Mayfair Insurance Company Zambia Limited

Annual report and financial statements

For the year ended 31 December 2017

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Principal activities

The principal business of Mayfair Insurance Company Zambia Limited ("the Company") is the provision of non-life insurance services to both corporate and individual clients under the Zambia Insurance Act 1997.

Registration

Mayfair Insurance Company Zambia Limited is a private company, which was incorporated in the Republic of Zambia, in September 2009. Operations commenced in March 2010.

Share capital

During the year 2017, authorised, issued and fully paid up share capital of the Company was K15 million (2016: K15 million) divided into 15 million (2016: 15 million) ordinary shares of K1 each as disclosed in Note 23 of the financial statements.

Operating results

	2017 K	2016 K
Gross written premiums	**100,183,275**	52,079,922
Profit before tax	**4,366,465**	1,752,243

Proposed dividend

There was no dividend paid or proposed during the year. (2016: nil).

Directors

The directors who held office during the year and to the date of this report were:

Ms. Valerie Susan Sesia	-	Chairperson
Mr. Hashit Patel	-	Managing Director
Mr. Gideon Maurice Phiri	-	Non-Executive Director
Mr. Hemantkumar Patel	-	Non-Executive Director
Mr. Ramesh Patel	-	Non-Executive Director
Mr. Anjay Patel	-	Non-Executive Director
Ms. Vishal Patel	-	Non-Executive Director

Loans to directors

No loans were issued to the directors during the year (2016: Nil).

Directors' fees

Directors fees paid during the year ended 31 December 2017 were K 365,593 (2016: K 513,491) as disclosed in Notes 10 and 31 of the financial statements.

Donations and gifts

Mayfair Insurance Company Zambia Limited made donations amounting to K 29,197 (2016: K 17,442).

Employees

The average number of people employed by the Company during the year was 65 (2016: 55). The total amount paid to the above employees during the period under review, (in the form of salaries, wages and other allowances) was K6, 345,342 (2016: K6, 394,406) as disclosed in note 11 of the financial statements.

Health and safety

The Company attaches great importance to the welfare of its employees. The Company provides medical services to staff and their direct dependants through a medical scheme. In addition to the medical service, the company provides Group Personal Accident and Group Life Assurance covers.

Property and equipment

During the year, the Company purchased equipment amounting to K570,116 (2016: K318, 099) as disclosed in note 15 of the financial statements.

Other material facts, circumstances and events

The Directors are not aware of any material fact, circumstances or event which has occurred between the accounting date and the date of this report which might influence a reassessment of the Company's position for the results of its operations.

Auditor

The auditor, PricewaterhouseCoopers Zambia has indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the next annual general meeting.

By order of the Board

Valerie Sesia
Chairperson

Hashit Patel
Director

28 March 2018

Mayfair Insurance Company Zambia Limited
Statement of Director's responsibilities
For the year ended 31 December 2017

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in accordance with International Financial Reporting Standards and the requirements of the Zambia Companies Act and the Zambia Insurance Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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

Director	**Director**

28 March 2018

pwc

Independent auditor's report

To the Shareholders of Mayfair Insurance Company Zambia Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the Company's financial statements give a true and fair view of the financial position of Mayfair Insurance Company Zambia Limited (the "Company") as at 31 December 2017 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 Zambia Companies Act and Insurance Act.

What we have audited

The financial statements of Mayfair Insurance Company Zambia Limited are set out on pages 8 to 41 and comprise:

the statement of financial position as at 31 December 2017;

the statement of profit or loss and other comprehensive income for the year then ended;

the statement of changes in equity for the year then ended;

the statement of cash flows for the year then ended; and

the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) that are relevant to our audit of the financial statements in Zambia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company's financial statements of the current period. These matters were addressed in the context of our audit of the Company's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate Company opinion on these matters.

PricewaterhouseCoopers , PwC Place, Stand No 2374, Thabo Mbeki Road, P.O. Box 30942, Lusaka, Zambia
T: +260 (211) 334000 , F: +260(211) 256474, www.pwc.com/zm

A list of Partners is available from the address above

Key audit matter	How our audit addressed the key audit matter
Insurance claims reserving (Incurred but not reported reserves) The process of assessing the adequacy of IBNR involves significant judgement as there is generally less information available in relation to these claims. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. We considered this as a key audit matter on account of the significant judgments applied in estimating whether additional reserves may be required, together with the value of the amounts involved. See Note 24.	<u>Testing the existence, accuracy and completeness of premiums</u> We carried out the following procedures: • We obtained an understanding of the process management uses to compute the outstanding claims and IBNR; • We tested completeness off premiums by agreeing the premium register to the general ledger and tested a sample of premiums in the premium register and agreed these to support documentation, and no significant issues arose; • We recomputed the IBNR based on the percentage of gross written premiums. <u>Testing the adequacy of reserves</u> We performed a risk-based assessment to determine those classes of business where claims reserve estimates are higher risk. These included classes which inherently involve greater levels of judgement and have historically shown greater year on year variation over previous estimates. In order to challenge management's methodologies, we: • Evaluated key data reconciliations and management's review of the estimates; • In addition, because historical claims data is a key input to the estimates, we performed testing over claims case estimates and settlements • We tested reported claims to assess the reasonableness of the reserve held as well as review the support for the information contained in claims files; • Our internal actuarial expert, performed reviews of the approach applied by management and assessed the adequacy of reserves by reviewing the historical loss experience for each class of business.

