TAUSI ASSURANCE COMPANY LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

CONTENTS

COMPANY INFORMATION

Board of directors	Mr. Rasik Kantaria	-Chairman
	Mr. Shantilal Shah	
	Mr. Amar Kantaria	
	Mr. Dilesh Bid	
	Mr. Diamond Jamal	
Executive management	Mrs. Rita Thatthi	- Principal Officer / CEO
	Ms. Eva Wambui	- Claims Manager
	Ms. Winfred Muoki	- Legal Manager
	Mr. Crispus Gisemba	- Underwriting Manager
	Mrs. Preeti Shah	- Risk Manager
	Mr Thomas Njoroge	- ICT manager
	Mr Lawi Kariuki	- Manager
	Mr David Maina	- Chief Accountant (joined in 2012)

Company secretary

Highway Registrars
P.O. Box 72519, 00200
Nairobi.

Head office and registered office

Plot L.R. No. 209/2259/1
Tausi Court, Tausi Road
Off Muthithi Road, Westlands
P.O. Box 28889, 00200
Nairobi,
Kenya.
Tel: 3746602/3/17
Mobile: 0729145888/0735145020
Fax: 3746618

Independent auditor

RSM Ashvir
Certified Public Accountants
1st Floor, Reliance Centre,
Woodvale Grove, Westlands
P.O. Box 349, 00606
Nairobi,
Kenya.

Principal banker

Prime Bank Ltd,
Nairobi.

CHAIRMAN'S STATEMENT

It is my pleasure on behalf of the Board of Directors to present the Audited Annual Report and Financial Statements of Tausi Assurance Company Limited for the year ended 31st December 2011.

During the year, the Kenyan economy faced a sharp increase in inflation and lending rates, weakening of the Kenyan shilling, a steep rise in energy costs and drought. The economy grew by about 3.5% to 4% with inflation at close to 20% by the end of the year. All these factors contributed to creating a tough operating environment.

The Company made a profit of Kshs. 89m before tax in 2011 compared to Kshs. 148m in the year 2010. The Gross written premium rose to Kshs. 614m from Kshs.554m in 2010 recording an increase of 11%.

An Underwriting profit of Kshs. 41.3m was generated in 2011, down from Kshs.56.3m in 2010 due to increased claims. The claims payable increased from Kshs. 152m in 2010 to Kshs. 218m in 2011 with the majority of the losses arising from Fire, Theft, Motor, WC and Marine. The investment income was Kshs. 92m in 2011, up from 76.8m in 2010. There was a loss of Kshs. 34m from the fair value assets in 2011. The total assets of the Company have grown to Kshs.1.56b from Kshs. 1.45b.

We continue to commit ourselves to giving back to society by supporting the needy. During the year the Company donated generously towards noble causes which include famine relief supplies, bursaries to needy school children, funds to cancer organizations and cancer patients and eye operations at Lions Sight first Hospital, Rhino conservation, building of boreholes in Northern Kenya through the Red Cross and many others.

Despite the tough operating environment, the board is glad to report a profitable year in 2011.

The Directors have recommended a final dividend for the year at Kshs. 11/= per share.

Acknowledgement

Without the loyal support of our customers, we would not be where we are and the Board thanks and acknowledges the confidence they have shown in our Company.

Finally, I take this opportunity to gratefully thank my fellow directors, the management and staff, business partners for their continued support and contribution towards the Company's success.

RASIK KANTARIA

BOARD OF DIRECTORS

Mr. Rasik Kantaria, Chairman

Mr. Rasik Kantaria joined the Tausi Board in 1993 and was elected Chairman in March 2006.

A Bachelor of Science (Economics) graduate,Mr.Kantaria is also the Chairman of Prime Bank Limited, Leisure Lodge Beach and Golf Resort and First Merchant Bank, Malawi.

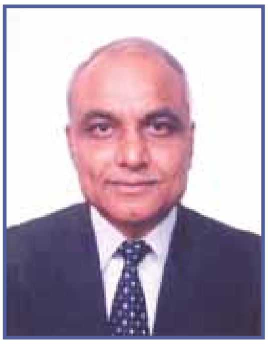
He is a Director of Deposit Protection Fund Board of Kenya

Mr. Dilesh Somchand Bid, Director

Mr. Dilesh S. Bid joined the Tausi Board in September 2009. He has over 30 years experience in the insurance industry and has served on the executive Board of the Association of Insurance Brokers of Kenya for over 10 years.

Mr. Bid was appointed in 2008 by the Insurance Regulatory Authority to serve as a member of the Industry Risk Evaluation Committee; which position he currently holds.

Mr. Shantilal K. Shah, Director



Mr. Shantilal Shah joined the Tausi Board in May 2005 and chairs the Audit Board Committee of the Company.

A Bachelor of Commerce (Honours) graduate, Mr. Shantilal Shah is an FCA (Chartered Accountant, UK), an FCPA (Certified Public Accountant, Kenya) and a CPS (Certified Public Secretary, Kenya).

He is also a Director of Prime Bank Limited

Mr. Amar Kantaria, Director

Mr. Amar Kantaria joined the Tausi Board in June 2007 and chairs the Asset/Liability Board committee of the Company.

A Bachelor of Arts (Honours) graduate, Mr. Amar Kantaria is also an MBA in International Management.

Currently the Executive Director of Prime Bank Limited, Mr. Kantaria is also a Director of Kenya Community Development Fund and Treasurer of the Rotary Club Nairobi.

Mr. Diamond Jamal Naran, Director

Mr. Diamond Jamal Naran joined the Tausi board in July 2010.

He is a fellow of the Chartered Certified Accountants, UK (FCCA) and an Associate of the Australian Society of Certified Practising Accountants (ASA,Australia).

He is a member of Certified Public Accountants of Kenya (CPA(K) and Certified Public Secretaries of Kenya (CPS(K).

He has worked as a Group Accountant for Milling Industries Limited, a large group of companies in the animal feeds Industry in Australia and is a former Executive Partner of PKF Kenya a position he held from August 1988 to December 2009 when he retired.

EXECUTIVE MANAGEMENT TEAM

Standing from left: Thomas Mwaura - I.C.T. Manager, Lawi Kariuki - Manager, David Maina - Chief Accountant, Chrispus Gisemba - Underwriting Manager
Seated from left: Winnie Muoki - Legal Manager, Rita Thatthi - C.E.O, Eva Wambui - Claims Manager, Preeti N. Shah - Risk Manager

