TAUSI ASSURANCE COMPANY LTD

ANNUAL REPORT AND FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 ST DECEMBER 2012

CONTENTS

Board of directors	Mr. Rasik Kantaria	- Chairman
	Mr. Shantilal Shah	
	Mr. Amar Kantaria	
	Mr. Dilesh Bid	
	Mr. Diamond Jamal	
	Mr. Dinesh Kapila (appointed on 7th November 2012)	
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	- IT Manager
	Mr. Lawi Kariuki	- Manager

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.

The directors submit their report together with the audited financial statements for the year ended 31st December 2012, 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 1.

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. 149,797,932 (2011: Shs. 54,039,979) has been added to retained earnings. During the year, an interim dividend of Shs. 43,615,946 was approved by directors.

Directorate

The directors who held office during the year and to the date of this report are set out on page 1.

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

…………………………….
Director

Nairobi ……………………………………. 2013

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 and loss for that year. It also requires the directors to ensure that the company maintains proper accounting records which 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 2012 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 the next twelve months from the date of this statement.

Approved by the board of directors on …………………………………... 2013 and signed on its behalf by:

…………………………….
Director

……………………………
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 5 to 37, which comprise the balance sheet at 31st December 2012, and the profit and loss account, statements of comprehensive income, changes in equity and 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 2012 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.

Certified Public Accountants
Nairobi

………………………………………. 2013

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 Shs	2011 Shs
Gross earned premiums	4	698,740,872	594,216,180
Insurance premiums ceded to reinsurers	4	(257,262,111)	(206,760,172)
Net insurance premium revenue	4	441,478,761	387,456,008
Investment income	5	151,367,346	91,865,369
Other income	6	104,888	-
Commissions earned		84,618,294	79,801,356
Changes in fair value of financial assets at fair value through profit or loss	7	5,980,184	(34,641,062)
Total income		683,549,473	524,481,671
Claims payable	8	(374,556,065)	(312,546,141)
Insurance claims recoverable from reinsurers	8	132,463,829	94,883,538
Net insurance claims	8	(242,092,236)	(217,662,603)
Administrative and other expenses		(127,961,285)	(114,151,066)
Commissions payable		(116,476,965)	(103,601,712)
Total expenses		(244,438,250)	(217,752,778)
Profit before tax	9	197,018,987	89,066,290
Tax (expense)	10	(47,221,055)	(35,026,311)
Profit for the year attributable to the owners of the company		149,797,932	54,039,979
Dividends:			
Interim	11	43,615,946	-
Final - proposed	11	-	36,346,618

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 Shs	2011 Shs
Profit for the year		149,797,932	54,039,979
Other comprehensive income:			
Surplus on revaluation of property, plant and equipment	14	-	9,000,000
Changes in fair value of available for sale financial assets	17	14,058,340	(9,087,021)
Deferred income tax relating to components of other comprehensive income	19	-	26,106
Other comprehensive income for the year, net of tax		14,058,340	(60,915)
Total comprehensive income for the year attributable to the owners of the company		163,856,272	53,979,064

BALANCE SHEET AT 31ST DECEMBER 2012

	Note	2012 Shs	2011 Shs
EQUITY			
Share capital	12	396,508,600	330,423,800
Revaluation surplus	13	43,437,665	44,403,665
Fair value reserve		7,697,425	(6,360,915)
Retained earnings		144,080,519	102,603,333
Proposed dividends		43,615,946	36,346,618
Total equity		635,340,155	507,416,501
REPRESENTED BY:			
Assets			
Property, plant and equipment	14	138,845,191	137,874,414
Intangible assets	15	9,772,914	11,557,402
Held-to-maturity financial assets	16	541,905,468	423,143,360
Available for sale financial assets	17	41,650,119	27,591,779
Financial assets at fair value through profit or loss	18	80,171,734	61,463,425
Loans receivable	20	125,256,402	63,151,294
Current tax recoverable		-	3,303,198
Receivables arising out of reinsurance arrangements		14,276,029	10,003,597
Receivables arising out of direct insurance arrangements		48,341,403	30,700,891
Reinsurers' share of insurance liabilities	21	370,714,015	316,501,489
Other receivables	22	71,986,683	53,727,544
Deposits with financial institutions	23	365,774,023	381,346,329
Cash and bank balances	23	13,063,818	14,633,432
Total assets		1,821,757,799	1,534,998,154
Liabilities			
Insurance contract liabilities	24	721,106,541	672,686,695
Unearned premium	26	320,159,927	257,698,628
Payables arising from reinsurance arrangements		83,358,833	27,178,354
Payables arising out of direct insurance arrangements		-	11,463,926
Other payables	27	35,610,386	40,437,163
Current tax payable		14,080,846	-
Deferred income tax	19	12,101,111	18,116,887
Total liabilities		1,186,417,644	1,027,581,653
		635,340,155	507,416,501

The financial statements on pages 5 to 37 were approved for issue by the board of directors on …………………………………….. 2013 and were signed on its behalf by:

