 CONTINGENT LIABILITIES

I. Guarantees and bid bonds

The Company renewed an overdraft bank loan facility for Shs 50,000,000 which is secured by a charge over property title. Bank guarantees for Shs 6,467,109 (2016: Shs 2,707,964) have been issued against the bank overdraft facility.

II. Excise duty

The Kenya Revenue Authority issued notifications of outstanding tax assessments on the company amounting to approximately Shs 27,858,000. The directors have made a provision which, based on their assessment they expect to be the final settlement. The provision is not disclosed on the grounds that it is expected to prejudice seriously the on-going negotiations.

33 COMMITMENTS

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2017 KSh '000	2016 KSh '000
Later than 1 year and not later than 5 years	21,206	18,923
Later than 5 years	3717	3,717
	24,923	**22,640**

34 CASH AND CASH EQUIVALENTS

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

	2017 KSh '000	2016 KSh '000
Cash and bank balances	122,072	80,016
Deposits with financial institutions	282,356	150,465
	404,428	**230,481**

Deposits with financial institutions have an average maturity of 6 months (2016: 6 months). The effective interest rate on deposits was 10% per annum (2016: 10.3%).

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

35 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations:

	2017 KSh '000	2016 KSh '000
Profit before tax	17,748	47,026
Adjustments for:		
Interest from investments in government securities (Note 6(ii))	(33,470)	(29,759)
Interest from bank deposits (Note 6(iv))	(15,319)	(15,741)
Interest from mortgage loans (Note 6(iv))	(2,491)	(2,649)
Depreciation (note 16)	18,797	20,695
Amortisation charge (note 17)	7,936	5,378
Gain on sale of investment property (note 7)	-	(27,472)
Gain on sale of equipment	-	(315)
Change in fair value of investment property (note 18)	(1,687)	8,969
Change in fair value of quoted shares (note 19)	(6,543)	20,890
Amortisation of government securities (note 25 (i))	(67)	(1,721)
Unrealized fair value gains on government securities (note 25 (ii))	(1,375)	-
Change in fair value of investment in Kenya Motor Insurance Pool	(1,707)	(4,395)
Changes in:		
Technical provisions	286,863	135,119
Payables arising from reinsurance arrangements	15,649	(38,913)
Deferred acquisition cost	(13,832)	(2,439)
Other receivables	1,999	(17,535)
Receivables arising out of direct insurance	51,001	(9,348)
Receivables arising out of reinsurance business	410	(410)
Other payables	12,259	(706)
Cash generated from operations	**336,171**	**86,674**

36 RELATED PARTY TRANSACTIONS

The Company is related to other Companies through common shareholdings or common directorships.

In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients.

Notes to the Financial Statements

For The Year Ended 31 December 2017 (contd)

Related Party Transactions (contd)

	2017 KSh '000	2016 KSh '000
(i) Transactions with related parties		
Gross earned premium:		
- Related parties – directors	4,788	11,067
- Related parties – other	2,579	2,141
(ii) Outstanding balances with related parties		
Amounts due from related parties		
- Loans advanced to staff	4,118	8,127
- Amount due to related parties		
Southern Shield Holdings	77	77
	4,195	**8,204**
(iii) Mortgage loans to directors and key management staff of the Company		
At 1 January	26,240	25,462
Loans advanced during the period	-	8,280
Loan repayments received	(13,418)	(7,502)
At 31 December	**12,822**	**26,240**
(iv) Key management compensation		
Salaries and other short-term employment benefits	54,749	47,101
	54,749	**47,101**
(v) Directors' remuneration		
Directors' fees	6,129	5,398
Other remuneration (included in key management compensation above)	54,749	47,101
	60,878	**52,499**

37 INCORPORATION

The company is domiciled in Kenya where it is incorporated as a private company limited by shares under the Kenyan Companies Act. The address of the registered office is set out on page 8.

38 CURRENCY

The financial statements are presented in Kenya Shillings (KSh '000).

