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Corporate Information

DIRECTORS

Mr. Richard Kemoli	Chairman
Mr. Mathew Koech	Managing Director
Mr. Akbarali Kurji	
Mrs. Grace Kemei	
Mr. Srinivasarangan Ramani	Executive Director
Mr. Abdulali Kurji	
Mr. Sam Shollei	
Mr. Sameer Merali	Appointed on 30th July 2014
Ms. Rebecca Likami	Appointed on 11th December 2014

AUDIT, RISK AND COMPLIANCE COMMITTEE

Mr. Sameer Merali	Chairman
Mr. Abdulali Kurji	
Mrs. Grace Kemei	
Mr. Charles Karanja	Internal Auditor

FINANCE AND INVESTMENT COMMITTEE

Mr. Sam Shollei	Chairman
Mr. Akbarali Kurji	
Mrs. Grace Kemei	

MANAGEMENT

Mr. Mathew Koech	Managing Director
Mr. Srinivasarangan Ramani	Executive Director
Mrs. Manju Naul	Head of Operations
Mr. Jeremiah Muchiri	Manager - Branches
Mr. Alex Andayi	Branch Manager - Eldoret
Mr. Clifford Mbae	Manager - Underwriting
Mr. Charles Karanja	Head of Audit Risk & Compliance
Mr. Gerald Kanyingi	Regional Manager - Nairobi
Ms. Mercy Njoroge	Manager - Human Resources
Mr. Julius Mboya	Manager - ICT
Ms. Janette Awidhi	Claims Manager
Mr. Maxwell Kimeu	Manager - Underwriting
Mr. David Gitau	Manager - Underwriting
Mr. Nhaaman Shariff	Branch Manager - Mombasa
Mrs. Shilpa Thakrar	Branch Manager - Kisumu
Mrs. Shabana Parkar	Business Development Manager - Mombasa

Corporate Information (Cont...)

Ms. Terry Amina

Mr. Sammy Wendot

Mr. Mike Mugeru

Ms. Veteris Mwau

Mrs. Diana Wainaina

Mr. James Waga

Ms. Winnie Gitonga

Mrs. Elizabeth Wamae

Branch Manager - Nakuru

Reinsurance Manager

Assistant Manager - Finance

Assistant Manager - Underwriting

Assistant Manager - Business Development

Quality Management Representative

Senior Administration Officer

P.A. Managing Director

REGISTERED OFFICE

Equatorial Fidelity Centre

Waridi Lane off Waiyaki Way

P.O Box 47435 – 00100

Nairobi

BRANCHES

Nairobi Branches

Equatorial Fidelity Centre

Waridi Lane off Waiyaki Way

P.O Box 47435 – 00100

Nairobi

Nairobi CBD

Transnational Plaza 8th floor

Mama Ngina Street

P. O Box 47435-00100

Nairobi

Upcountry Branches:

MOMBASA

Fidelity Shield Insurance House,

P.O Box 90103

Mombasa

ELDORET

Zion Mall, 1st floor, Uganda Road

P.O Box 7877

Eldoret

Corporate Information (Cont...)

KISUMU

Kenya Re Plaza, Oginga Odinga Street
P.O Box 2243
Kisumu

NAKURU

Westside Mall, 3rd Floor, Kenyatta Lane
P. O Box 18622-20100
Nakuru

AUDITORS

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

SECRETARY

Equatorial Secretaries & Registrars
Certified Public Secretaries
Kalamu House, Grevillea Grove, Westlands
P O Box 47323-00100
Nairobi

ADVOCATES

Anjarwalla & Khanna

CONSULTING ACTUARIES

Alexander Forbes Financial Services (EA) Ltd

BANKERS

- Commercial Bank of Africa Limited
- Equatorial Commercial Bank Limited
- Transnational Bank Limited