……………………………
Director

…………………………….
Director

………………………….
Principal Officer

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2012

	Note	Share capital Shs	Fair value reserve Shs	Revaluation surplus Shs	Retained earnings Shs	Proposed dividends Shs	Total Shs
At 1st January 2011		330,423,800	-	38,103,665	84,909,972	33,042,380	486,479,817
Profit for the year		-	-	-	54,039,979	-	54,039,979
Loss on revaluation of available for sale financial assets	17	-	(9,087,021)	-	-	-	(9,087,021)
Gain on revaluation of property, plant and equipment	14	-	-	9,000,000	-	-	9,000,000
Deferred income tax relating to components of other comprehensive income	19	-	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)
At 31st December 2011		330,423,800	(6,360,915)	44,403,665	102,603,333	36,346,618	507,416,501
At 1st January 2012		330,423,800	(6,360,915)	44,403,665	102,603,333	36,346,618	507,416,501
Profit for the year		-	-	-	149,797,932	-	149,797,932
Bonus issue of shares	12	66,084,800	-	-	(66,084,800)	-	-
Gain on revaluation of available for sale financial assets	17	-	14,058,340	-	-	-	14,058,340
Transfer of excess depreciation	19	-	-	(1,380,000)	1,380,000	-	-
Total comprehensive income for the year		-	14,058,340	(1,380,000)	85,093,132	-	163,856,272
Transactions with owners:							
Deferred income tax on transfer of excess depreciation		-	-	414,000	-	-	414,000
Dividends:							
- Interim for 2012		-	-	-	(43,615,946)	43,615,946	-
- Paid in 2012		-	-	-	-	(36,346,618)	(36,346,618)
		-	-	414,000	(43,615,946)	7,269,328	(35,932,618)
At 31st December 2012		396,508,600	7,697,425	43,437,665	144,080,519	43,615,946	635,340,155

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 Shs	2011 Shs
Cash flows from operating activities			
Profit before income tax		197,018,987	89,066,290
Adjustments for:			
Depreciation on property, plant and equipment	14	6,779,146	3,240,612
Amortisation of intangible assets	15	4,409,788	3,915,182
Fair value (gain) / loss on financial assets at fair value through profit or loss	7	(5,980,184)	34,641,062
Investment income		(142,196,700)	(84,731,937)
(Gain) on sale of property, plant and equipment	6	(104,888)	-
Dividend income	5	(2,540,655)	(3,065,678)
Operating profit before working capital changes		57,385,494	43,065,531
(Increase) in insurance contract and other receivables		(94,384,609)	(30,341,685)
(Decrease) / increase in insurance contract and other payables		88,309,622	36,330,449
Increase in provision for unearned premium		62,461,299	24,608,226
Cash generated from operations		113,771,806	73,662,521
Income tax paid		(35,438,786)	(28,949,701)
Net cash generated from operating activities		78,333,020	44,712,820
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(7,825,036)	(4,455,503)
Purchase of intangible assets	15	(2,625,300)	(281,100)
Purchase of financial assets at fair value through profit or loss	18	(12,728,125)	(1,188,000)
Proceeds from disposal of property, plant and equipment		180,000	-
Loans issued net of repayments		(62,105,108)	(15,181,933)
Deposits with financial institutions		(196,427,694)	401,783,147
Investment in held-to-maturity investments		(143,762,108)	(194,776,109)
Investment in available for sale investments		-	(36,678,800)
Investment income		142,196,700	84,731,937
Dividends received		2,540,655	3,065,678
Net cash (used) / generated from investing activities		(280,556,016)	237,019,317
Cash flows from financing activities			
Payment of dividends		(36,346,618)	(33,042,380)
Net cash used in financing activities		(36,346,618)	(33,042,380)
Net (decrease) / increase in cash and cash equivalents		(238,569,614)	248,689,757
Cash and cash equivalents at 1st January		330,633,432	81,943,675
Cash and cash equivalents at 31st December	23	92,063,818	330,633,432

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 standard has become effective for the first time in the financial year beginning 1st January 2012 and have been adopted by the company.
- IFRS 7 (Amendment) - *Disclosures - Transfers of financial assets:* The amendments improve the disclosure requirements in relation to transferred financial assets.

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 2012. The company has not early adopted any of these amendments or interpretations.
- 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.
- 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.

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)

- 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 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.

- IFRS 7 (Amendment) - *Financial Instruments - Disclosures*: this amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities on the entity's financial position. The amendment is effective for accounting periods beginning on or after 1st January 2013.
- The annual improvements project published in May 2012.

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 2013.

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.

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.

1. Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

i) Classification (continued)

Fire insurance business means the business of affecting and carrying out contracts of insurance, other 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 year 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 acquisition costs 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.

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 charged 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 bi-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 or 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 - %	
Leasehold land	Over the life of the lease	
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)

Defined contribution (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.

1. Summary of significant accounting policies (continued)

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.

ii) **Held-to-maturity investments** which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the company has a positive intention and ability to hold to maturity.

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.

Financial assets

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.

1. Summary of significant accounting policies (continued)

m) Financial instruments (continued)

Financial assets (continued)

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.

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 shares were classified as financial assets at fair value through profit or loss.

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.

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.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

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.

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. 468,024,339 (2011: Shs. 439,816,793).

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.

2. Critical accounting estimates and judgments in applying accounting policies (continued)

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.