Other information

The directors are responsible for the other information. The other information comprises the Director's Report and Statement of the Director's Responsibilities but does not include the Company financial statements and our auditor's report thereon.

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

In connection with our audit of the Company's financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Company's financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

The Zambia Companies Act requires that in carrying out our audit we consider whether the Company has kept proper accounting records, other records and registers as required by this Act.

In our opinion, based on our examination of those records, the Company has kept proper accounting records, other records and registers as required by the Zambia Companies Act and Insurance Act

PricewaterhouseCoopers 29 MARCH 2018

Chartered Accountants
Lusaka

Anrdew Chibuye
Practicing Certificate Number: AUD/7002378
Partner signing on behalf of the firm

Statement of profit or loss and other comprehensive income

	Notes	2017 K	2016 K
Gross written premiums	5	100,183,275	52,079,922
Less: reinsurance premiums ceded	6	(70,808,869)	(26,483,431)
Net earned premiums		29,374,406	25,596,491
Change in gross provision for unearned premium		(38,787,261)	(4,125,720)
Reinsurers share of change in provision		41,030,016	446,827
Change in net provisions for unearned premiums		2,242,755	(3,678,893)
Investment income	7	1,429,178	1,488,006
Gain/(loss) on revaluation of property	15	224,000	(1,997,086)
Grant income	28	1,660,750	278,240
Net commission income	9	2,040,555	2,005,167
Other income		-	56,344
Total income		36,971,644	23,748,269
Gross claims paid	8	(28,243,219)	(24,100,530)
Insurance claims recoverable from reinsurers	25	21,203,075	17,572,042
Change in insurance contract liabilities		(6,236,586)	139,832
Net insurance claims		(13,276,730)	(6,388,656)
Administrative and other expenses	10	(18,277,969)	(14,343,944)
Impairment charge		(312,093)	(497,403)
Results from operating activities		5,104,852	2,518,266
Net financing expense	12	(514,387)	(766,023)
Profit before tax		4,590,465	1,752,243
Income tax expense	13	(1,779,925)	(1,558,493)
Profit for the year		2,810,540	193,750
Other comprehensive income		-	-
Total comprehensive income for the year		2,810,540	193,750

The Notes on pages 12 to 41 are an integral part of these financial statements.

Statement of financial position

	Notes	2017 K	2016 K
Assets			
Property and equipment	15	**1,060,948**	755,666
Intangible assets	16	**310,435**	63,428
Investment property	17	**11,233,600**	11,009,600
Receivables arising out of direct insurance	18	**8,064,267**	16,952,508
Reinsurers share of technical provisions and reserves	19	**123,507,647**	33,863,264
Deferred acquisition costs	20	**2,233,685**	2,863,999
Other receivables	21	**1,424,176**	1,524,211
Deferred income tax asset	14	**716,049**	659,294
Cash and cash equivalents	22	**84,702,072**	14,015,340
Total assets		**233,252,879**	81,707,310
Equity and liabilities			
Equity attributable to owners			
Share capital	23	**15,000,000**	15,000,000
Retained earnings		**3,057,730**	247,190
Total equity		**18,057,730**	15,247,190
Liabilities			
Insurance contract liabilities	24	**73,848,154**	18,997,200
Unearned premium reserve	26	**91,473,355**	29,686,093
Payables arising out of reinsurance arrangement		**42,189,058**	9,091,081
Deferred commission income		**5,201,837**	4,639,551
Deferred grant	28	**871,033**	622,996
Current tax liability	13	**279,540**	1,006,396
Other payables	27	**1,332,172**	2,416,803
Total liabilities		**215,195,149**	66,460,120
Total equity and liabilities		**233,252,879**	81,707,310

The financial statements on pages 8 to 41 were approved for issue by the board of Directors on 28 March 2018 and signed on its behalf by:

Valerie Sesia	**Hashit Patel**
Chairperson	**Director**

The notes on pages 12 to 41 are an integral part of these financial statements.