EXECUTIVE MANAGEMENT PROFILE

MRS. RITA THATTHI CEO and Principal Officer **Qualifications** BCom Honours(Accounting Option) University of Nairobi Associate of the Chartered Insurance Institute (ACII) (U.K.) Started Insurance Career in 1983 **Contact Details:** Direct Line: 020-3751707 Main Line: 020-3746602/03/17 **Email** rita_thatthi@tausiassurance.com	**MS. EVA WAMBUI** Claims Manager **Qualifications** Bachelor of Arts- Punjab University (India) Started Insurance Career in 1993 **Contact Details:** Direct Line: 020-3751710 Main Line: 020-3746602/03/17 **Email** eva@tausiassurance.com	**MR. LAWI KARIUKI** Manager **Qualifications** Bachelor of Commerce (Insurance Option)UoN Associate of the Insurance Institute of Kenya (AIIK) Started Insurance Career in 1999 **Contact Details:** Main Line: 020-3746602/03/17 **Email** lawi@tausiassurance.com	**MR.THOMAS NJOROGE** ICT Manager **Qualifications** Bachelor of Information Technology - Kenyatta University Oracle Certified Proffesional (OCP) Microsoft Certified Systems Engineer (MCSE) Cisco Certified Network Associate (CCNA) **Contact Details**: Main Line: 020-3746602 **Email** thomas.njoroge@tausiassurance.com
MRS. PREETI HIMANSHU SHAH Manager- Underwriting **Qualifications** Fellow of the Chartered Insurance Institute (FCII) (UK) Associate of the Chartered Insurance Institute (ACII) (UK) Started Insurance career in 1984 **Contact Details** Main Line: 020-3746602/03/17 **Email** pshah@tausiassurance.com	**MS.WINFRED MUOKI** Legal Manager **Qualifications** Bachelor of Law and Bachelor of Social Legislation- Dr. Babasaheb Ambedkar Marathwada University (India), Certified Public Secretary (Kenya) Advocate (Kenya) Started Insurance Career in 2004 **Contact Details** Main Line: 020-3746602/03/17 **Email** winnie@tausiassurance.com	**MR. CRISPUS GISEMBA** Manager - Underwriting **Qualifications** BA Degree- Agra University (India) Masters of Arts - Bundelkhand University (India) Licentiate Insurance (All India Insurance Institute) Started Insurance Career in 1996 **Contact Details** Direct Line: 020-3751711 Main Line: 020-3746602/03/17 **Email** cgisemba@tausiassurance.com	**MR. DAVID MAINA** Chief Accountant **Qualifications** B.Com Honours (Accounting Option) University of Nairobi Certified Public Accountant of Kenya(CPAK), COP. Started Insurance Career in 2001 **Contact Details** Main Line: 020-3746602 **Email** David@tausiassurance.com

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st December 2011, which disclose the state of affairs of the company.

Incorporation
The company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address of the registered office is set out on page 3.

Principal activities
The company is licenced under Section 31 of the Insurance Act (Cap. 487) to transact in all classes of general insurance business with the exception of aviation.

Results and dividends
The net profit for the year of Shs. 54,039,979 (2010: Shs. 113,601,887) has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 36,346,618 (2010:Shs 33,042,380).

Directorate
The directors who held office during the year and to the date of this report are set out on page 5.

Auditor
The company's auditor, RSM Ashvir, has expressed its willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act, subject to the approval by the Commissioner of Insurance in accordance with Section 56 (4) of the Insurance Act.

By order of the board

Rasik Kantaria

Chairman

Nairobi, 16th April 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of these financial statements, which are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 31st December 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the board of directors on 16th April 2012 and signed on its behalf by:

Rasik Kantaria
Director

Shantilal Shah
Director

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF TAUSI ASSURANCE COMPANY LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Tausi Assurance Company Limited, set out on pages 10 to 41 which comprise the balance sheet at 31st December 2011, and the profit and loss account, statements of comprehensive income, changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31st December 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

RSM Ashvir
Certified Public Accountants
Nairobi

30th April 2012
047/2012

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2011

Income	Note	2011 Shs	2010 Shs
Gross earned premiums	4	594,216,180	527,388,188
Insurance premium ceded to reinsurer	4	(206,760,172)	(201,741,560)
Net earned premiums	4	387,456,008	325,646,628
Investment income	5	91,865,369	76,823,278
Other income	6	-	41,510
Commissions earned		79,801,356	69,653,212
Changes in fair value of financial assets at fair value through profit & loss	7	(34,641,062)	26,125,184
Total income		524,481,671	498,289,812
Expenses			
Claims payable	8	(312,546,141)	(275,541,725)
Insurance claims recoverable from reinsurers	8	94,883,538	123,681,445
Net insurance claims	8	(217,662,603)	(151,860,280)
Administrative and other expenses		(114,151,066)	(104,261,748)
Commissions payable		(103,601,712)	(94,004,388)
Profit before tax	9	89,066,290	148,163,396
Tax (expense)	10	(35,026,311)	(34,561,509)
Profit for the year attributable to the owners of the company		54,039,979	113,601,887
Dividends:			
Final - proposed		36,346,618	33,042,380

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2011

		2011	2010
		Shs	Shs
Profit for the year		54,039,979	113,601,887
Other comprehensive income:			
Surplus on revaluation of property, plant and equipment	14	9,000,000	14,450,000
Changes in fair value of available for sale financial assets	17	(9,087,021)	-
Deferred income tax relating to components of other comprehensive income		26,106	(4,335,000)
Other comprehensive income for the year, net of tax		(60,915)	10,115,000
Total comprehensive income for the year attributable to the owners of the company		53,979,064	123,716,887

BALANCE SHEET AT 31ST DECEMBER 2011

	Note	2011 Shs	2010 Shs
EQUITY			
Share capital	12	330,423,800	330,423,800
Revaluation surplus	13	44,403,665	38,103,665
Fair value reserve		(6,360,915)	-
Retained earnings		102,603,333	84,909,972
Proposed dividends		36,346,618	33,042,380
Total Equity		507,416,501	486,479,817
REPRESENTED BY:			
Assets			
Property plant and equipment	14	137,874,414	127,659,523
Intangible assets	15	11,557,402	15,191,484
Held to maturity financial assets	16	423,143,360	203,367,251
Available for sale financial assets	17	27,591,779	-
Financial assets at fair value through profit or loss	18	61,463,425	94,916,487
Loans receivable	20	63,151,294	47,969,361
Current tax recoverable		3,303,198	9,573,483
Receivables arising out of reinsurance arrangements		10,003,597	10,105,742
Receivables arising out of direct insurance arrangements		30,700,891	22,202,167
Reinsurers' share of insurance liabilities	21	316,501,489	295,490,201
Other receivables	22	53,727,544	52,793,727
Deposits with financial institutions	23	381,346,329	522,129,476
Cash and bank balances	23	14,633,432	51,943,675
Total assets		1,534,998,154	1,453,342,577
Liabilities			
Insurance contract liabilities	24	672,686,695	618,129,629
Unearned premium	26	257,698,628	233,090,402
Payables arising from reinsurance arrangements		27,178,354	35,970,547
Payables arising out of direct insurance arrangements		11,463,926	27,237,586
Other payables	27	40,437,163	34,097,928
Deferred income tax	19	18,116,887	18,336,668
Total liabilities		1,027,581,653	966,862,760
		507,416,501	486,479,817

The financial statements on pages 10 to 41 were approved for issue by the board of directors on 16th April 2012 and were signed on its behalf by:

Rasik Kantaria
Director

Rita Thatthi
Principal Officer

Shantilal Shah
Director

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital Shs	Fair value reserve Shs	Revaluation surplus Shs	Retained earnings Shs	Proposed Dividend Shs	Total Shs
At 1st January 2010		219,963,300	-	28,653,665	83,874,865	-	332,491,830
Net profit for the year		-	-		113,601,887	-	113,601,887
Gain on revaluation of property, plant and equipment		-	-	14,450,000	-	-	14,450,000
Deferred income tax relating to components of other comprehensive income		-	-	(4,335,000)	-	-	(4,335,000)
Total comprehensive income for the year		-	-	10,115,000	113,601,887	-	123,716,887
Transactions with owners:							
Dividends:							
- Proposed for 2010		-	-	-	(33,042,380)	33,042,380	-
Rights issue - shares issued for cash		29,986,100	-	-	-	-	29,986,100
Bonus issue of shares		80,474,400	-	-	(80,474,400)	-	-
Transfer of excess depreciation		-	-	(950,000)	950,000	-	-
Deferred income tax on transfer of excess depreciation		-	-	285,000	-	-	285,000
		110,460,500	-	(665,000)	(112,566,780)	33,042,380	30,271,100
At 31st December 2010		330,423,800	-	38,103,665	84,909,972	33,042,380	486,479,817
At 1st January 2011		330,423,800	-	38,103,665	84,909,972	33,042,380	486,479,817
Net profit for the year		-	-	-	54,039,979	-	54,039,979
Loss on revaluation of available for sale financial assets		-	(9,087,021)		-	-	(9,087,021)
Gain on revaluation of property, plant and equipment		-	-	9,000,000	-	-	9,000,000
Deferred income tax relating to components of other comprehensive income		-	2,726,106	(2,700,000)	-	-	26,106
Total comprehensive income for the year		-	(6,360,915)	6,300,000	54,039,979	-	53,979,064
Transactions with owners:							
Dividends:							
- Proposed for 2011		-	-	-	(36,346,618)	36,346,618	-
- Paid in 2011		-	-	-	-	(33,042,380)	(33,042,380)
		-	-	-	(36,346,618)	3,304,238	(33,042,380)
		330,423,800	(6,360,915)	44,403,665	102,603,333	36,346,618	507,416,501