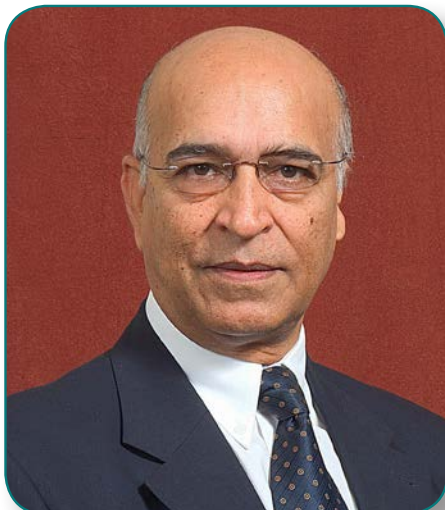
Board of Directors



Richard Kemoli
Chairman



Mathew Koech
Managing Director



Akbarali Kurji
Director



Grace Kemei
Director

Board of Directors



S. Ramani
Executive Director



Abdulali Kurji
Director



Sam Shollei
Director



Sameer Merali
Director



Rebecca Likami
Director



Directors' Report

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which 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 operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose, with reasonable accuracy at any time, the company's financial position. They are also responsible for safeguarding the assets of the company.

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 controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for these financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies 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 operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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.