Statement of changes in equity

	Share capital K	Funds awaiting allotment K	Retained earnings K	Total equity K
Year ended 31 December 2016				
At the start of the year	7,500,000	368,108	7,338,019	15,206,127
Profit for the year	-	-	193,750	193,750
Other comprehensive income:	-	-	-	-
Total comprehensive income	-	-	193,750	193,750
Transactions with owners:				
Capitalisation of retained earnings	6,191,892	-	(7,284,579)	(1,092,687)
Issue of shares	1,308,108	(368,108)	-	940,000
Total transactions with owners recognised directly in equity	7,500,000	(368,108)	(7,284,579)	(152,687)
At the end of the year	**15,000,000**	**-**	**247,190**	**15,247,190**
Year ended 31 December 2017				
At the start of the year	15,000,000	-	247,190	15,247,190
Profit for the year	-	-	2,810,540	2,810,540
Other comprehensive income	-	-	-	-
Total comprehensive income			2,810,540	2,810,540
Transactions with owners:				
Issue of shares	-	-	-	-
Total transactions with owners recognised directly in equity	-	-	-	-
At end of year	**15,000,000**	**-**	**3,057,730**	**18,057,730**

The notes on pages 12 to 41 are an integral part of these financial statements.

Statement of cash flows

	Notes	2017 K	2016 K
Cash flows from operating activities			
Cash generated from operations	29	71,246,095	(4,284,516)
Income tax paid	13	(2,563,535)	(640,797)
Net cash generated/(used) in operating activities		68,682,560	(4,925,313)
Cash flows from investing activities			
Purchase of property and equipment	15	(570,116)	(318,099)
Purchase of intangible assets	16	(249,291)	-
Proceeds from sale of property and equipment		-	302,000
Interest received		1,429,178	1,488,006
Net cash received from investing activities		609,771	1,471,907
Cash flows from financing activities			
Grant income	28	1,908,788	901,236
Issue of shares		-	940,000
Net cash generated from financing activities		1,908,788	1,841,236
Net increase /(decrease) in cash and cash equivalents		71,201,119	(1,612,170)
At the start of the year		14,015,340	16,393,533
Effects of foreign currency transactions		(514,387)	(766,023)
At end of year	22	84,702,072	14,015,340

The notes on pages 12 to 41 are an integral part of these financial statements.

Notes

1 General information

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

Plot No. 1278
Lubuto Road,
Rhodes Park,
Lusaka,
Zambia.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except for land and buildings, which have been measured at fair value.

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

Changes in accounting policy and disclosures

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

A number of amendments to standards arising from the annual improvement to IFRSs became effective for the first time in the financial year commencing 1 January 2017 and none of them had an impact on the Company's financial statements.

Amendment to IAS 7 – Cash flow statements. In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

Amendment to IAS 12 – Income taxes. The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets

Notes (continued)

2 Summary of significant accounting policies (continued)

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statement. None of these are expected to have a significant impact on the financial statements of the Company, except the following set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued on July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.The Company is assessing the impact of IFRS 15.

Amendment to IAS 40, 'Investment property' these amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence

Notes (continued)

2 Summary of significant accounting policies (continued)

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

IFRS 16 'Leases' effective annual periods beginning on or after 1 January 2019. Earlier application permitted if IFRS 15 is also applied. This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts.

The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 17, 'Insurance contracts' effective for aannual periods beginning on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17.

The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

Notes (continued)

2 Summary of significant accounting policies (continued)

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

Amendment to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments'. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and

- Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.

(b) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Zambian Kwacha (K) which is the Company's functional currency.

(b) Transactions and balances

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

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

(c) Revenue recognition

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

Premium income for general business is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less unearned premiums. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the reporting date, and are calculated using the 24th basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

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

Reinsurance

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

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

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

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

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

(d) Insurance receivables

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Claims incurred

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

(f) Commissions payable and deferred acquisition costs

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

(g) Insurance contract liabilities

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

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

(h) Investment property

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

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

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

Notes (continued)

(i) Property, plant and equipment

Property and equipment are stated at cost or as professionally revalued from time to time less accumulated depreciation and any accumulated impairment losses.

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

The last valuation was done in December 2016 on an open market value basis using the highest and best use valuation model.

Depreciation is calculated to write off the cost of item of property and plant less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.
The estimated useful lives of property and equipment are as follows:

Land	Indefinite
Building	50 years
Partitioning	12.5%
Motor vehicles	5 years
Furniture, fittings and equipment	8 years
Computer hardware	3 years

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

(j) Leases

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

Notes (continued)

(k) Financial assets

(i) Classification

All financial assets of the Company are classified as loans and receivables, based on the purpose for which the financial assets were acquired. The Directors determine the classification of the financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(iv) Impairment

(A) Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or Company of financial assets is impaired. A financial asset or a Company of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Notes (continued)

2 Summary of significant accounting policies (continued)

(k) Financial assets (continued)

B) Assets classified as available for sale

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

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

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

(l) Cash and cash equivalents

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

(m) Share capital

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

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

(n) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(p) Income tax expense

A) Current income tax

In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes (continued)

2 Summary of significant accounting policies (continued)

(p) Income tax expense (continued)

B) Deferred income tax

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

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

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

(q) Employee benefits

A) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as related service is provided. A liability is recognised for the amount expected to be paid if the Company a present legal or constructive obligation to pay this amount as a result of past service provided by employee and the obligation can be estimated reliably.