39 EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report that require disclosure.

General Insurance Business Revenue Account for Year 2017

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine and Aviation	Motor Private	Motor Comm	Workmen's Compens-ation	Personal Accident	Theft	Miscellan-eous	2017 Total
Gross written premium	103,936	30,568	195,468	50,133	276,425	527,095	830,265	201,368	20,398	110,511	43,447	2,389,615
UPR- January 2017	32,376	11,926	83,572	14,064	19,416	177,454	205,041	55,309	11,441	15,445	12,175	638,219
UPR- December 2017	66,907	10,919	70,602	23,883	68,666	252,477	314,731	62,003	6,000	16,461	18,482	911,132
Gross earned premium	**69,404**	**31,575**	**208,438**	**40,314**	**227,175**	**452,072**	**720,574**	**194,674**	**25,839**	**109,495**	**37,141**	**2,116,702**
Gross claims paid	24,308	8,234	57,534	8,527	39,752	267,911	425,910	95,902	10,845	45,706	836	985,465
At 31 December 2017	25,901	4,924	343,870	4,315	61,532	238,593	520,395	194,587	6,345	60,348	(464)	1,460,347
At 1 January 2017	17,611	8,607	328,837	11,572	48,086	239,878	410,145	189,256	8,554	73,694	(7,191)	1,329,049
Gross claims incurred	**32,598**	**4,551**	**72,568**	**1,270**	**53,198**	**266,627**	**536,160**	**101,233**	**8,636**	**32,361**	**7,563**	**1,116,764**
Net written premium	12,602	18,842	34,542	30,834	43,548	500,556	780,966	196,449	12,598	54,578	7,049	1,692,564
UPR- January 2017	3,524	8,054	27,392	4,852	13,493	171,434	196,434	54,281	5,363	10,535	3,347	498,708
UPR- December 2017	6,092	7,170	25,769	9,603	17,440	241,486	299,324	60,644	3,576	10,462	4,597	686,163
Net earned premium	**10,033**	**19,725**	**36,166**	**26,083**	**39,601**	**430,504**	**678,076**	**190,086**	**14,385**	**54,651**	**5,798**	**1,505,109**
Net claims paid	3,984	7,746	26,083	8,527	16,878	260,927	403,563	87,594	3,710	27,994	659	847,666
At 31 December 2017	(669)	3,462	104,011	2,934	40,567	248,780	467,838	193,738	3,315	37,548	(7,809)	1,093,715
At 1 January 2017	(123)	6,801	105,084	11,346	30,697	249,656	378,045	181,015	3,209	37,440	(8,863)	994,308
Net claims incurred	**3,438**	**4,407**	**25,010**	**115**	**26,749**	**260,051**	**493,357**	**100,316**	**3,816**	**28,103**	**1,713**	**947,073**
Commissions payable	16,017	6,037	43,381	7,270	15,845	45,953	72,483	38,593	5,395	12,152	9,325	272,450
Commissions receivable	(18,894)	(3,184)	(51,467)	(2,315)	(24,580)	(2,830)	(6,408)	(196)	(3,193)	(13,983)	(11,910)	(138,959)
Management Expenses	18,105	5,332	34,094	8,744	48,151	91,937	144,816	35,123	3,555	19,275	7,578	416,800
Total expenses	**18,666**	**12,660**	**52,167**	**13,814**	**66,180**	**396,119**	**704,337**	**174,603**	**9,618**	**45,555**	**3,559**	**1,497,364**
Net U/W Profit/(Loss)	**(8,632)**	**7,065**	**(16,001)**	**12,269**	**(26,578)**	**34,385**	**(26,261)**	**15,483**	**4,778**	**9,096**	**2,238**	**7,744**

General Insurance Business Revenue Account for Year 2016

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine and Aviation	Motor Private	Motor Comm	Workmen's Compens-ation	Personal Accident	Theft	Miscellan-eous	2016 Total
Gross written premium	60,801	31,052	222,739	28,414	75,856	408,615	556,893	166,936	29,051	95,055	41,916	1,717,327
UPR- January 2017	36,403	11,563	110,084	2,947	23,435	181,197	190,338	65,002	12,696	19,995	21,780	675,439
UPR- December 2017	32,376	11,926	83,572	14,064	19,416	177,454	205,041	55,309	11,441	15,445	12,175	638,219
Gross earned premium	**64,828**	**30,690**	**249,250**	**17,297**	**79,875**	**412,358**	**542,190**	**176,629**	**30,305**	**99,605**	**51,521**	**1,754,548**
Gross claims paid	7,702	13,899	121,923	677	29,683	244,664	266,434	74,445	8,367	26,325	2,784	796,903
At 31 December 2017	17,611	8,607	328,837	11,572	48,086	239,878	410,145	189,256	8,554	73,694	(7,191)	1,329,049
At 1 January 2017	12,700	7,551	388,259	(5,073)	52,999	219,592	344,496	156,122	7,024	57,383	553	1,241,606
Gross claims incurred	**12,613**	**14,955**	**62,501**	**17,321**	**24,770**	**264,950**	**332,083**	**107,580**	**9,897**	**42,635**	**(4,960)**	884,345
Net written premium	8,720	20,898	58,375	15,265	42,984	393,747	528,352	163,980	14,821	49,263	10,872	1,307,275
UPR- January 2017	4,888	8,170	28,658	2,544	13,380	175,317	181,264	63,765	4,192	8,700	2,509	493,386
UPR- December 2017	3,524	8,054	27,392	4,852	13,493	171,434	196,434	54,281	5,363	10,535	3,347	498,708
Net earned premium	**10,085**	**21,014**	**59,640**	**12,957**	**42,871**	**397,629**	**513,182**	**173,464**	**13,649**	**47,429**	**10,035**	1,301,954
Net claims paid	2,676	10,043	23,507	677	19,363	239,454	250,438	74,198	3,060	15,952	946	640,313
At 31 December 2017	(123)	6,801	105,084	11,346	30,697	249,656	378,045	181,015	3,209	37,440	(8,863)	994,308
At 1 January 2017	4,067	5,749	100,671	(4,019)	29,981	229,603	322,800	152,535	1,747	26,607	(5,229)	864,511
Net claims incurred	**(1,515)**	**11,095**	**27,921**	**16,042**	**20,079**	**259,508**	**305,683**	**102,679**	**4,522**	**26,784**	**(2,688)**	770,109
Commissions payable	13,468	6,104	52,966	3,184	13,745	48,320	57,375	36,457	6,397	8,337	5,294	251,646
Commissions receivable	(21,684)	(2,504)	(50,634)	(777)	(12,238)	(1,857)	(3,457)	(14)	(4,769)	(9,464)	(15,940)	(123,337)
Management Expenses	13,946	7,122	51,088	6,517	17,399	93,722	127,732	38,289	6,663	21,802	9,614	393,895
Total expenses	**4,214**	**21,818**	**81,341**	**24,967**	**38,985**	**399,692**	**487,332**	**177,411**	**12,813**	**47,459**	**(3,720)**	**1,292,313**
Net U/W Profit/(Loss)	**5,871**	**(804)**	**(21,701)**	**(12,010)**	**3,886**	**(2,063)**	**25,850**	**(3,947)**	**836**	**(31)**	**13,755**	**9,641**


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