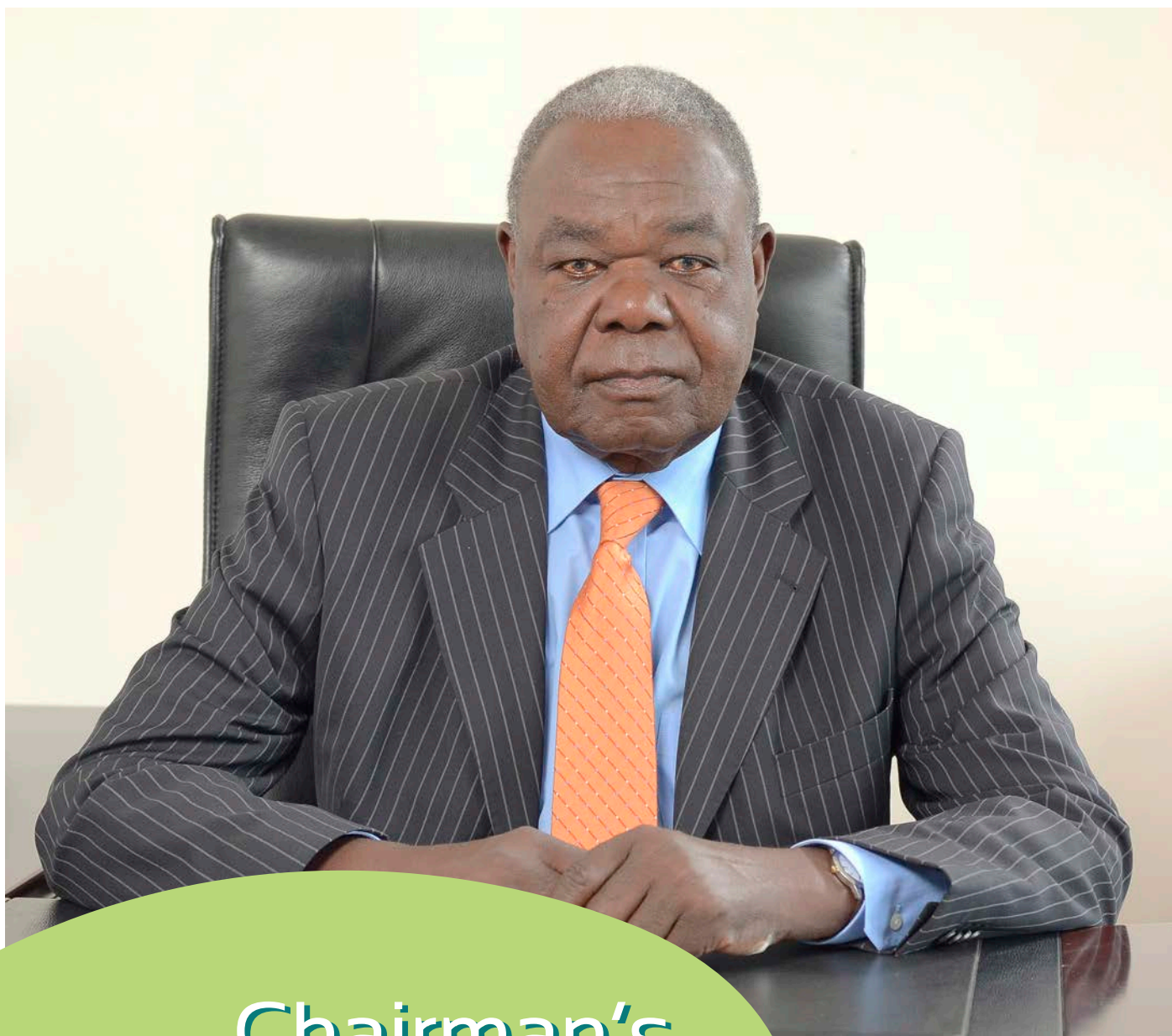
Akbarali Kurji
Director

18 March 2015



Mathew Koech
Director

18 March 2015



Chairman's Statement

It is my pleasure once again to present, on behalf of the Board of Directors, the Annual Report and Financial Statements for the year ended 31 December 2014.

Economic Overview

The Kenyan economy's performance during 2014 was characterised by a general sustenance of the recovery trajectory. Upon the revision of the GDP data in September 2014 following the rebasing of the output base, official statistics indicate that the economy realised a real growth of 5.5 percent by the third quarter of 2014 compared to 6.2 percent during the corresponding quarter in 2013. The annual real growth for the year is estimated at 5.4 percent compared to the previous year's 4.7 percent, thus indicating an upward growth trend that underpins an outlook of at least 6 percent real growth in 2015.

The observed growth was mainly supported by the robust expansion in construction, finance, wholesale and retail trade, information and communication technology. Agriculture and forestry as well as manufacturing experienced positive growth, albeit below potential. The sector performance was against the backdrop of an expansionary fiscal regime geared towards providing an enabling capacity in form of supportive infrastructure both at the national and county levels. Tourism, while still a key sector in terms of its share of output, remained depressed by the low turnout on account of travel advisories from major tourist source economies.

Operating Environment

The economy's growth outturn was on the back of a largely stable macroeconomic environment. Inflation remained at single digit level, above the official target of 5 percent but within the target range of + (-) 2.5 percentage points above (below) the target. On account of this, the Monetary Policy Committee (MPC) of the Central Bank of Kenya (CBK) maintained the Central Bank Rate (CBR) – the policy rate – at 8.5 percent throughout the year.

Owing to the economy's weak external position as manifested in the wide current account deficit, the Kenya Shilling (KES) was subject to a depreciation. Nonetheless, the CBK ensured that any depreciation did not lead to foreign exchange market volatility. The KES/US\$ nominal exchange rate was KES86.2/US\$ in January 2014, depreciating to KES90.5/US\$ by December 2014. The CBK assured market stability through a combination of foreign exchange market interventions backed by adequate reserves as well as a stand-by support facility from the International Monetary Fund and money market interventions.

The Insurance Industry

The industry continued to record growth during the year. It is estimated that industry premium reached KShs. 150 billion compared to KShs. 130 billion in 2013. Penetration however remains low at just over 3% and this is a challenge to the industry to continuously innovate and come up with relevant products that will raise penetration of insurance in the economy.

Price undercutting continues to be a major concern within the industry. Efforts by the Insurance Regulatory Authority to set minimum premium rates has generally not taken root as players continue to flout the guidelines agreed. There is very little effort being played in proper underwriting based on loss ratios and risk management. This will continue to affect the performance of the industry adversely in the years ahead until wise counsel prevails among the players in addition to the IRA taking sterner measures against the culprits.

Results And Dividend

The Company recorded a growth in income of just below 20% to reach KShs 1,493 million compared to KShs 1,240 million in 2013. Profitability improved similarly from a profit before tax of KShs 151 million to KShs 202 million representing a 34% improvement.

Chairman's Statement (cont..)

The above performance was achieved despite significant expenses incurred in re-organisation and general improvement in operational systems in order to achieve better operational efficiencies.

Because of the continued profitability of the Company, the Board is recommending to the Annual General Meeting to approve a dividend of KShs. 10 per share amounting in total to KShs 45 million for the year. This is the same rate of dividend declared in the previous year albeit on this occasion, on an expanded capital base, the total dividend pay-out will consequently increase from KShs. 30 million in 2013 to KShs. 45 million in 2014.