B) Defined contribution plan

The Company contributes to the statutory pension scheme in Zambia, namely National Pension Sch Authority ("NAPSA") a defined contribution scheme for its eligible employees. Membership is compul and monthly contributions by both employer and employee are made. Obligations for contribution defined contributions plans are expensed as the related service is provided.

(r) Offsetting financial instruments

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

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Notes (continued)

3 Critical accounting estimates and judgements

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

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

The ultimate liability arising from claims made under insurance contracts

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

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

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

Impairment losses on receivables

The Company reviews its portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of debtors before the decrease can be identified with individual debtors. This evidence may include observable data that there has been an adverse change in the payment status of borrowers in a Company, or national or local economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes (continued)

4 Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Company does not hedge any of its risk exposures.

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

Management of Insurance and financial risk

The Company's activities expose it to a variety of risks. The Company classifies the various risks it is exposed to into insurance risk and financial risk. Financial risks include credit risk, liquidity risk and market risk which includes the effect of changes in equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets, identification and management of risks. It seeks to minimise potential adverse effects on its financial performance by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

(i) Insurance risk

Insurance risk in the Company arises from:

(a) Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
(b) Unexpected claims arising from a single source;
(c) Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
(d) Inadequate reinsurance protection or other risk transfer techniques; and
(e) Inadequate reserves

Core insurance risk

This risk is managed through:

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

Reinsurance planning

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

Notes (continued)

4 Financial risk management objectives and policies (continued)

Claims reserving

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

Short-term insurance contracts

The Company engages in short term insurance contracts and funds the insurance liabilities using a portfolio of financial assets. An analysis of the Company's financial assets and its short term insurance liabilities is presented below;

31 December 2017	Carrying amount K	0 - 1 yrs K	1 - 5 yrs K	> 5 yrs K
Financial assets				
Receivable arising out of direct insurance arrangements	8,064,267	8,064,267	-	-
Other receivables	530,176	530,176	-	-
Cash and cash equivalents	84,702,072	84,702,072	-	-
Total	93,296,515	93,296,515	-	-
Short term insurance liabilities				
Outstanding claims provisions	73,848,154	73,848,154	-	-
Payables arising out of reinsurance arrangements	42,189,058	42,189,058	-	-
Other payables	1,332,172	1,332,172	-	-
Less reinsurers share of technical provisions and reserves	(123,507,647)	(123,507,647)	-	-
Total	(6,138,263)	(6,138,263)	-	-
Difference in contractual cash flows	99,431,778	99,431,778	-	-

Notes (continued)

4 Financial risk management objectives and policies (continued)

(i) Insurance risk (continued)

Short-term insurance contracts (continued)

31 December 2016	Carrying amount K	0 - 1 yrs K	1 - 5 yrs K	> 5 yrs K
Financial assets				
Receivable arising out of direct insurance arrangements	16,952,508	16,952,508	-	-
Other receivables	1,524,211	1,524,211	-	-
Cash and cash equivalents	14,015,340	14,015,340	-	-
Total	32,492,059	32,492,059		
Short term insurance liabilities				
Outstanding claims provisions	18,997,200	18,997,200	-	-
Payables arising out of reinsurance arrangements	9.091,081	9.091,081	-	-
Other payables	2,416,803	2,416,803	-	-
Less reinsurers share of technical provisions and reserves	(33,863,264)	(33,863,264)	-	-
Total	(3,358,180)	(3,358,180)	-	-
Difference in contractual cash flows	35,850,239	35,850,239		

Notes (continued)

4 Financial risk management objectives and policies (Continued)

(ii) Financial risks (continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company is exposed to interest rate risk to the extent of the balance of the current accounts and on its cash and cash equivalents. Interest rate risk management activities are conducted in the context of the Company's sensitivity to interest rate changes. Debt financing and investment decisions are supposed to be approved by the Audit Committee before the transaction takes place.

i) Interest rate risk

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

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

	2017 K		2016 K	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
+ 10 percentage point movement	103,045	103,045	2,521	2,521
- 10 percentage point movement	(103,045)	(103,045)	(2,521)	(2,521)

ii) Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company ensures that the net exposure is kept to an acceptable level by transacting in foreign currencies at spot rates where necessary to address short term imbalances.

The following sensitivity analysis shows how profit and other comprehensive income would change if the exchange rates increased/(decreased) by 10% on the reporting date with all other variables held constant, mainly as a result of translation of US Dollar denominated available for sale equity investments.