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 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 2012	**Class of Insurance**						
	Motor Shs	**Fire Shs**	**Theft Shs**	**Workmen's compensation Shs**	**Marine Shs**	**Others Shs**	**Total Shs**
Gross earned premiums	165,694,395	154,775,966	78,013,927	107,104,073	108,870,670	84,281,841	698,740,872
Less: premiums ceded to reinsurers	(10,554,260)	(118,764,216)	(34,449,692)	(2,894,551)	(40,170,140)	(50,429,252)	(257,262,111)
Net earned premiums	155,140,135	36,011,750	43,564,235	104,209,522	68,700,530	33,852,589	441,478,761
Gross earned premiums - %	23.71%	22.15%	11.16%	15.33%	15.58%	12.06%	100%
Premiums ceded to reinsurers - %	4.10%	46.16%	13.39%	1.12%	15.61%	19.60%	100%
Net earned premiums - %	35.14%	8.16%	9.87%	23.60%	15.56%	7.67%	100%

Year ended 31st December 2011	**Class of Insurance**						
	Motor Shs	**Fire Shs**	**Theft Shs**	**Workmens' 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%

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.

3. Risk management objectives and policies (continued)

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

Year	Class of Motor private	Fire	Workmen's compensation	Marine	Others
2012	5%	1%	5%	2.5%	5%
2011	5%	1%	5%	2.5%	5%
Minimum prescribed rates by Commissioner of Insurance	5%	1%	5%	2.5%	5%

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.

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

i) Credit risk (continued)

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 2012				
Financial assets at fair value through profit or loss	80,171,734	-	-	80,171,734
Loans receivable	125,256,402	-	-	125,256,402
Held-to-maturity investments	541,905,468	-	-	541,905,468
Available for sale financial assets	41,650,119	-	-	41,650,119
Deposits with financial institutions	330,774,023	35,000,000	-	365,774,023
Receivables arising out of reinsurance arrangements	14,276,029	-	-	14,276,029
Receivables arising out of direct insurance arrangements	48,341,403	-	-	48,341,403
Reinsurers' share of insurance liabilities	370,714,015	-	-	370,714,015
Other receivables	71,986,683	-	-	71,986,683
Cash and bank balances	13,063,818	-	-	13,063,818
	1,638,139,694	35,000,000	-	1,673,139,694

	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 investments	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	30,700,891	-	-	30,700,891
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
	1,338,917,106	46,649,232	-	1,385,566,338

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.

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

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 analyses liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

At 31st December 2012	**90 days Shs**	**1 year Shs**	**1 - 5 years Shs**	**Over 5 years Shs**
Liabilities				
Insurance contract liabilities	72,110,654	144,221,308	504,774,579	-
Payables arising out of reinsurance arrangements	83,358,833	-	-	-
Unearned premium	19,783,075	300,376,852	-	-
Other payables	35,610,386	-	-	-
	210,862,948	444,598,160	504,774,579	-

At 31st December 2011	**90 days Shs**	**1 year Shs**	**1 - 5 years Shs**	**Over 5 years Shs**
Liabilities				
Insurance contract liabilities	67,268,670	134,537,339	470,880,687	-
Payables arising out of 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

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. 7,230,511 (2011: Shs. 6,266,629).

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 6,091,093 (2011: Shs. 2,151,220).

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. 300,000,0000.

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

	2012 Shs	2011 Shs
Capital held	396,508,600	330,423,800
Required minimum capital	300,000,000	300,000,000

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 2012			
Fire	154,775,966	(118,764,216)	36,011,750
Motor	165,694,395	(10,554,260)	155,140,135
Workmen's compensation	107,104,073	(2,894,551)	104,209,522
Marine	108,870,670	(40,170,140)	68,700,530
Theft	78,013,927	(34,449,692)	43,564,235
Others	84,281,841	(50,429,252)	33,852,589
	698,740,872	(257,262,111)	441,478,761

NOTES (CONTINUED)

4. Net insurance premium revenue (continued)

	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

5. Investment income

	2012 Shs	2011 Shs
Interest income		
- Interest from government securities	70,217,454	39,519,205
- Bank deposits and bank balances	51,338,682	39,022,457
- Loans and receivables	20,640,564	6,190,275
Net rental income	6,277,831	3,947,531
Dividend income		
- Financial assets at fair value through profit or loss	2,540,655	3,065,678
Miscellaneous income	352,160	120,223
	151,367,346	91,865,369

6. Other income

Gain on disposal of property, plant and equipment	104,888	-

7. Changes in fair value

Financial assets at fair value through profit and loss	5,980,184	(34,641,062)
Available for sale financial assets recognised in other comprehensive income	14,058,340	(9,087,021)
	20,038,524	(43,728,083)

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 2012			
Motor	(106,690,249)	26,225,099	(80,465,150)
Workmen's compensation	(47,525,039)	(19,800)	(47,544,839)
Theft	(88,269,885)	43,832,782	(44,437,103)
Others	(132,070,892)	62,425,748	(69,645,144)
	(374,556,065)	132,463,829	(242,092,236)

NOTES (CONTINUED)

8. Net insurance claims (continued)

	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)