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2011

	Note	2011 Shs	2010 Shs
Cash flows from operating activities			
Profit before income tax		89,066,290	148,163,396
Adjustments for:			
Depreciation on property, plant and equipment	14	3,240,612	4,991,621
Amortisation of intangible assets	15	3,915,182	4,117,484
Fair value gain/(loss) on financial assets at fair value through profit or loss	7	34,641,062	(26,125,184)
Investment income		(84,731,937)	(74,401,759)
Gain on sale of financial assets at fair value through profit or loss		-	(561,485)
Gain on sale of property, plant and equipment	6	-	(41,510)
Dividend income	5	(3,065,678)	(1,860,034)
Operating profit before working capital changes		43,065,531	54,282,529
Increase in:			
Insurance contract and other receivables		(30,341,684)	(52,445,670)
Increase / (decrease) in:			
Insurance contract and other payables		36,330,448	24,054,354
Provision for unearned premium		24,608,226	23,735,896
Cash generated from operations		73,662,521	49,627,109
Income tax paid		(28,949,701)	(78,996,036)
Net cash generated from/(used in) from operating activities		44,712,820	(29,368,927)
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(4,455,503)	(4,073,400)
Purchase of intangible assets	15	(281,100)	(229,500)
Work in progress - intangible assets	15	-	(2,461,885)
Purchase of financial assets at fair value through profit or loss	18	(1,188,000)	(9,189,482)
Proceeds from disposal of financial assets at fair value through profit or loss		-	3,026,536
Proceeds from disposal of property, plant and equipment		-	100,000
Loans issued net of repayments		(15,181,933)	6,486,228
Deposits with financial institutions		401,783,147	(102,139,825)
Investment in held-to-maturity investments		(194,776,109)	(11,723,964)
Investment in available for sale investment	17	(36,678,800)	-
Investment income		84,731,937	74,401,759
Dividends received		3,065,678	1,860,034
Net cash generated from/(used in) investing activities		237,019,317	(43,943,499)
Cash flows from financing activities			
Payment of dividends		(33,042,380)	-
Issue of share capital	12	-	29,986,100
Net cash (used in) / generated from financing activities		(33,042,380)	29,986,100
Net increase/(decrease) in cash and cash equivalents		248,689,757	(43,326,326)
Cash and cash equivalents at 1st January		81,943,675	125,270,001
Cash and cash equivalents at 31st December	23	330,633,432	81,943,675

NOTES

1. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings (Shs), which is also the functional currency (see (c)). The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

The financial statements comprise a profit and loss account (income statement), statement of comprehensive income, balance sheet (statement of financial position), statement of changes in equity, statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the profit and loss account. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expense (including reclassification adjustments) that are not recognised in the profit and loss account as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognised in the statement of changes in equity.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the company. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in Note 2.

b) New and revised standards

i) Adoption of new and revised standards

The following new and revised standards and interpretations have become effective for the first time for the financial year beginning 1st January 2011 and have been adopted by the company where relevant to its operations:

- IAS 24 - Related Party Disclosures
- IAS 32 (Amendment) - Classification of Rights Issues
- IFRIC 14 (Amendment) - Prepayments of a Minimum Funding Requirement
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments
- The annual improvements project published in May 2010

The adoption of the above has had no material effect on the company's accounting policies or disclosures.

ii) New and revised standards and interpretations which have been issued but are not effective

'The following revised standards and interpretations have been published but are not yet effective for the year beginning 1st January 2011. The company has not early adopted any of these amendments or interpretations.

'- IAS 12 (Amendment) - Income Taxes: the amendment requires that a rebuttable presumption be made that the carrying property of investment property carried at fair value will be recovered through sale. It is effective for accounting periods beginning on or after 1st July 2011.

'- IAS 1 (Amendment) - Presentation of financial statements: the amendment will require entities to group items of other comprehensive income according to whether or not they will be subsequently reclassified to profit or loss. It is effective for accounting periods beginning on or after 1st July 2012.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

b) New and revised standards (continued)

ii) New and revised standards and interpretations which have been issued but are not effective (continued)

'- IAS 19 (Amendment) - Employee Benefits:The key amendments include elimination of the 'corridor approach', modification of accounting for termination payments, and changes to the disclosure requirements for defined benefit plans. The amendments are effective for accounting periods beginning on or after 1st January 2013.

'- IFRS 9 - Financial Instruments will eventually replace IAS 39 - Financial Instruments, Recognition and Measurement. The new standard will be effective for annual periods beginning on or after 1st January 2013, but this might be revised to 1st January 2015. The chapters published to date cover recognition, derecognition, classification and measurement of financial assets and financial liabilities. Most gains or losses on financial assets measured at fair value will then be recognised in profit or loss, but the company will be able to make an irrevocable election to present changes in fair value of investments in equity instruments in other comprehensive income.

'- IFRS 13 - Fair Value Measurement: the new standard defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements: it does not introduce any new requirements to measure an asset or a liability at fair value. The new standard is effective for accounting periods beginning on or after 1st January 2013.

The Directors have assessed the potential impact of the above and expect that they will not have a significant impact on the company's financial statements for 2012

c) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates), which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

d) Insurance contracts

i) Classification

The company issues insurance contracts that transfer insurance risk or financial risk or both from the insured to the insurer. The company carries on general insurance business and its insurance contracts are classified into categories in accordance with the provisions of the Insurance Act. Classes of general insurance include: engineering, fire - domestic risks and industrial and commercial risks, liability, marine, motor - private and commercial vehicles, personal accident, theft, workmen's compensation and employers' liability, and miscellaneous (i.e. class of insurance not included under those listed above).

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of motor vehicles, inclusive of third party risks but exclusive of transit risks.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

i) Classification (continued)

Personal accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified nature.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

ii) Recognition and measurement

a) Premium income

Premium income is recognised on assumption of risk, and includes estimates of premiums due but not yet received, less an allowance for cancellations and unearned premiums. Unearned premiums represent the proportion of premiums written up to the accounting date that relates to the unexpired terms of policies in force at the balance sheet date. Unearned premium is computed using the 1/24th method.

Commission income in respect of insurance ceded is recognised over the period in which related premium is earned.

b) Claims

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims Incurred But Not Reported ('IBNR'). 'IBNR' provisions are based on management experience and estimates, but are subject to a minimum percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

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

Estimates of salvage recoveries from disposal are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled.

c) Commissions payable and commission receivable

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

A proportion of commissions receivable is deferred and amortised over the period in which the related premium income is earned.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

ii) Recognition and measurement (continued)

d) Liability adequacy test

At each balance sheet date, the company performs liability adequacy tests to ensure the adequacy of contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charge to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

e) Reinsurance contracts held

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

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

The company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost.

e) Investment income

Rental income from operating leases is recognised on a straight line basis over the period of the lease.

Dividend income is recognised when the right to receive the payment is established.