The Board

Mr. Sameer Merali and Ms Rebecca Likami were appointed to the Board on 30 July and 11 December 2014 respectively. Mr. Robert Shibutse resigned from the Board on 30 July 2014. I take this opportunity to welcome to the Board the new directors and to thank Mr. Robert Shibutse for the unstinting service and commitment during his tenure as a director.

Future Outlook

Despite the continued terrorist activity in the country in 2015, the business activity remained robust. Government has laid focus on reigning in corruption in the country by naming and shaming those implicated in corrupt activities. This is expected to pay dividends in economic performance in the years ahead.

Political developments in Southern Sudan have adversely affected economic activity in that country and in the region because Southern Sudan is a major trading partner. In addition, the continued threat of terrorism arising from Kenya's contribution to UN forces in Somalia has led to numerous attacks in various parts of the country thus adversely affecting tourism business with attendant effects on the economy and the insurance industry in particular.

Despite the above, the Board is confident that the Company will continue its profitable performance in 2015 and beyond.

Tribute

I wish to pay a tribute to all our clients, insurance brokers and agents for the continued confidence they have in our Company by choosing to insure with us. I also wish to pay a tribute to management and staff for their support and service to the Company and finally but not least I particularly want to thank unreservedly my fellow Directors for their support and wise counsel throughout the year.

A handwritten signature in black ink, appearing to read "Richard Kemoli", written in a cursive style.

Richard Kemoli FloD, MBE
Chairman

18 March 2015.

Corporate Governance Statement

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

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

Board of Directors Composition and Operations

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

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

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

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

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

Chairman versus Chief Executive

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

Committees of the Board

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

Corporate Governance Statement (cont..)

Audit and Governance Committee

The Board has in place an audit and governance committee which meets four times a year or as necessary. Its responsibilities includes review of financial information in particular half year and annual financial statements, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems. The Committee is made up of the three non-executive directors namely Mr. Sameer Merali (Chairman), Abdulali Kurji and Mrs. Grace Kemei. The Managing Director, The Executive Director, The Head of Internal Audit & Compliance and the Company Secretary attend meetings of the committee. External auditors also attend the meeting as required.

Finance and Investments Committee

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

Risk Management and Internal Controls Risk Management

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

Internal Controls

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

Conduct of Business

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

Performance Reporting

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

Corporate Governance Statement (cont..)

have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

Ethical Standards

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

Health, Safety and Employee Welfare

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

Corporate Social Responsibility

Giving back to the society forms one of the pillars of our Company. As a company we have identified various areas in Education, Environment, Sports and Health in which we can support the society we thrive in. We conduct our business with care for the environment by supporting activities that minimise the degradation of our natural heritage. The Company to do this, sets aside a proportion of its gross income to social responsibility issues. This, the company seeks to entrench in its system by having a Corporate Social Responsibility Policy.

The Company already sponsors numerous events and activities that support social causes including a number of charity sporting events, education of the needy and provision of foodstuff and other facilities to the community. Among the sponsored activities during the year were:

- Cerebral Palsy Annual Charity Walk to raise funds And Adopt a Child
- Food to over one thousand children in a programme for religious and charitable institutions
- Rehabilitation of a clinic for the Association for the Physically Handicapped
- Sponsorship of a medical camp at Oshwal Centre
- SICS Annual Cricket Games