9. Profit before tax expense

(a) Items charged

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

	2012 Shs	2011 Shs
Employee benefits expense (Note 9(b))	82,865,740	76,862,120
Depreciation of property, plant and equipment (Note 14)	6,779,146	3,240,612
Amortisation of intangible assets (Note 15)	4,409,788	3,915,182
Auditors' remuneration		
Current year	1,400,000	1,510,149

(b) Employee benefits expense

The following items are included in employee benefits expense:

	2012 Shs	2011 Shs
Retirement benefit costs		
Defined contribution scheme	2,138,749	3,896,538
National Social Security Fund	163,000	161,800

10. Tax expense

	2012 Shs	2011 Shs
Current income tax	52,822,831	35,219,986
Deferred income tax credited to profit and loss account (Note 19)	(5,601,776)	(193,675)
Income tax expense in profit and loss account	47,221,055	35,026,311
Deferred income tax credited to equity (Note 19)	(414,000)	-
Income tax expense	46,807,055	35,026,311

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:

	2012 Shs	2011 Shs
Profit before income tax	197,018,987	89,066,290
Tax calculated at the statutory tax rate of 30%	59,105,696	26,719,887
Tax effect of:		
Expenses not deductible for tax purposes	1,917,120	12,174,322
Deferred tax on change in fair value of available for sale financial assets and revaluation surplus	(5,842,595)	-
Income not subject to tax	(8,373,166)	(3,867,898)
Tax expense	46,807,055	35,026,311

NOTES (CONTINUED)

11. Dividends per share

During the year, an interim dividend of Shs. 11 per share amounting to Shs. 43,615,946 was approval by directors. 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 31st December 2011	3,304,238	330,423,800
At 1st January 2012	3,304,238	330,423,800
Bonus issue	660,848	66,084,800
At 31st December 2012	3,965,086	396,508,600

The total number of authorised ordinary shares is 4,000,000 (2011: 4,000,000) with a par value of Shs. 100 each.

On 7th November 2012, the issued and paid up capital was increased from Shs 330,423,800 to Shs 396,508,600 by a bonus issue of 1 ordinary share for every 5 shares held by capitalising Shs 66,084,800 from retained earnings.

13. Revaluation surplus

The revaluation surplus arose on the revaluation of the building and is stated 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 and equipments Shs	Computers, Copiers & faxes Shs	Total Shs
At 1st January 2011						
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 31st December 2011						
Opening carrying value	4,464,100	110,000,000	904,759	9,041,599	3,249,065	127,659,523
Revaluation	-	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
Year ended 31st December 2012						
Opening carrying value	4,408,180	119,000,000	678,570	10,326,737	3,460,927	137,874,414
Disposals	-	-	(75,113)	-	-	(75,113)
Additions	-	-	1,250,000	2,410,109	4,164,927	7,825,036
Depreciation charge	(55,920)	(2,380,000)	(463,364)	(1,592,106)	(2,287,756)	(6,779,146)
Closing carrying value	4,352,260	116,620,000	1,390,093	11,144,740	5,338,098	138,845,191
At 31st December 2012						
Cost or valuation	5,000,000	119,000,000	2,658,750	26,692,593	22,684,366	176,035,709
Accumulated depreciation	(647,740)	(2,380,000)	(1,268,657)	(15,547,853)	(17,346,268)	(37,190,518)
Net carrying value	4,352,260	116,620,000	1,390,093	11,144,740	5,338,098	138,845,191

Buildings were valued on 22nd 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:

	Building Shs
31st December 2012	
Cost	50,000,000
Accumulated depreciation	(11,000,000)
	39,000,000
31st December 2011	
Cost	50,000,000
Accumulated depreciation	(10,000,000)
	40,000,000

15. Intangible assets

	Software Shs	Work in progress Shs	Total Shs
Cost			
At 1st January 2012	3,509,845	18,760,039	22,269,884
Additions	67,500	2,557,800	2,625,300
At 31st December 2012	3,577,345	21,317,839	24,895,184
Amortisation			
At 1st January 2012	3,208,465	7,504,017	10,712,482
Charge for the year	146,220	4,263,568	4,409,788
At 31st December 2012	3,354,685	11,767,585	15,122,270
Net book value			
At 31st December 2012	222,660	9,550,254	9,772,914
At 31st December 2011	301,380	11,256,022	11,557,402

Work in progress relates to Primea insurance software under implementation.

16. Held to maturity financial assets

	2012 Shs	2011 Shs
Non current		
Treasury bills	-	9,253,012
Treasury bonds	491,292,006	331,088,567
Listed bonds	50,613,462	57,801,781
	541,905,468	398,143,360
Current		
Treasury bills	-	25,000,000
	541,905,468	423,143,360

Treasury bonds amounting to Shs. 116,000,000 (2011: Shs. 96,000,000) 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. 508 million (2011: Shs. 311 million)

NOTES (CONTINUED)

17. Available for sale financial assets

	2012 Shs	2011 Shs
Non current		
At 1st January	27,591,779	-
Purchases	-	36,678,800
Fair value gain / (loss) recognised in other comprehensive income	14,058,340	(9,087,021)
At end of year	41,650,119	27,591,779