Interest income is recognised on a time proportion basis using the effective interest method.

f) Property, plant and equipment

All categories of property, plant and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment. Buildings are subsequently carried at a revalued amount, based on annual valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the profit and loss account in the year in which they are incurred.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

f) Property, plant and equipment (continued)

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

Depreciation is calculated using the straight line and reducing balance method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate - %	
Buildings	2	Straight line
Motor vehicles	25	Reducing balance
Furniture & fittings	12.5	"
Computers, copiers & faxes	30	"

As no parts of items of property, plant and equipment have a cost that is significant in relation to the total cost of the item, the same rate of depreciation is applied to the whole item.

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

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

g) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using an annual rate of 20%.

h) Impairment of non-financial assets

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

i) Retirement benefit obligations

Defined contribution

The company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company. A defined contribution plan is a plan under which the company pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The company's contributions are charged to the profit and loss account in the year to which they relate.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

i) Retirement benefit obligations (continued)

The company and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate.

j) Short term employee benefits

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

k) Leases

Operating leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as leasehold land under property, plant and equipment and are subsequently amortised over the lease period.

l) Income taxes

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

Current tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

m) Financial instruments

The company classifies its financial instruments into the following categories:

i) **Financial assets and financial liabilities at fair value through profit or loss,** which comprise financial assets and financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term or to generate short-term profit-taking.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

m) Financial instruments (continued)

ii) **Held-to-maturity investments** which comprise non-derivative financial assets with fixed or determinable payments

iii) **Loans and receivables** which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates at fair value through profit or loss or as available-for-sale financial assets.

iv) **Available-for-sale financial assets**, which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets.

v) **Financial liabilities,** which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

<u>Financial assets</u>

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method, while all other financial assets are carried at their fair values, without deduction for transaction costs that may be incurred on sale.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The fair value for quoted shares is determined using the quoted bid price at the balance sheet date while that of non-quoted shares is determined using valuation techniques.

The company assesses at each balance sheet whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in fair value of financial assets at fair value through profit or loss are recognised in the profit and loss account.

Changes in fair value for available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss), which are recognised in the profit and loss account. In the year of sale, the cumulative gain or loss recognised in other comprehensive income is recognised in the profit or loss account as a reclassification adjustment.

Changes in the carrying values and impairment losses of held-to-maturity investments and loans and receivables are recognised in the profit and loss account. Trade and other receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

m) Financial instruments (continued)

All financial assets are classified as non-current except financial assets at fair value through profit or loss, those with maturities of less than 12 months from the balance sheet date, those which the directors have the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

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

Financial assets held during the year were classified as follows:

- Demand and term deposits with banking institutions and trade and other receivables were classified as 'loans and receivables'.

- Government securities were classified as 'held-to-maturity investments, except those designated as "Available for sale" on inception of contract.

- Investments in quoted and non-quoted shares were classified as available-for-sale financial assets.

Financial liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account.

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Borrowings and trade and other liabilities are classified as financial liabilities by the directors and are carried at amortised cost.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

n) Provision for liabilities and charges

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

NOTES (CONTINUED)

o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

p) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity.

q) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting.

2. Critical accounting estimates and judgments in applying accounting policies

In the process of applying the accounting policies adopted by the company, the directors make certain estimates and judgements that may affect the carrying values of assets and liabilities in the next financial period. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate such estimates and judgements at each financial reporting date to ensure that they are still believed to be reasonable under the prevailing circumstances based on the information available.

a) Key sources of estimation uncertainty

Key assumptions about the future made by the directors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include

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

Estimates made in the determination of outstanding claims under insurance contracts including an estimate of IBNR. Such estimates are made on the basis of the best information available at the time the records for the year are closed. The amount of claims outstanding provision net of amounts recoverable under reinsurance contracts at the year end amounted to Shs. 439,816,793 (2010: Shs. 402,073,160).

ii) Impairment losses on receivables

The company regularly reviews its receivables to assess impairment. In determining whether an impairment loss should be recorded in the profit and loss account, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of any receivables.

b) Significant judgements made in applying the company's accounting policies

The judgements made by the directors in the process of applying the company's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

i) Whether assets are impaired; and

ii) Whether the company has the ability to hold 'held-to maturity' investments until they mature. If the company were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.

NOTES (CONTINUED)

3. Risk management objectives and policies

The company's activities expose it to a variety of risks which include insurance risk and financial risk (credit, liquidity and market risks). The company's overall risk management policies are set out by the board and implemented by management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the company's performance by setting acceptable levels of risk. The company has developed policies on underwriting, reinsurance, credit and has defined criteria for the approval of intermediaries and reinsurers. The company does not hedge against any risks.

a) Insurance risk

The risk under any one insurance contract is the possibility of the occurrence of the insured event and the uncertainty of the resulting claim. The inherent nature of an insurance contract makes this risk random and unpredictable as the number and amount of claims and benefits vary from year to year from levels established by using statistical data.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces is that the actual claims and benefit payments may exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than that estimated at the time of the claim intimation and subsequent revision based on the best information available at the time of estimation.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. In addition, the company reviews the risk of each client prior to the renewal of insurance policies.

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

i) Underwriting

The company ensures that the underwriting department takes into consideration the class of risk being underwritten, the amount of the risk and the specific risks attached to the industry and the client before underwriting or renewing policies. Management has put in place controls ensure that high risk policies are not renewed through a scrutiny of the claims paid ratios and the profitability on each client portfolio.

Reinsurance is used to manage insurance risk. Reinsurance arrangements include excess of loss and stop-loss coverage. The effect of such reinsurances is that the company should not suffer total net insurance losses in any one year.

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

a) Insurance risk (continued)

i) Underwriting (continued)

The concentration of insurance risk before and after reinsurance by class of insurance is summarised below:

Year ended 31st December 2011	Class of Insurance						
	Motor Shs	Fire Shs	Theft Shs	Workmens' compensation Shs	Marine Shs	Others Shs	Total Shs
Gross earned premiums	142,307,267	114,673,187	71,707,824	98,279,256	101,209,561	66,039,085	594,216,180
Less: Premiums ceded to reinsurers	(2,568,706)	(89,112,699)	(36,098,172)	(2,356,097)	(39,511,999)	(37,112,499)	(206,760,172)
Net earned premiums	139,738,561	25,560,488	35,609,652	95,923,159	61,697,562	28,926,586	387,456,008
Gross earned premiums - %	23.95%	19.30%	12.07%	16.54%	17.03%	11.11%	100%
Premiums ceded to reinsurers - %	1.24%	43.10%	17.46%	1.14%	19.11%	17.95%	100%
Net earned premiums - %	36.07%	6.60%	9.19%	24.76%	15.92%	7.47%	100%

Year ended 31st December 2010	Class of Insurance						
	Motor Shs	Fire Shs	Theft Shs	Workmen's compensation Shs	Marine Shs	Others Shs	Total Shs
Gross earned premiums	124,488,775	106,549,602	67,660,092	87,486,242	79,515,432	61,688,045	527,388,188
Less: premiums ceded to reinsurers	(10,251,548)	(83,758,139)	(37,486,040)	(5,662,277)	(26,785,133)	(37,798,423)	(201,741,560)
Net earned premiums	114,237,227	22,791,463	30,174,052	81,823,965	52,730,299	23,889,622	325,646,628
Gross earned premiums - %	23.60%	20.20%	12.83%	16.59%	15.08%	11.70%	100%
Premiums ceded to reinsurers - %	5.08%	41.52%	18.58%	2.80%	13.28%	18.74%	100%
Net earned premiums - %	35.08%	7.00%	9.27%	25.13%	16.19%	7.34%	100%