	2017 K		2016 K	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
+ 10 percentage point movement	951,401	952,401	326,352	326,352
- 10 percentage point movement	(951,401)	(952,401)	(326,352)	(326,352)

4 Financial risk management objectives and policies (Continued)

(ii) Financial risks

(b) Credit risk

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

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

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

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

	Fully performing K	Past due K	Impaired K	Total K
31 December 2017				
Receivable arising out of direct insurance arrangements	7,231,775	832,492	1,749,272	9,813,539
Other receivables	530,176	-	-	530,176
Cash and cash equivalents	84,702,072	-	-	84,702,072
Total	92,464,023	832,492	1,749,272	95,045,787
31 December 2016				
Receivable arising out of direct insurance arrangements	16,562,338	390,170	1,437,179	18,389,687
Other receivables:	1,524,211	-	-	1,524,211
Cash and cash equivalents	14,015,340	-	-	14,015,340
Total	32,101,889	390,170	1,437,179	33,929,238

Notes (continued)

4 Financial risk management objectives and policies (continued)

(ii) Financial risks (continued)

(c) Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of investments.

Liquidity management is directed towards ensuring that all the Company's operations can meet their funding needs, whether this is to replace existing funding as it matures, or is withdrawn.

Liquidity risk arises in the general funding of the Company's activities and in the management of investments.

Liquidity management is directed towards ensuring that all the Company's operations can meet their funding needs, whether this is to replace existing funding as it matures, or is withdrawn.

The following table provides an analysis of the liabilities of the Company into relevant maturity groupings based on the remaining periods to repayment:

	Between 1 – 3 months K	Over 3 months K	Over 12 months K	Total K
At 31 December 2017				
Payables arising from reinsurance arrangements	42,189,058	-	-	42,189,058
Outstanding claims provisions	73,848,154	-	-	73,848,154
Other payables	706,284	-	-	706,284
	116,743,496	-	-	116,743,496
At 31 December 2016				
Payables arising from reinsurance arrangements	9,091,081	-	-	9,091,081
Outstanding claims provisions	18,997,200	-	-	18,997,200
Other payables	631,515	-	-	631,515
	28,719,796	-	-	28,719,796

Notes (continued)

4 Financial risk management objectives and policies (continued)

(iii) Capital Management

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

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

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

Insurance entities in Zambia are governed by the Insurance Act and as such are subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. Insurance companies operating in Zambia are required to have the following minimum level of paid up capital;

- •General insurance business companies: K 10 million and

The Company manages capital in accordance with these rules and has embedded in its framework the necessary tests to ensure continuous and full compliance with such regulations.

Notes (continued)

4 Financial risk management objectives and policies (continued)

(iii) Capital Management (continued)

The constitution of capital managed by the Company is as shown below:

	2017 K	2016 K
Share capital	15,000,00	15,000,00
Retained earnings	3,057,730	247,190
Equity	18,057,730	15,247,190
Total borrowings	-	-
Gearing	-	-

5 Gross written premiums

Fire	5,084,634	5,178,335
Motor	15,364,318	14,384,080
Engineering	2,182,220	2,339,801
Accident	1,766,817	1,525,368
Marine	1,701,072	528,152
Liability	2,286,341	2,623,645
Agriculture and other	60,217,000	25,500,541
Other	11,580,873	-
	100,183,275	52,079,922

6 Reinsurance premiums ceded

Fire	3,434,176	3,722,282
Motor	672,747	169,450
Engineering	1,470,968	512,370
Accident	1,610,611	306,248
Marine	1,003,408	48,764
Liability	587,923	610,837
Agriculture and other	62,029,036	21,113,480
	70,808,869	26,483,431

7 Investment income

Interest income	1,429,178	1,488,006

Notes (continued)

8 Gross claims paid

	2017 K	2016 K
Claims by principal class of business:		
Fire	1,248,602	1,602,573
Marine	1,139,859	1,020,730
Motor vehicles	5,723,877	6,078,510
Agriculture	19,117,833	7,594,199
Other	1,170,106	8,117,050
	28,400,277	24,413,062
Less: Claims recoveries	(157,058)	(312,532)
Incurred claims	28,243,219	24,100,530

9 Net commission income

Gross direct commission	4,504,599	4,690,326
Gross reinsurance commission	(7,737,755)	(7,188,816)
Less: change in unearned commission reserve (note 20)	1,192,600	493,323
	2,040,555	2,005,167

10 Administrative and other expenses

Staff costs (note 10)	6,345,342	6,394,406
Depreciation of property, plant and equipment (note 13)	266,071	235,404
Amortisation of computer software (note 14)	2,284	2,254
Directors fees	365,593	513,491
Auditors fees	231,282	211,114
Rent, rates and parking	1,447,200	1,447,863
Consultancy fees	10,000	-
Printing and stationery	691,777	1,232,299
Subscriptions	92,568	68,959
Advertising costs	917,168	384,624
Legal fees	47,049	-
Agriculture travelling expenses	1,951,277	318,160
Premium tax	801,466	416,639
Other expenses	5,108,892	3,118,731
	18,277,969	14,343,944