18. Financial assets at fair value through profit or loss

	2012 Shs	2011 Shs
Current (quoted securities):		
Start of the year	61,463,425	94,916,487
Purchases	12,728,125	1,188,000
Total fair value gain / (loss) recognised in profit or loss (Note 7)	5,980,184	(34,641,062)
At end of year	80,171,734	61,463,425

19. Deferred income tax

Deferred income tax is calculated using the tax rate of 30% (2011: 30%). The movement on the deferred income tax account is as

	2012 Shs	2011 Shs
At 1st January	18,116,887	18,336,668
(Credit) / charge to profit and loss account (Note 10)	(5,601,776)	(193,675)
(Credit) to equity	(414,000)	-
(Credit) to other comprehensive income	-	(26,106)
At 31st December	12,101,111	18,116,887

The charge / (credit) to other comprehensive income relates to:

	2012 Shs	2011 Shs
Profit on changes in fair value of available for sale financial assets	14,058,340	(9,087,021)
Surplus on revaluation of property, plant and equipment	-	9,000,000

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 2012 Shs	Charged / (credited) to profit & loss Shs	(Credited) to equity Shs	Charged / (credited) to other comprehensive income Shs	At 31st December 2012 Shs
Excess depreciation over capital allowances	(18,187)	39,124			20,937
Provision for liabilities and charges	(738,820)	(212,306)	-	-	(951,126)
Loss in value of available for sale financial assets	(2,726,106)	2,726,106	-	-	-
Revaluation surplus of property, plant and equipment	21,600,000	(8,154,700)	(414,000)	-	13,031,300
Net deferred tax liability	18,116,887	(5,601,776)	(414,000)	-	12,101,111

NOTES (CONTINUED)

19. Deferred income tax (continued)

	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	18,900,000	-	-	2,700,000	21,600,000
Net deferred tax liability	18,336,668	-193,675	-	(26,106)	18,116,887

In addition, deferred tax of Shs. 414,000 (2011: Shs. nil) was transferred from the revaluation surplus to retained earnings. This relates to the difference between the actual depreciation of the revalued carrying amounts of buildings and the equivalent depreciation based on the historical cost of those assets (the excess depreciation).

20. Loans receivable

	2012 Shs	2011 Shs
Mortgage loans	123,121,143	60,558,686
Other loans	2,135,259	2,592,608
Total loans	125,256,402	63,151,294

21. Reinsurers' share of insurance liabilities

Reinsurers' share of:		
- Unearned premium (Note 26)	117,631,813	83,631,587
- Notified claims outstanding (Note 25)	245,718,662	226,622,113
- Claims incurred but not reported (Note 25)	7,363,540	6,247,789
	370,714,015	316,501,489

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

	2012 Shs	2011 Shs
Deposits and prepayments	9,299,329	1,884,458
Sundry debtors	1,835,817	2,168,343
Deferred commission	55,567,676	44,390,882
Deposits with courts	5,283,861	5,283,861
	71,986,683	53,727,544

23. Cash and cash equivalents

Cash and bank balances	13,063,818	14,633,432
Deposits with financial institutions	365,774,023	381,346,329
	378,837,841	395,979,761

23. Cash and cash equivalents (continued)

Fixed deposits amounting to Shs. 35 million (2011: Shs. 35 million) are held under lien with NIC Bank Ltd. These fixed deposits are not available for liquidation. Fixed deposits amounting to Shs. 64 million relates to recoveries from reinsurer in respect of litigated claim. These funds are not available to finance the company's day to day operations.

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

	2012 Shs	2011 Shs
Cash and bank balances	13,063,818	14,633,432
Treasury bills (held to maturity investments)	-	25,000,000
Deposits with financial institutions	79,000,000	291,000,000
	92,063,818	330,633,432

24. Insurance contract liabilities

Short-term non-life insurance contracts:		
- Claims reported and claims handling expenses	687,327,214	643,327,984
- Claims incurred but not reported	33,779,327	29,358,711
Total gross insurance liabilities (Note 25)	721,106,541	672,686,695

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 2012 are not material.

25. Movement in insurance liabilities and reinsurance assets

	2012 Gross Shs	2012 Reinsurance Shs	2012 Net Shs	2011 Gross Shs	2011 Reinsurance Shs	2011 Net Shs
Short-term insurance business						
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 1st January	672,686,695	232,869,902	439,816,793	618,129,629	216,056,469	402,073,160
Cash paid for claims settled in the year	(346,348,519)	(132,463,829)	(213,884,690)	(274,802,507)	(94,883,538)	(179,918,969)
Increase in liabilities						
- arising from current year claims	353,948,324	95,179,189	258,769,135	329,433,636	115,124,562	214,309,074
- arising from prior years' claims	40,820,041	57,496,940	(16,676,899)	(74,063)	(3,427,591)	3,353,528
At 31st December	721,106,541	253,082,202	468,024,339	672,686,695	232,869,902	439,816,793
Notified claims	687,327,214	245,718,662	441,608,552	643,327,984	226,622,113	416,705,871
Incurred but not reported	33,779,327	7,363,540	26,415,787	29,358,711	6,247,789	23,110,922
At 31st December	721,106,541	253,082,202	468,024,339	672,686,695	232,869,902	439,816,793