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

a) Insurance risk (continued)

ii) Claims

a) Claims management

The frequency and severity of claims is affected by several factors including the underwriting strategy, adequate reinsurance arrangements and proactive claims handling.
The company has a specialised claims department dealing with claims management. The department assesses all claims and also carries out investigations where such claims do not conform to expected norms. Claims are reviewed individually at the time of intimation and subsequently reviewed when new information regarding the claim is received, and at least once every quarter, and adjusted to reflect the last information based on the underlying facts, contractual terms and conditions, assessments provided by independent loss adjustors and changes in the current laws, amongst other factors. The company actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments. Outstanding claims are not discounted.

b) Claims provisions

Claims are paid on a claims-occurrence basis and the company is liable for all insured events that occurred during the contract term, even if the loss is notified after the end of the contract term. As a result, liability claims are settled over a long period of time. In addition, a provision is made by the management for claims that may have occurred but have not been reported to the company at the date of the financial statements. Such provisions are termed as Incurred But Not Reported (IBNR), and are based on the managements' experience and estimates, but subject to the minimum percentages set by the Commissioner of Insurance.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of expected subrogation value and other recoveries. In calculating the claims outstanding provision, the company uses the information available and adjusts this for an estimate based on the claims experience. The claims experience is based on the loss ratio, which is defined as the ratio between the ultimate cost of the insurance claims to the insurance premium earned in a particular financial year in relation to such claims. The company takes all reasonable steps to ensure that it has all appropriate information regarding its claims exposures. However, due to the inherent uncertainty in establishing claims provisions, it is likely that the financial settlement may be different from the assessed liability. Moreover, the amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedents on matters of contract and tort. Casualty claims are also subject to the emergence of new types of latent claims, but no allowance is included for this at the balance sheet date.

The estimation of IBNR is subject to greater degrees of uncertainty than the estimation of the cost of settling claims already notified to the company. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claim. For casualty contracts, IBNR proportion to the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the company considers any information available from loss adjustors and information on the cost of settling claims with similar characteristics in previous periods.

The rates used by the company for each class of insurance business are:

Year	Class of Insurance				
	Motor	Fire	Workmen's compensation	Marine	Others
2011	5%	1%	5%	2.5%	5%
2010	5%	1%	5%	2.5%	5%
Minimum prescribed rates by Commissioner of Insurance	5%	1%	5%	2.5%	5%

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Financial risk

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a company-wide basis. The company does not grade the credit quality of financial assets that are neither past due nor impaired. Key areas where the company is exposed to credit risk are:

- financial assets at fair value through profit and loss;
- deposits with financial institutions;
- loans receivable;
- receivables arising out of reinsurance arrangements; and
- receivables arising out of direct insurance arrangements.

Exposure to credit risk on loans receivable is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans in the form of mortgage interests over property and other registered securities over assets.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings.

The company has reinsurance arrangements in place to minimise its exposure to claims. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. Credit risk on receivables arising out of reinsurance arrangements is managed by assessing the creditworthiness of reinsurers on an annual basis by reviewing their financial strength prior to finalisation of any contract.

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

Due to the inherent nature of Government securities, these are considered to have minimal credit risk. For other assets which are not material, credit risk is not managed.

The maximum exposure of the company to credit risk as at the balance sheet date is as follows:

	Fully performing Shs	Past due but not impaired Shs	Past due and impaired Shs	Total Shs
31st December 2011				
Financial assets at fair value through profit or loss	61,463,425	-	-	61,463,425
Loans receivable	63,151,294	-	-	63,151,294
Held-to-maturity financial assets	423,143,360	-	-	423,143,360
Available for sale financial assets	27,591,779			27,591,779
Deposits with financial institutions	346,346,329	-	35,000,000	381,346,329
Receivables arising out of reinsurance arrangements	3,638,226	6,365,371	-	10,003,597
Receivables arising out of direct insurance arrangements	30,700,890	-	-	30,700,890
Reinsurers' share of insurance liabilities	316,501,489	-	-	316,501,489
Current tax recoverable	3,303,198	-	-	3,303,198
Other receivables	48,443,683	5,283,861	-	53,727,544
Cash and bank balances	14,633,432	-	-	14,633,432
	1,338,917,105	11,649,232	35,000,000	1,385,566,337

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

i) Credit risk (continued)

	Fully performing Shs	Past due but not impaired Shs	Past due and impaired Shs	Total Shs
31st December 2010				
Financial assets at fair value through profit or loss	94,916,487	-	-	94,916,487
Loans receivable	47,969,361	-	-	47,969,361
Held-to-maturity investments	203,367,251	-	-	203,367,251
Deposits with financial institutions	487,129,476	-	35,000,000	522,129,476
Receivables arising out of reinsurance arrangements	9,532,714	573,028	-	10,105,742
Receivables arising out of direct insurance arrangements	22,202,167	-	-	22,202,167
Reinsurers' share of insurance liabilities	295,490,201	-	-	295,490,201
Other receivables	45,428,286	7,365,441	-	52,793,727
Cash and bank balances	51,943,675	-	-	51,943,675
	1,257,979,618	7,938,469	35,000,000	1,300,918,087

The past due receivables are not impaired and continue to be paid. The carrying amount of net receivables approximate their fair value. The company does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

ii) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The company manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table below and overleaf analyses assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

ii) Liquidity risk (continued)

At 31st December 2011	90 days Shs	1 year Shs	1 - 5 years Shs	Over 5 years Shs
Liabilities and shareholders' funds				
Insurance contract liabilities	67,268,670	134,537,339	470,880,687	-
Payables arising from reinsurance arrangements	27,178,354	-	-	-
Unearned premium	19,783,075	237,915,553	-	-
Other payables	10,321,447	30,040,715	25,000	50,000
Payables arising out of direct insurance arrangements	11,463,926	-	-	-
	136,015,472	402,493,607	470,905,687	50,000

At 31st December 2010	90 days Shs	1 year Shs	1 - 5 years Shs	Over 5 years Shs
Liabilities and shareholders' funds				
Insurance contract liabilities	48,535,935	145,607,000	423,986,694	-
Payables arising from reinsurance arrangements	-	35,970,547	-	-
Unearned premium	58,273,402	174,817,000	-	-
Other payables	10,108,291	23,964,637	25,000	-
	116,917,628	380,359,184	424,011,694	-

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

a) Interest rate risk

The company is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes.

Had the weighted average interest rates been 1% higher / lower, with all other variables held constant, post-tax profit would have increased / decreased by Shs. 6,266,629 (2010: Shs. 5,414,263).

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

iii) Market risk (continued)

b) Currency risk

Currency risk arises on financial instruments that are denominated in foreign currency. The company's underwriting, reinsurance and claims settlements are done in the principal currency, which is the Kenya Shilling. The limited exposure to foreign currency risk relates to the amounts invested in foreign currency bank accounts.

c) Other price risk

Other price risk arises on financial instruments because of changes in the price of a financial instrument. The company is exposed to other price risk on its investment in quoted shares. If the price of financial assets through profit or loss decreased / increased by 5 percentage points, with other factors remaining constant, post-tax profit would decrease / increase by Shs. 2,151,220 (2010: Shs. 3,322,077).

c) Capital management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by Insurance Act (Cap. 487);
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk; and
- to maintain as strong capital base to support the development of its business.

The Insurance Act (Cap. 487) specifies the minimum amount and type of capital that must be held. The minimum required capital (presented in the table below) must be maintained at all times throughout the year. The company is subject to insurance solvency regulations. With effect from 14th June 2010, the required minimum capital has been increased to Shs. 300,000,000.