R. Kemoli
Chairman

18 March 2015.

Management Team



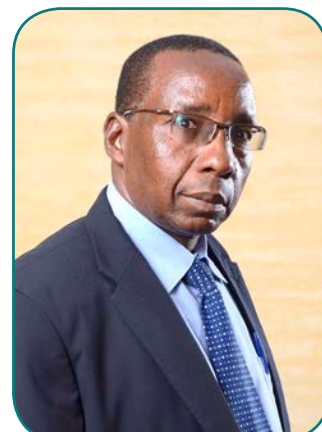
Mathew Koech
Managing Director



S Ramani
Executive Director



Manju Naul
Head of Operations



Jeremiah Muchiri
Manager - Branches



Alex Z. Andayi
Branch Manager - Eldoret



Clifford Mbae
Manager - Underwriting



Charles Karanja
Head of Audit Risk &
Compliance



Gerald Kanyingi
Regional Manager - Nairobi



Mercy Njoroge
Human Resource
Manager



Julius Mboya
Manager - ICT



Janette Awidhi
Claims Manager



Maxwell Kimeu
Manager - Underwriting

Management Team



David Gitau
Manager - Underwriting



Nhaaman Shariff
Branch Manager - Mombasa



Shilpa Thakrar
Branch Manager - Kisumu



Elizabeth Wamae
P.A. Managing Director



Shabana Parker
Business Development
Manager - Mombasa



Terry Amina
Branch Manager Nakuru



Sammy Wendot
Reinsurance Manager



Mike Mugera
Assistant Manager - Finance



Veteris Mwau
Assistant Manager -
Underwriting



Diana Wainaina
Assistant Manager - Business
Development



James Waga
Quality Management
Representative




Winfred Gitonga
Senior Administration
Officer

Report of the Consulting Actuary

I have conducted an actuarial valuation of the insurance liabilities of the insurer as at 31 December 2014.

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

In my opinion, the insurance business of the Company was financially sound and the Company's insurance liabilities and reserves as at 31 December 2014 were adequate.

A handwritten signature in black ink, appearing to read "James Olubayi".

James Olubayi

Fellow of the Institute of Actuaries

Date: 31 March 2015

Report of the Independent Auditor

To the Members of Fidelity Shield Insurance Company Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Fidelity Shield Insurance Company Limited, set out on pages 21 to 55, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, and the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about 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, we considered the internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. 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.

Report of the Independent Auditor

To the Members of Fidelity Shield Insurance Company Limited (Cont.)

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2014 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.

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 statement of financial position (balance sheet) is in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA J W Wangai – P/ No 1118.

Deloitte \$ Touché

Certified Public Accountants (Kenya)

Nairobi, Kenya

31 March 2015

Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2014

	Note	2014 Sh'000	2013 Sh'000
Gross earned premiums	5	1,384,413	1,142,789
Less: reinsurance premiums ceded		(342,194)	(309,255)
Net earned premiums		1,042,219	833,534
Investment income	6	179,215	188,249
Commissions earned		103,191	91,684
Other income	7	7,033	4,333
Total investment and other income		289,439	284,266
Claims payable		(851,687)	(629,815)
Less: amounts recoverable from reinsurers		296,992	145,073
Net claims payable	8	(554,695)	(484,742)
Operating and other expenses	9	(391,146)	(329,859)
Commissions payable		(184,272)	(152,226)
		(1,130,113)	(966,827)
Profit before income tax		201,545	150,973
Income tax expense	11	(51,745)	(36,386)
Profit for the year		149,800	114,587
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Gain on property revaluations	14	14,309	7,434
Total comprehensive income		164,109	122,021

Statement of Financial Position

As At 31 December 2014

	Note	2014 Sh'000	2013 Sh'000
CAPITAL EMPLOYED			
Share capital	13	450,000	300,453
Revaluation reserve	14	80,697	66,388
Retained earnings	15	537,460	567,252
		<hr/>	<hr/>
Shareholders' funds		1,068,157	934,093
		=====	=====
REPRESENTED BY:			
Assets			
Property and equipment	16	274,288	249,272
Intangible asset	17	2,125	3,267
Investment property	18	795,411	738,744
Investment in the Kenya Motor Insurance Pool		17,688	15,893
Equity investments at fair value through profit or loss			
	19	122,079	100,068
Mortgage loans	20	12,875	33,291
Receivables arising out of reinsurance arrangements		1,085	4,220
Receivables arising out of direct insurance arrangements		470,632	356,207
Reinsurers' share of insurance contract liabilities	21	502,023	311,415
Current income tax		-	8,452
Other receivables	22	46,363	23,249
Deferred acquisition costs	23	37,782	31,442
Government securities held to maturity	24	195,992	176,433
Deposits with financial institutions		332,465	233,468
Cash and bank balances		43,470	29,850
		<hr/>	<hr/>
Total assets		2,854,278	2,315,271
		=====	=====
Liabilities			
Insurance contract liabilities	26	1,029,731	807,780
Unearned premium	28	557,197	456,235
Deferred taxation	29	16,616	17,121
Corporate tax payable		15,969	-
Payables arising from reinsurance arrangements		100,201	58,089
Other payables	30	66,407	41,953
		<hr/>	<hr/>
Total liabilities		1,786,121	1,381,178
		<hr/>	<hr/>
Net assets		1,068,157	934,093
		=====	=====