Notes (continued)

11 Staff costs

	2017	2016
	K	K
Salaries and benefits	5,836,536	5,951,627
Other staff costs	306,130	270,872
Defined contribution retirement schemes - NAPSA	202,676	171,907
	6,345,342	6,394,406

12 Net financing expense

	2017	2016
Exchange gains	398,443	712,688
Exchange loss	(912,830)	(1,478,711)
	(514,387)	(766,023)

13 Income tax expense

a) Taxation charge

	2017	2016
Current tax expense in respect of the year	1,836,680	2,079,198
Deferred income tax – charge recognised (Note 14)	(56,755)	(520,705)
Total income tax expense	1,779,925	1,558,493

b) Reconciliation of taxation charge to expected tax based on accounting profit

The Company's income tax expense is computed in accordance with income tax rules applicable to general insurance companies.

	2017	2016
	K	K
Profit before income tax	4,590,465	1,752,243
Tax calculated at a tax rate of 35%	1,606,663	613,285
Tax effect of:		
- Expenses not deductible for tax purposes	173,262	945,207
Total income tax expense	1,779,925	1,558,493

Income tax payable

	2017	2016
At 1 January	1,006,396	(432,005)
Taxation charge - Note (a)	1,836,680	2,079,198
Tax paid	(2,563,535)	(640,797)
At 31 December	279,540	1,006,396

Notes (continued)

14 Deferred income tax

	2017 Assets	2017 Liabilities	2017 Net	2016 Assets	2016 Liabilities	2016 Net
Temporary differences on;						
Property and equipment	-	154,632	154,632	-	111,827	111,827
Unrealised exchange gains	-	61,055	61,055	-	249,441	249,441
Unrealised exchange losses	(319,491)	-	(319,491)	(517,549)	-	(517,549)
Impairment losses	(612,245)	-	(612,245)	(503,013)	-	(503,013)
Tax losses	-	-	-	-	-	-
	(931,736)	215,687	(716,049)	(1,020,562)	361,268	(659,294)

Movement in temporary differences during the year

	Balance at 1 January 2016	Recognised in profit or loss	Balance at 31 December 2016	Balance at 1 January 2017	Recognised in profit or loss	Balance at 31 December 2017
Temporary differences on;						
Property and equipment	140,690	(28,863)	111,827	111,827	42,850	154,632
Unrealised exchange losses	(484,228)	(33,321)	(517,549)	(517,549)	198,058	(319,491)
Unrealised exchange gains	608,609	(359,168)	249,441	249,441	(188,386)	61,055
Impairment losses	(328,922)	(174,091)	(503,013)	(503,013)	(109,232)	(612,245)
Tax losses	(74,738)	74,738	-	-	-	-
	(138,589)	(520,705)	(659,294)	(659,294)	(56,755)	(716,049)

There were no unrecognised deferred tax assets and liabilities during the year (2016: nil).

Notes (continued)

15 Property and equipment

	Leasehold improve-ments	Office equipment	Telephone equipment	Furniture and fittings	Computer hardware	Motor vehicle	Total
Cost or valuation							
At 1 January 2016	38,560	99,374	37,625	306,754	181,838	1,070,568	1,734,719
Additions	119,735	-	-	97,290	101,074	-	318,099
Disposals	-	-	-	-	-	(683,625)	(683,625)
At 31 December 2016	158,295	99,374	37,625	404,044	282,912	386,943	1,369,193
At 1 January 2017	158,295	99,374	37,625	404,044	282,912	386,943	1,369,193
Additions	31,500	53,844	-	66,150	39,102	379,520	570,116
Disposals	-	-	-	-	-	-	-
At 31 December 2017	189,795	153,218	37,625	470,194	322,014	766,463	1,939,309
Depreciation							
At 1 January 2016	24,726	53,426	13,531	110,220	146,968	467,202	816,073
Charge for the year	15,199	12,422	4,703	41,599	26,577	134,921	235,421
Eliminated on disposal	-	-	-	-	-	(437,967)	(437,967)
At 31 December 2016	39,925	65,848	18,234	151,819	173,545	164,156	613,527
At 1 January 2017	39,925	65,848	18,234	151,819	173,545	164,156	613,527
Charge for the year	22,740	17,932	4,703	55,007	41,587	122,865	264,834
Eliminated on disposal	-	-	-	-	-	-	-
At 31 December 2017	62,665	83,780	22,937	206,826	215,132	287,021	878,361
Net book value							
At 31 December 2017	127,130	69,438	14,688	263,368	106,882	479,442	1,060,948
At 31 December 2016	118,370	33,526	19,391	252,225	109,367	222,787	755,666

A schedule listing the properties as required by section 193 and 14 second schedule of the Companies Act of Zambia is available for inspection by members or their duly authorised representatives at the registered offices of the Company. Included in cost of computer hardware are fully depreciated assets amounting to K151,540 (2016 K140,349), furniture and fittings K90, 069 (2016: nil), office equipment K 54,059 (2016 K nil), motor vehicle K57,206 (2016:57,206).