The table below summarises the minimum required capital and the regulatory capital held:

	2011 Shs	2010 Shs
Capital held	330,423,800	330,423,800
Required minimum capital	300,000,000	300,000,000

NOTES (CONTINUED)

4. Net insurance premium revenue

The premium income of the company, analysed between the principal classes of business is as follows:

	Gross Shs	Reinsurance Shs	Net Shs
Year ended 31st December 2011			
Fire	114,673,187	(89,112,699)	25,560,488
Motor	142,307,267	(2,568,706)	139,738,561
Workmen's compensation	98,279,256	(2,356,097)	95,923,159
Marine	101,209,561	(39,511,999)	61,697,562
Theft	71,707,824	(36,098,172)	35,609,652
Others	66,039,085	(37,112,499)	28,926,586
	594,216,180	(206,760,172)	387,456,008

	Gross Shs	Reinsurance Shs	Net Shs
Year ended 31st December 2010			
Fire	106,549,602	(83,758,139)	22,791,463
Motor	124,488,775	(10,251,548)	114,237,227
Workmen's compensation	87,486,242	(5,662,277)	81,823,965
Marine	79,515,432	(26,785,133)	52,730,299
Theft	67,660,092	(37,486,040)	30,174,052
Others	61,688,045	(37,798,423)	23,889,622
	527,388,188	(201,741,560)	325,646,628

5. Investment income

	2011 Shs	2010 Shs
Interest income		
-Interest from government securities	39,519,205	22,185,332
-Bank deposit interest	39,022,457	41,932,007
-Loan interest	6,190,275	6,366,363
Net rental income	3,947,531	3,910,057
Gain on sale of financial assets at fair value through profit and loss	-	561,485
Dividend income		
-Financial assets at fair value through profit and loss	3,065,678	1,860,034
Miscellaneous income	120,223	8,000
	91,865,369	76,823,278

6. Other income

	2011 Shs	2010 Shs
	-	41,510
Gain on disposal of property, plant and equipment	-	41,510

7. Changes in fair value

	2011 Shs	2010 Shs
Financial assets at fair value through profit and loss	(34,641,062)	26,125,184
Available for sale financial assets recognised in other comprehensive income	(9,087,021)	-
	(43,728,083)	26,125,184

NOTES (CONTINUED)

8. Net insurance claims

The claims of the company, analysed between the principal classes of business is as follows:

	Gross Shs	Reinsurance Shs	Net Shs
Year ended 31st December 2011			
Motor	(105,372,595)	12,051,778	(93,320,817)
Workmen's compensation	(39,824,879)	1,732,869	(38,092,010)
Theft	(49,201,138)	10,371,561	(38,829,577)
Others	(118,147,529)	70,727,330	(47,420,199)
	(312,546,141)	94,883,538	(217,662,603)

	Gross Shs	Reinsurance Shs	Net Shs
Year ended 31st December 2010			
Motor	(66,090,688)	4,699,488	(61,391,200)
Workmen's compensation	(18,678,869)	780,980	(17,897,889)
Theft	(28,360,537)	9,918,513	(18,442,024)
Others	(162,411,631)	108,282,464	(54,129,167)
	(275,541,725)	123,681,445	(151,860,280)

9. Profit before tax expense

(a) Items charged

The following items have been charged in arriving at profit before tax expense:

	2011 Shs	2010 Shs
Employee benefits expense (Note 9(b))	76,862,120	66,217,992
Depreciation on property, plant and equipment	3,240,612	4,991,621
Amortisation of intangible assets	3,915,182	3,752,008
Auditors' remuneration		
Current year	1,510,149	1,347,328
Provision for impairment in financial assets		
Loans and receivables	-	303,164

(b) Employee benefits expense

The following items are included in employee benefits expense:

	2011 Shs	2010 Shs
Retirement benefit costs		
Defined contribution scheme	2,889,378	1,645,382
National Social Security Fund	161,800	151,000

NOTES (CONTINUED)

10. Tax expense

	2011 Shs	2010 Shs
Current tax	35,219,987	34,702,121
Prior years (over) provision of current tax	-	(25,011)
Deferred income tax (Note 19)	(193,675)	(115,601)
Tax expense	35,026,311	34,561,509

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

	2011 Shs	2010 Shs
Profit before tax	89,066,290	148,163,396
Tax calculated at a tax rate of 30%	26,719,887	44,449,019
Tax effect of:		
Expenses not deductible for tax purposes	12,174,322	1,842,377
Prior years (over) provision of current tax	-	(25,011)
Income not subject to tax	(3,867,898)	(11,704,876)
Tax expense	35,026,311	34,561,509

11. Dividends per share

At the forthcoming annual general meeting, a final dividend in respect of the year ended 31st December 2011 of Shs. 11 per share amounting to Shs 36,346,618 (2010: Shs. 33,042,380) is to be proposed. Where applicable, payment of non-qualifying dividend is subject to deduction of withholding tax at a rate of 5% for residents and 10% for non-residents.

12. Share capital

	No. of ordinary shares	Issue and paid up capital Shs
At 1st January and 31st December 2011	3,304,238	330,423,800
At 1st January 2010	2,199,633	219,963,300
Rights issue	299,861	29,986,100
Bonus issue	804,744	80,474,400
At 31st December 2010	3,304,238	330,423,800

The total number of authorised ordinary shares is 4,000,000 (2010: 4,000,000) with a par value of Shs. 100 each.

13. Revaluation surplus

The revaluation surplus arose on the revaluation of the building and is stated at net of deferred income tax. The Commissioner of Insurance has allowed capitalisation of revaluation reserves up to a maximum of 50%. The reserve is not distributable.

NOTES (CONTINUED)

14. Property, plant and equipment

	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture & fittings Shs	Computers, copiers & faxes Shs	Total Shs
At 1 January 2010						
Cost or valuation	5,000,000	97,500,000	2,093,750	20,564,783	14,121,237	139,279,770
Accumulated depreciation	(479,980)	-	(952,404)	(11,478,352)	(12,182,800)	(25,093,536)
Net carrying value	4,520,020	97,500,000	1,141,346	9,086,431	1,938,437	114,186,234
Year ended 31 December 2010						
Opening carrying value	4,520,020	97,500,000	1,141,346	9,086,431	1,938,437	114,186,234
Revaluation	-	14,450,000	-	-	-	14,450,000
Disposals	-	-	-	(58,490)	-	(58,490)
Additions	-	-	65,000	1,305,315	2,703,085	4,073,400
Depreciation charge	(55,920)	(1,950,000)	(301,587)	(1,291,657)	(1,392,457)	(4,991,621)
Closing carrying value	4,464,100	110,000,000	904,759	9,041,599	3,249,065	127,659,523
As at 31 December 2010						
Cost or valuation	5,000,000	111,950,000	2,158,750	21,522,098	16,824,322	157,455,170
Accumulated depreciation	(535,900)	(1,950,000)	(1,253,991)	(12,480,499)	(13,575,257)	(29,795,647)
Net carrying value	4,464,100	110,000,000	904,759	9,041,599	3,249,065	127,659,523
Year ended 31 December 2011						
Opening carrying value	4,464,100	110,000,000	904,759	9,041,599	3,249,065	127,659,523
Revaluation surplus	-	9,000,000	-	-	-	9,000,000
Additions	-	-	-	2,760,386	1,695,117	4,455,503
Depreciation charge	(55,920)	-	(226,189)	(1,475,248)	(1,483,255)	(3,240,612)
Closing carrying value	4,408,180	119,000,000	678,570	10,326,737	3,460,927	137,874,414
At 31st December, 2011						
Cost or valuation	5,000,000	119,000,000	2,158,750	24,282,484	18,519,439	168,960,673
Accumulated depreciation	(591,820)	-	(1,480,180)	(13,955,747)	(15,058,512)	(31,086,259)
Net carrying value	4,408,180	119,000,000	678,570	10,326,737	3,460,927	137,874,414

Buildings were valued on 22 December 2011 by R.R. Oswald & Co. Ltd., independent valuers, on the basis of open market value. The carrying amount of the asset was restated to the revalued amount of the asset, and the resulting gain arising on revaluation net of deferred income tax was recognised in other comprehensive income and credited to the revaluation surplus in equity.