26. Provision for unearned premium

	2012 Gross Shs	2012 Reinsurance Shs	2012 Net Shs	2011 Gross Shs	2011 Reinsurance Shs	2011 Net Shs
At 1st January	257,698,628	83,631,587	174,067,041	233,090,402	79,433,732	153,656,670
Net increase in the year	62,461,299	34,000,226	28,461,073	24,608,226	4,197,855	20,410,371
At 31st December	320,159,927	117,631,813	202,528,114	257,698,628	83,631,587	174,067,041

NOTES (CONTINUED)

27. Other payables	**2012 Shs**	**2011 Shs**
Accrued expenses	8,743,586	7,108,496
Withholding tax on commission	295,488	221,929
Other liabilities	4,384,801	6,014,113
Deferred commission	22,186,511	27,092,625
	35,610,386	40,437,163

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) 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.

iii) 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 statements 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.

i) Transactions with related parties	**2012 Shs**	**2011 Shs**
Gross premiums written	254,743,256	202,057,071
Net claims incurred	33,437,992	19,084,895
Commission paid	30,833,002	31,882,744
ii) Outstanding balances with related parties		
Outstanding premium	19,423,076	11,813,890
Claims payable	4,112,545	7,605,000
Deposits with financial institutions	70,000,000	99,000,000
Current account balances	20,101,634	14,625,709

NOTES (CONTINUED)

29. Related party transactions (continued)

ii) Outstanding balances with related parties (continued)

	2012 Shs	2011 Shs
Mortgage loans receivable:		
- Staff	7,200,000	-
Other related parties	27,976,529	29,848,127
Other loans receivable:		
- Staff	2,134,807	277,877

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

	2012 Shs	2011 Shs
Directors' remuneration		
- As non-executives (included in Note 29(iv))	1,650,000	1,500,000
- Fees	3,120,000	2,850,000
	4,770,000	4,350,000

iv) Key management compensation

	2012 Shs	2011 Shs
Salaries and other employment benefits	37,395,165	34,060,452

v) Contingencies

	2012 Shs	2011 Shs
Guarantees	-	2,345,454

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. Financial assets categorisation

The categorisation of assets carried at fair value by the levels defned below is as follows:

Level 1	2012 Shs	2011 Shs
Available for sale financial assets (treasury bonds)	41,650,119	27,591,779
Financial assets at fair value through profit or loss (equity shares)	80,171,734	61,463,425
	121,821,853	89,055,204

31. Commitments

Capital commitments

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

	2012 Shs	2011 Shs
Intangible assets	-	2,590,077

NOTES (CONTINUED)

32. Insurance contract liability (chain ladder)

	2008 claims + prior years	**2009**	**2010**	**2011**	**2012**	Total
Estimate ultimate claims cost at year	798,415,704	250,234,689	296,530,905	330,826,747	349,527,917	2,025,535,962
After 1 Year	(24,348,547)	13,293,630	(3,416,618)	(20,207,962)	-	(34,679,497)
After 2 Years	4,766,459	3,568,341	(553,533)	-		7,781,267
After 3 Years	466,593	(8,575,820)				(8,109,227)
After 4 Years	70,150,696					70,150,696
						-
Current estimate of cumulative claims	849,450,905	258,520,840	292,560,754	310,618,785	349,527,917	2,060,679,201
						-
Less cumulative payments to date	530,222,531	200,099,240	244,417,554	235,136,532	163,476,130	1,373,351,987
						-
Liability in the balance sheet	**319,228,374**	**58,421,600**	**48,143,200**	**75,482,253**	**186,051,787**	**687,327,214**

Tausi Assurance Company Limited
Supplementary information
For the year ended 31st December 2012