Notes (continued)

16 Intangible assets - computer software

	2017 K	2016 K
Cost		
At 1 January	75,147	75,147
Additions	249,291	-
At 31 December	324,438	75,417
Amortisation		
At 1 January	11,719	9,465
Charge for the year	2,284	2,254
At 31 December	14,003	11,719
Net book value	310,435	63,428

17 Investment property

	2017 K	2016 K
Revaluation		
At 1 January	11,009,600	13,006,686
Fair value gain/(loss)	224,000	(1,997,086)
At 31 December	11,233,600	11,009,600

Investment property comprises land and building in the Longacres area of Lusaka. The land was purchased by the Company as part of a joint venture agreement with EPCO Builders with the intention of constructing a modern office block for commercial purposes that will be leased to third parties and for earning a return on the investment through rental income. Mayfair Insurance Company owns 80% of the property.

Measurements of fair values

i)Fair value hierarchy

The investment property was revalued by Landworth Property Consultants in 2015. The valuers are external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The property was valued at US$ 1,120,000 and gain or loss reported represents an exchange movement from the last valuation performed in 2015.

ii)Valuation techniques

Market approach model – the land and building have been valued using direct comparison with similar property that have been sold in the area (open market value). The Directors have performed an internal assessment of the value of the property and are of the opinion that this has not materially changed from the last valuation date.

Notes (continued)

17 Investment property (continued)

iii)Valuation inputs

The inputs to the valuation techniques used is the actual selling price of similar properties.

Other factors that are considered include:

- Prevailing market conditions and likely future trends,
- Development potential for each site, and
- Current and expected demand for commercial properties.

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

	Level 1 K	Level 2 K	Level 3 K	Total K
31 December 2017	-	-	11,009,600	11,009,600
31 December 2016	-	-	11,009,600	11,009,600

18 Receivables arising out of direct insurance

	2017 K	2016 K
Brokers and agents balances	8,387,407	13,304,729
Commission receivable	1,426,132	5,084,958
	9,813,539	18,389,687
Less: provision for impairment	(1,749,272)	(1,437,179)
	8,064,267	16,952,508

19 Reinsurers share of technical provisions and reserves

Reinsurers' share of - unearned premiums	59,737,768	18,707,752
notified claims (note 25)	50,367,892	13,363,700
claims incurred but not reported (note 25)	13,401,987	1,791,811
	123,507,647	33,863,264

Notes (continued)

20 Deferred acquisition costs

	2017 K	2016 K
Direct commission	4,504,599	4,690,326
Recognised in year	(2,270,914)	(1,826,326)
	2,233,685	2,863,999

21 Other receivables

Other receivables	530,176	1,524,211
Prepayments	894,000	-
	1,424,176	1,524,211

22 Cash and cash equivalents

Cash and bank balances	4,650,452	5,147,031
Short term deposits	80,051,620	8,868,309
	84,702,072	14,015,340

23 Share capital

Authorised:		
15,000,000 ordinary shares of K1.00 each	15,000,000	15,000,000
Issued and fully paid:		
15,000,000 (2016: 15,000,000) ordinary shares of K1.00 each	15,000,000	15,000,000
Movement		
At 1 January	15,000,000	7,500,000
Capitalisation of retained earning	-	6,191,892
Issue of shares	-	1,308,108
	15,000,000	15,000,000

Following a resolution of the board of directors, K6,191,892 of the retained earning reserves was converted into share capital in proportion to their existing shareholding.

24 Insurance contract liabilities

Claims incurred and claim handling expenses	55,809,789	15,716,247
Claims incurred but not reported	18,038,365	3,280,953
	73,848,154	18,997,200

Notes (continued)