NOTES (CONTINUED)

14. Property, plant and equipment(continued)

If the building was stated on the historical cost basis, the carrying values would be as follows:

	Buildings Shs
31 December 2011	
Cost	50,000,000
Accumulated depreciation	(10,000,000)
Net book value	40,000,000
31 December 2010	
Cost	50,000,000
Accumulated depreciation	(9,000,000)
Net book value	41,000,000

15. Intangible assets

	Software Shs	Work in progress Shs	Total Shs
Cost			
At 1st January 2011	3,228,745	18,760,039	21,988,784
Additions	281,100	-	281,100
At 31st December 2011	3,509,845	18,760,039	22,269,884
Amortisation			
At 1st January 2011	3,045,292	3,752,008	6,797,300
Charge for the year	163,173	3,752,008	3,915,182
At 31st December 2011	3,208,465	7,504,016	10,712,482
Net book value			
At 31st December 2011	301,380	11,256,023	11,557,402
At 31st December 2010	183,453	15,008,031	15,191,484

16. Held to maturity financial assets

	2011 Shs	2010 Shs
Non-current		
Treasury bills	9,253,012	-
Treasury bonds	331,088,567	145,584,854
Listed bonds	57,801,781	57,782,397
	398,143,360	203,367,251
Current		
Treasury bills	25,000,000	-
	423,143,360	203,367,251

Treasury bonds amounting to Shs.96,000,000 (2010: Shs. 76,000,000) are held under lien with the Central Bank of Kenya in accordance with Section 32(1) of the Insurance Act (Cap. 487). These funds are not available to finance the company's operations.

The fair value of the Treasury Bonds carried at amortised cost at the balance sheet date, based on prices published by brokers, was Shs.311 million

NOTES (CONTINUED)

17. Available for sale financial assets	2011 Shs	2010 Shs
Non current		
Purchases	36,678,800	-
Total loss recognised in other comprehensive income	(9,087,021)	-
	27,591,779	-

18. Financial assets at fair value through profit or loss	2011 Shs	2010 Shs
Current (Quoted securities):		
Start of the year	94,916,487	62,066,872
Purchases	1,188,000	9,189,482
Sales	-	(2,465,051)
Total fair value (loss)/gain recognised in profit or loss (Note 7)	(34,641,062)	26,125,184
At end of year	61,463,425	94,916,487

19. Deferred income tax

Deferred income tax is calculated using the tax rate of 30% (2010: 30%). The movement on the deferred income tax account is as follows:

	2011 Shs	2010 Shs
At 1st January	18,336,668	14,402,269
(Credit) / charge to profit and loss account (Note 10)	(193,675)	(115,601)
(Credit) to equity	-	(285,000)
Charge / (credit) to other comprehensive income	(26,106)	4,335,000
At 31st December	18,116,887	18,336,668
The charge / (credit) to other comprehensive income relates to:		
Loss on changes in fair value of available for sale financial assets	(9,087,021)	-
Surplus on revaluation of property, plant and equipment	9,000,000	14,450,000

Deferred tax assets and liabilities, deferred tax charge / (credit) in the profit and loss account, in equity and in the statement of comprehensive income are attributable to the following items:

	At 1st January 2011 Shs	Charged/ (Credited) to profit & loss Shs	(Credited) to equity Shs	Charged/ (credited) to other Comprehensive income Shs	At 31st December 2011 Shs
Excess depreciation over capital allowances	(35,129)	16,942	-	-	(18,187)
Provision for liabilities and charges	(528,203)	(210,617)	-	-	(738,820)
Loss in value of available for sale financial assets	-	-	-	(2,726,106)	(2,726,106)
Revaluation surplus of property plant and equipment	18,900,000	-	-	2,700,000	21,600,000
Net deferred tax liability	18,336,668	(193,675)	-	(26,106)	18,116,887

NOTES (CONTINUED)

19. Deferred income tax (continued)

	At 1st January 2010	(Credited) to profit & loss	(Credited) to equity	Charged to other comprehensive income	At 31st December 2010
	Shs	Shs	Shs	Shs	Shs
Excess depreciation over capital allowances	10,959	(46,088)	-	-	(35,129)
Provision for liabilities and charges	(458,690)	(69,513)	-	-	(528,203)
Revaluation surplus	14,850,000	-	(285,000)	4,335,000	18,900,000
Net deferred tax liability	14,402,269	(115,601)	(285,000)	4,335,000	18,336,668

20. Loans receivable

	2011 Shs	2010 Shs
Mortgage loans	60,558,686	42,927,592
Other loans	2,592,608	5,041,769
Total loans	63,151,294	47,969,361

21. Reinsurers' share of insurance liabilities

Reinsurers' share of:		
- Unearned premium (Note 26)	83,631,587	79,433,732
- Notified claims outstanding (Note 25)	226,622,113	209,651,497
- Claims incurred but not reported (Note 25)	6,247,789	6,404,972
	316,501,489	295,490,201

Amounts due from reinsurers in respect of claims paid by the company on contracts that are reinsured are included as receivables arising out of reinsurance arrangements.

22. Other receivables

	2011 Shs	2010 Shs
Deposits and prepayments	1,884,458	3,099,375
Sundry debtors	2,168,343	1,674,210
Deferred commission	44,390,882	40,654,701
Deposits with courts	5,283,861	7,365,441
	53,727,544	52,793,727

23. Cash and cash equivalents

Cash and bank balances	14,633,432	51,943,675
Deposits with financial institutions	381,346,329	522,129,476
	395,979,761	574,073,151

NOTES (CONTINUED)

23. Cash and cash equivalents (continued)

Fixed deposits amounting to Shs. 35 million (2010: Shs. 35 million) are held under lien with NIC Bank Ltd. These funds are not available to finance the company's day to day operations.

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

	2011 Shs	2010 Shs
Cash and bank balances	14,633,432	51,943,675
Treasury bill (held to maturity investments)	25,000,000	-
Deposits with financial institutions	291,000,000	30,000,000
	330,633,432	81,943,675

24. Insurance contract liabilities

	2011 Shs	2010 Shs
Short term non-life insurance contracts:		
- Claims reported and claims handling expenses	643,327,984	591,616,676
- Claims incurred but not reported	29,358,711	26,512,953
Total gross insurance liabilities (Note 25)	672,686,695	618,129,629

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 2011 and 2010 are not material.