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**	**2012 Total**	**2011 Total**
	Shs	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Gross premiums written	40,121,278	30,255,816	127,094,271	6,297,158	109,832,522	103,199,166	72,112,873	13,525,403	87,036,739	112,713,935	25,012,784	727,201,945	614,626,551
Change in net unearned premiums	(280,698)	(687,910)	(1,886,211)	90,445	(961,852)	(5,956,136)	(3,661,508)	(1,166,355)	(9,022,812)	(5,609,862)	681,826	(28,461,073)	(20,410,371)
Gross earned premiums	39,840,580	29,567,906	125,208,060	6,387,603	108,870,670	97,243,030	68,451,365	12,359,048	78,013,927	107,104,073	25,694,610	698,740,872	594,216,180
Less: premiums ceded to reinsurers	(33,380,143)	(13,277,174)	(105,487,042)	(2,143,578)	(40,170,140)	(2,243,825)	(8,310,435)	(7,532,729)	(34,449,692)	(2,894,551)	(7,372,802)	(257,262,111)	(206,760,172)
Net earned premiums	6,460,437	16,290,732	19,721,018	4,244,025	68,700,530	94,999,205	60,140,930	4,826,319	43,564,235	104,209,522	18,321,808	441,478,761	387,456,008
Gross claims paid	(10,582,728)	(13,865,736)	(31,198,560)	(255,101)	(49,480,223)	(61,334,492)	(56,401,328)	(1,454,928)	(85,084,976)	(32,450,574)	(4,239,873)	(346,348,519)	(274,802,508)
Changes in net outstanding claims	4,598,132	503,399	123,956	(1,693,806)	(25,174,572)	5,924,736	5,120,835	772,253	(3,184,909)	(15,074,465)	(123,105)	(28,207,546)	(37,743,633)
Less: reinsurance recoverable	7,530,693	4,810,222	27,457,073	36,647	21,657,092	9,578,252	16,646,847	768,120	43,832,782	(19,800)	165,901	132,463,829	94,883,538
Net claims incurred	1,546,097	(8,552,115)	(3,617,531)	(1,912,260)	(52,997,703)	(45,831,504)	(34,633,646)	85,445	(44,437,103)	(47,544,839)	(4,197,077)	(242,092,236)	(217,662,603)
Commissions receivable	14,112,394	3,972,731	49,035,913	175,536	12,118,026	(4,703,513)	(3,375,788)	3,715,777	14,027,767	(8,895,409)	4,434,860	84,618,294	79,801,356
Commissions payable	(6,485,118)	(5,567,151)	(26,568,742)	(1,071,199)	(19,213,627)	(9,498,981)	(6,376,994)	(2,250,272)	(15,583,387)	(21,260,151)	(2,601,343)	(116,476,965)	(103,601,712)
Expenses of management	(6,223,023)	(4,692,837)	(19,712,994)	(976,723)	(17,035,605)	(16,006,737)	(11,185,088)	(2,097,862)	(13,499,859)	(17,482,528)	(3,879,615)	(112,792,870)	(104,659,439)
Total expenses and commissions	1,404,253	(6,287,257)	2,754,177	(1,872,386)	(24,131,206)	(30,209,231)	(20,937,870)	(632,357)	(15,055,479)	(47,638,088)	(2,046,098)	(144,651,541)	(128,459,795)
Underwriting profit / (loss)	9,410,787	1,451,360	18,857,664	459,379	(8,428,379)	18,958,470	4,569,414	4,279,407	(15,928,347)	9,026,595	12,078,633	54,734,983	41,333,611

SCHEDULE OF OPERATING EXPENDITURE

	Insurance business Shs	Profit and loss account Shs	2012 Total Shs	2011 Total Shs
1. ADMINISTRATIVE EXPENSES				
Employment:				
Salaries and wages	70,764,678	-	70,764,678	64,489,494
Staff uniforms	108,467	-	108,467	78,042
Pension fund contribution	2,138,749	-	2,138,749	3,896,538
Provision for staff leave pay	707,688	-	707,688	702,055
Staff training and welfare expenses	4,376,158	-	4,376,158	3,345,991
Total employment costs	78,095,740	-	78,095,740	72,512,120
Other administration expenses:				
Directors' remuneration				
- As non-executives	1,650,000	-	1,650,000	1,500,000
- Fees	3,120,000	-	3,120,000	2,850,000
Postages and telephones	1,026,164	-	1,026,164	891,129
Vehicle running	587,225	-	587,225	461,139
Entertainment and travel	1,288,569	-	1,288,569	1,086,172
Printing and stationery	2,669,521	-	2,669,521	2,541,134
Advertising	5,113,298	-	5,113,298	3,579,544
Premium tax	7,161,639	-	7,161,639	6,432,519
Policy holders compensation fund	1,638,847	-	1,638,847	1,520,636
Donations	1,113,832	-	1,113,832	1,714,290
Audit fees	1,400,000	-	1,400,000	1,510,149
Legal and professional fees	793,417	-	793,417	5,032,602
Bank charges and commissions	280,618	-	280,618	158,937
Miscellaneous	858,780	-	858,780	791,619
Total other administration expenses	28,701,910	-	28,701,910	30,069,870
Total administrative expenses	106,797,650	-	106,797,650	102,581,990
2. OTHER OPERATING EXPENSES				
Establishment:				
Rent and rates	-	12,495	12,495	31,306
Electricity and water	-	1,884,810	1,884,810	1,145,328
Repairs and maintenance	4,328,197	1,267,798	5,595,995	1,657,839
Insurance	1,492,784	-	1,492,784	650,165
Security	-	814,378	814,378	480,805
Licenses and subscriptions	665,470	-	665,470	700,697
Valuation fees	-	-	-	46,400
Depreciation on property, plant and equipment		6,779,146	6,779,146	3,240,612
Amortisation of intangible assets	-	4,409,788	4,409,788	3,915,182
Total other operating expenses	6,486,451	15,168,415	21,654,866	11,868,334
3. FINANCE COSTS				
Realised exchange (gain)	(491,231)	-	(491,231)	(299,258)
Total operating expenditure	112,792,870	15,168,415	127,961,285	114,151,066

TAUSI ASSURANCE COMPANY LIMITED
PIN NO.: P000633040I
YEAR ENDED: 31ST DECEMBER 2012
PERIOD COVERED: 12 MONTHS

1. TAX COMPUTATION

			Shs	Shs	Comments
Profit before tax as per financial statements				197,018,987	
Add:	Depreciation on property, plant and equipment	B.01	6,779,146		
	Amortisation of intangible assets	A.01	4,409,788		
	Provision for leave	M.01	707,688		
	Legal fees	U.09/11	43,700		
	Gifts	U.06/12	466,405		
	Licences and subscriptions	U.10/5	104,500		
	Donations	U.09/9	1,113,832		
	Pension fund contributions	U.06/10	2,226,041	15,851,100	
Less:	Wear and tear allowance		(4,306,379)		
	Computer software		(4,472,165)		
	Interest income - Kengen bond	T.05/1	(3,334,528)		
	Interest income - Infrastructure bonds	T.05/1	(4,537,500)		
	Gain on sale of plant and equipment	B.03/2	(104,888)		
	Fair value gain on financial assets at fair value through profit or loss	D.02/2	(5,980,184)		
	Fair value gain on available for sale financial assets	D.05/1	(14,058,340)	(36,793,984)	
Taxable profit for the year				176,076,103	