25 Movements in insurance liabilities and reinsurance assets

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

2017	Gross outstanding claims K	Reinsurance share K	Net K
At 1 January 2017			
Notified claims	15,716,247	13,363,700	2,352,547
Incurred but not reported	3,280,365	1,791,811	1,488,554
Total at beginning of year	18,996,612	15,155,511	3,841,101
Claims paid in year	(28,243,219)	(21,203,075)	(7,040,144)
Increase in liabilities:-			
- Arising from current year claims	26,653,322	27,411,292	(757,970)
At end of year	**73,893,154**	**63,769,879**	**10,123,275**
Notified claim	55,809,789	50,367,892	5,442,897
Incurred but not reported	18,083,365	13,401,987	4,681,378
Total at end of year	**73,893,154**	**63,769,879**	**10,123,275**
2016			
At 1 January 2016			
Notified claims	2,779,335	1,716,762	1,062,573
Incurred but not reported	12,722,548	9,983,601	2,918,947
Total at beginning of year	15,501,883	11,520,363	3,981,520
Claims paid in year	(24,100,530)	(17,572,530)	6,528,000
Decrease in liabilities:-			
- Arising from current year claims	(20,605,801)	(13,936,894)	(6,668,419)
At end of year	**18,996,612**	**15,155,511**	**3,841,101**
Notified claims	15,716,247	13,363,700	2,352,547
Incurred but not reported	3,280,365	1,791,811	1,488,554
Total at end of year	**18,996,612**	**15,155,511**	**3,841,101**

Notes (continued)

26 Unearned premiums reserve

	2017 K	2016 K
At 1 January	29,686,093	25,560,373
Increase in the year	38,473,355	(4,125,720)
Advance premium	23,000,000	-
At 31 December	91,473,355	29,686,093

27 Other payables

	2017 K	2016 K
Accruals and other liabilities	1,332,172	2,416,803
At 31 December	1,332,172	2,416,803

28 Deferred grant

	2017 K	2016 K
At 1 January	622,996	-
Received during the year	1,908,788	901,236
Income recognised during the year	(1,660,750)	(278,240)
At 31 December	871,033	622,996

Notes (continued)

29 Notes to the statement of cash flows

Reconciliation of profit before income tax to cash generated from operations;

Profit before income tax	4,590,465	1,752,243
Adjustments for:		
Depreciation (note 15)	264,834	235,421
Amortisation of intangible asset (note 16)	2,284	2,254
Fair value gain on investment properties	(224,000)	1,977,086
Exchange gains and losses	514,387	766,023
Gain or loss on disposal of property and equipment	-	56,344
Withholding tax on dividends	-	(1,092,687)
Interest received	(1,429,178)	(1,488,006)
Grant income	(1,660,750)	(278,240)
Changes in:		
- receivables arising out of direct insurance arrangements	8,888,241	(7,240,578)
- reinsurers share of technical provisions and reserves	(89,644,382)	(4,801,976)
- unearned commission	630,314	32,820
- other receivables	100,035	(682,990)
- outstanding claims provisions	54,850,954	3,495,317
- unearned premiums reserve	61,787,262	4,125,720)
- payables arising out of reinsurance arrangements	33,097,974	(902,063)
- deferred reinsurance commission	562,286	460,503
- other payables	(1,084,631)	(701,707)
Cash generated from operations	71,246,095	(4,284,516)

30 Contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. The Directors are of the opinion that any outstanding litigation as at 31 December 2017 will not have a material effect on the financial position or profit since adequate provisions for claims have been made as far as the Directors believes the claims will be payable (2016: nil).

The Company is also subject to insurance solvency regulations in respect of its insurance and investment contracts, and has complied with all these regulations. There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

Notes (continued)

31 Related parties

The ultimate parent and ultimate controlling party of the Company is Mayfair Insurance Company Limited incorporated in Kenya. There are other companies that are related to the company through common shareholdings or common directorships.

Identity of related parties

The Company has a related party relationship with its shareholders, holding company, group companies, director's and key management staff.

The following transactions were carried out with related parties:

Directors' fees	365,593	513,491
	======	=======
Directors and key management remuneration	2,694,114	2,641,685
	=======	=======
Outstanding balances with related parties:		
Receivables from shareholders		
Related partied	95,750	940,000
	======	=======

The terms and conditions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Appendix I

SOLVENCY MARGIN COMPUTATION

		2017		2016
Admitted assets				
Property and equipment		1,060,948		755,668
Investment property		11,009,600		11,009,600
Trade receivables (gross)	9,488,443		18,476,719	
Less: trade receivables over 60 days	2,581,708		1,828,199	
Trade receivables (net)				16,648,520
Other receivables		873,107		19,679,579
Gross unearned commission reserves		2,233,865		2,863,999
Cash, cash equivalents and investments		84,702,0972		14,015,340
Total		107,010,087		64,972,708
Admitted liabilities				
Outstanding losses		5,441,897		2,352,547
Unearned premium reserve	8,735,586		29,686,093	
Less unearned premium reserves on debtors over 60 days and less than 12 months	-		1,188,329	
Unearned premium reserve net		8,735,586		28,497,764
Incurred but not reported		5,201,837		1,489,141
Re-insurance payables		4,636,376		9,091,083
Reinsures-Unearned Commission Reserve		42,189,058		4,639,551
Current tax liability		279,540		1,006,396
Other payables		24,332,172		2,416,803
Total		90,816,468		49,493,286
Margin		18%		31%

The statutory requirement by Pension and Insurance Authority for the solvency ratio is 10%