NOTES (CONTINUED)

25. Movements in insurance liabilities and reinsurance assets

Short-term insurance business	2011 Gross Shs	2011 Reinsurance Shs	2011 Net Shs	2010 Gross Shs	2010 Reinsurance Shs	2010 Net Shs
Notified claims	591,616,676	209,651,497	381,965,179	555,496,971	157,452,667	398,044,304
Incurred but not reported	26,512,953	6,404,972	20,107,981	24,762,634	6,309,906	18,452,728
At 1st January	618,129,629	216,056,469	402,073,160	580,259,605	163,762,573	416,497,032
Cash paid for claims settled in year	(274,802,507)	(94,883,538)	(179,918,969)	(290,196,267)	(123,681,445)	(166,514,822)
Increase in liabilities						
- arising from current year claims	329,433,636	115,124,562	214,309,074	297,268,281	119,541,063	177,727,218
- arising from prior year claims	(74,063)	(3,427,591)	3,353,528	30,798,010	56,434,278	(25,636,268)
At 31 st December	672,686,695	232,869,902	439,816,793	618,129,629	216,056,469	402,073,160
Notified claims	643,327,984	226,622,113	416,705,871	591,616,676	209,651,497	381,965,179
Incurred but not reported	29,358,711	6,247,789	23,110,922	26,512,953	6,404,972	20,107,981
At 31st December	672,686,695	232,869,902	439,816,793	618,129,629	216,056,469	402,073,160

26. Provision for unearned premium

	2011 Gross Shs	2011 Reinsurance Shs	2011 Net Shs	2010 Gross Shs	2010 Reinsurance Shs	2010 Net Shs
At 1st January	233,090,402	79,433,732	153,656,670	209,354,506	82,582,709	126,771,797
Net increase/(decrease) in the period	24,608,226	4,197,855	20,410,371	23,735,896	(3,148,977)	26,884,873
31st December	257,698,628	83,631,587	174,067,041	233,090,402	79,433,732	153,656,670

NOTES (CONTINUED)

27. Other payables

	2011 Shs	2010 Shs
Accrued expenses	7,108,496	6,089,107
Withholding tax on commissions	221,929	264,867
Other liabilities	6,014,113	5,678,370
Deferred commission	27,092,625	22,065,584
	40,437,163	34,097,928

28. Contingent liabilities

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

ii) Mr. Mukesh Patel, a former director of the company had filed a suit against the company for the defective appointment of Mr. Amar Kantaria as a director of the company at the Annual General Meeting of 22nd July 2009.

iii) One shareholder has applied to the Court for an injunction restraining the company from offering additional shares to two of the shareholders, and also against one of the current directors from offering himself for re-election.

iv) Subsequent to the rights issue approved at the Annual General Meeting of the company held on 22nd July 2009, two shareholders have separately filed a suit against the company and have applied to the Court to determine the allocation of shares which were unsubscribed during the rights issue. At the hearing of 1st July 2010 of one of the cases, the plaintiff's advocate acknowledged that the injunction had been overtaken by events. The matter was therefore stood over generally.

The directors are of the opinion that the above litigations will not have a material effect on the company over and above the liability already provided in the financial statement or on any actions taken by the directors subject to the suit during his tenure at the company.

29. Related party transactions

The company is related to other companies which are related through common shareholding or common directorships.

The following transactions were carried out with related parties.

	2011 Shs	2010 Shs
i) Transactions with related parties		
Gross premiums written	202,057,071	195,946,815
Net claims incurred	19,084,895	941,168
Commission paid	31,882,744	29,818,851
ii) Outstanding balances with related parties		
Outstanding premium	11,813,890	-
Claims payable	7,605,000	1,150,000
Deposits with financial institutions	99,000,000	79,000,000
Current account balances	14,625,709	51,697,770

NOTES (CONTINUED)

29. Related party transactions (continued)

ii) Outstanding balances with related parties (continued)

	2011 Shs	2010 Shs
Mortgage loans receivable:		
- Staff	-	376,495
Other related parties	29,848,127	-
Other loans receivable:		
- Staff	277,877	515,832

The loans to related parties bear market rates of interest and are secured by pledge of security documents.

All related party transactions are at arm's length on terms and conditions as offered to other clients. There are no impairment provisions held against any related party balances.

iii) Directors' remuneration

	2011 Shs	2010 Shs
Directors' remuneration		
- As non-executives (included in Note 29(iv))	1,500,000	1,200,000
- Fees	2,850,000	1,575,000
	4,350,000	2,775,000

iv) Key management compensation

	2011 Shs	2010 Shs
Salaries and other employment benefits	32,635,949	29,675,866
Post-employment benefits	1,424,503	751,782
	34,060,452	30,427,648

v) Contingencies

	2011 Shs	2010 Shs
Guarantees	2,345,454	3,239,255

The guarantees have been issued to third parties by Prime Bank Ltd. on behalf of the company in the ordinary course of business. Based on the estimate of the financial effect of the contingencies and the corresponding obligation from the third parties, no loss is anticipated.

30. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2011 Shs	2010 Shs
Intangible assets	2,590,077	-

APPENDIX I

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Class of insurance business	Engineering	Fire Domestic	Fire Industrial	Public Liability	Marine	Motor Private	Motor Commercial	Personal Accident	Theft	Workmens' Compensation	Miscellaneous	2011 Total	2010 Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	
Gross premiums written	26,559,766	24,690,291	93,315,277	4,927,477	103,942,205	91,219,220	60,420,195	12,256,423	74,641,139	98,609,705	24,044,853	614,626,551	554,273,061
Change in net unearned premiums	739,999	(1,694,062)	(1,638,319)	60,871	(2,732,644)	(6,640,113)	(2,692,035)	(1,143,051)	(2,933,315)	(330,449)	(1,407,253)	(20,410,371)	(26,884,873)
Gross earned premiums	27,299,765	22,996,229	91,676,958	4,988,348	101,209,561	84,579,107	57,728,160	11,113,372	71,707,824	98,279,256	22,637,600	594,216,180	527,388,188
Less: premiums ceded to reinsurers	(21,126,168)	(10,988,718)	(78,123,981)	(1,174,415)	(39,511,999)	(1,569,764)	(998,942)	(7,300,937)	(36,098,172)	(2,356,097)	(7,510,979)	(206,760,172)	(201,741,560)
Net earned premiums	6,173,597	12,007,511	13,552,977	3,813,933	61,697,562	83,009,343	56,729,218	3,812,435	35,609,652	95,923,159	15,126,621	387,456,008	325,646,628
Gross claims paid	(15,091,744)	(4,568,153)	(43,929,783)	(359,196)	(45,329,641)	(48,363,622)	(40,492,843)	(151,768)	(38,125,661)	(34,644,730)	(3,745,367)	(274,802,507)	(290,196,267)
Changes in gross outstanding claims	(4,991,271)	(3,106,134)	(870,284)	(882,581)	4,350,192	(5,350,051)	(11,166,079)	883,828	(11,075,477)	(5,180,149)	(355,627)	(37,743,633)	14,654,542
Less: reinsurance recoverable	11,770,711	1,064,615	38,160,776	(11,686)	19,547,979	2,646,090	9,405,688	116,635	10,371,561	1,732,869	78,300	94,883,538	123,681,445
Net claims incurred	(8,312,304)	(6,609,672)	(6,639,291)	(1,253,463)	(21,431,470)	(51,067,583)	(42,253,234)	848,695	(38,829,577)	(38,092,010)	(4,022,694)	(217,662,602)	(151,860,280)
Commissions receivable	6,988,686	2,975,716	26,487,988	349,638	13,343,155	-	-	2,529,286	22,503,064	17,884	4,605,939	79,801,356	69,653,212
Commissions payable	(5,850,984)	(4,646,306)	(22,685,878)	(996,485)	(16,349,595)	(8,420,578)	(5,839,086)	(2,469,847)	(14,366,066)	(19,785,512)	(2,191,375)	(103,601,712)	(94,004,388)
Expenses of management	(4,522,633)	(4,204,296)	(15,889,851)	(839,057)	(17,699,419)	(15,532,932)	(10,288,432)	(2,087,040)	(12,709,994)	(16,791,394)	(4,094,390)	(104,659,438)	(93,103,892)
Total expenses and commissions	(3,384,931)	(5,874,886)	(12,087,741)	(1,485,904)	(20,705,859)	(23,953,510)	(16,127,518)	(2,027,601)	(4,572,996)	(36,559,022)	(1,679,826)	(128,459,794)	(117,455,068)
Underwriting (loss) / profit	(5,523,637)	(477,047)	(5,174,056)	1,074,566	19,560,233	7,988,250	(1,651,534)	2,633,529	(7,792,920)	21,272,128	9,424,101	41,333,612	56,331,280