SUMMARY		**Tax thereon @ 30%**
Trade profit	176,076,103	52,822,831

2. TAX ACCOUNT

Tax liability for 2012		52,822,831
Less:		
Instalments paid		-35,438,786
		17,384,045
Overpayments in prior years utilised against 2nd instalment tax payment.	3,303,198	-3,303,198
Tax payable		14,080,847

3. WEAR AND TEAR SCHEDULE

	Class II 30% Shs	**Class III 25% Shs**	**Class IV 12.50% Shs**	**Total Shs**
W.D.V at 1st Jan 2012	3,632,287	652,502	9,882,604	14,167,393
Additions	4,164,927	1,250,000	2,410,109	7,825,036
Disposals	-	(180,000)	-	(180,000)
	7,797,214	1,722,502	12,292,713	21,812,429
Wear & tear allowance	(2,339,164)	(430,626)	(1,536,589)	(4,306,379)
W.D.V at 31st Dec 2012	5,458,050	1,291,876	10,756,124	17,506,050

ADDITIONS TO MOTOR VEHICLES

Reg. No.	Make	Type	Cost	Restricted value	Restricted amount
KBS 262 S	Toyota Allion	Saloon	1,250,000	1,250,000	1,250,000
			1,250,000	1,250,000	1,250,000

3. Computer software

	Cost	Allowance	Closing NBV	Opening NBV
2009	2,999,245	92,977	371,909	464,886
2010	18,989,539	3,797,908	7,429,199	11,227,107
2011	281,100	56,220	168,660	224,880
2012	2,625,300	525,060	2,100,240	-
	24,895,184	4,472,165	10,070,008	11,916,873

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Tausi Assuranace Company Limited **Prepared by: WGM**
Y/E: 31 DECEMBER 2012 **Date: 30/01/13**

DEFERRED TAX

Excess capital allowances over depreciation	**Carrying amount**	**Tax base**	**Temporary difference**	**Deferred tax thereon @ 30%**	**Prior year**	**(Credit) Charge**
Motor vehicles	1,390,093	1,291,876	98,217	29,465	7,820	21,645
Furniture & fittings	11,144,740	10,756,124	388,616	116,585	133,240	(16,655)
Computers	5,338,098	5,458,050	(119,952)	(35,986)	(51,408)	15,422
Computer software	9,772,914	10,070,008	(297,094)	(89,128)	(107,840)	18,712
Provision for liabilities & charges	(3,170,421)	-	(3,170,421)	(951,126)	(738,820)	(212,306)
Loss on revaluation of available for sale financial assets	-	-	-	-	(2,726,106)	2,726,106
Revaluation surplus of property, plant & equipment	43,437,665	-	43,437,665	13,031,300	21,600,000	(8,568,700)
	67,913,089	27,576,058	40,337,031	12,101,110	18,116,886	(6,015,776)

Year ended 31st December 2011

DEFERRED TAX

Excess capital allowances over depreciation	**Carrying amount**	**Tax base**	**Temporary difference**	**Deferred tax thereon @ 30%**	**Prior year**	**(Credit) Charge**
Motor vehicles	678,569	652,502	26,067	7,820	-	
Furniture & fittings	10,326,737	9,882,604	444,133	133,240	-	
Computers	3,460,927	3,632,287	(171,360)	(51,408)		
Computer software	11,557,402	11,916,868	(359,466)	(107,840)		
Provision for liabilities & charges		2,462,733	(2,462,733)	(738,820)		
Loss in value of available for sale financial assets	(9,087,021)	-	(9,087,021)	(2,726,106)		
Revaluation surplus of property, plant & equipment	72,000,000	-	72,000,000	21,600,000		
	88,936,614	28,546,994	60,389,620	18,116,886	-	-

Year ended 31st December 2010

DEFERRED TAX

Excess capital allowances over depreciation	**Carrying amount**	**Tax base**	**Temporary difference**	**Deferred tax thereon @ 30%**	**Prior year**	**(Credit) Charge**
Motor vehicles	904,760	870,002	34,758	10,427		
Furniture and fittings	9,041,599	8,534,019	507,580	152,274		
Computers	3,249,065	3,493,865	(244,800)	(73,440)		
Intangible assets	15,191,484	15,606,117	(414,633)	(124,390)		
Revaluation surplus	63,950,000		63,950,000	19,185,000		
Excess depreciation	(950,000)		(950,000)	(285,000)		
Provision for liabilities and charges	-	1,760,678	(1,760,678)	(528,203)		
Deferred tax 31.12.2010	91,386,908	30,264,681	61,122,227 #	18,336,668		