The financial statements on pages 21 to 55 were approved and authorised for issue by the board of directors on 18 March 2015 and signed on its behalf by:



Akbarali Kurji
Director



S Ramani
Director



Mathew Koech
Principal Officer

Statement of Changes in Equity

For the year ended 31 December 2014

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2013					
At start of year		300,453	58,954	542,801	902,208
Comprehensive income					
Profit for the year		-	-	114,587	114,587
Other comprehensive income					
Gains on revaluation of land and buildings, net of tax	15	-	7,434	-	7,434
Transactions with owners					
Dividends:					
- Final paid for 2012	12	-	-	(90,136)	(90,136)
At end of year		300,453 =====	66,388 =====	567,252 =====	934,093 =====
Year ended 31 December 2014					
At start of year		300,453	66,388	567,252	934,093
Comprehensive income					
Profit for the year		-	-	149,800	149,800
Capitalisation of reserves for issue of shares		149,547		(149,547)	-
Other comprehensive income					
Gains on revaluation of land and Buildings, net of tax	15	-	14,309	-	14,309
Transactions with owners					
Dividends:					
- Final paid for 2013	12	-	-	(30,045)	(30,045)
At end of year		450,000 =====	80,697 =====	537,460 =====	1,068,157 =====

Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 Sh'000	2013 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/ (used in) operations	34	147,409	(20,626)
Interest received		56,258	57,461
Income tax paid		(33,962)	(68,356)
		-----	-----
Net cash generated from/ (used in) operating activities		169,705	(31,521)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	16	(24,204)	(6,044)
Purchase of quoted shares	19	(7,310)	-
Purchase of intangible assets	17	(1,739)	(386)
Purchase of investment property	18	-	(4,060)
Purchase of treasury bonds		(60,000)	(85,000)
Loans advanced	20	(6,727)	(8,897)
Loans repaid	20	27,143	19,382
Proceeds of disposal of property and equipment		450	705
Proceeds from disposal of quoted shares		5,603	7,658
Investment in fixed deposits		-	5,000
Maturity of treasury bonds		10,000	95,000
		-----	-----
Net cash used in/ generated from investing activities		(56,784)	23,358
FINANCING ACTIVITIES			
Dividends paid	12	(30,045)	(90,136)
		-----	-----
Net cash used in financing activities		(30,045)	(90,136)
		-----	-----
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		82,876	(98,299)
CASH AND CASH EQUIVALENTS			
AT 1 JANUARY	33	293,059	391,358
		-----	-----
CASH AND CASH EQUIVALENTS			
AT 31 DECEMBER	33	375,935	293,059
		=====	=====

Notes to the financial Statements

For the year ended 31 December 2014

1 ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2014

Several new and revised standards and interpretations became effective during the year. The directors have evaluated the impact of their new standards and interpretations and none of them had an impact on the company's financial statements.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014.

New and Amendments to standards	Effective for annual periods beginning on or after
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IFRS 9	1 January 2018
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(iii) Impact of relevant new standards and amendments to published standards effective for the year ended 31 December 2014

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. The directors of the company anticipate that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the company.

(iv) Early adoption of standards

The company did not early-adopt new or amended standards in 2014.

Notes to the financial Statements

For the year ended 31 December 2014

1 ACCOUNTING POLICIES (Continued)

Significant accounting policies

The principal accounting policies adopted are set out below.

Basis of accounting

The financial statements are prepared under the historical cost convention, as modified to include the revaluation of certain assets.

Kenya Motor Insurance Pool

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

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

Income recognition

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations/lapses and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the end of each reporting period, and are calculated using the 1/24th method on written premiums less reinsurance commissions and other acquisition costs.

Premiums on long term insurance contracts are recognised as revenue/income when they are received from the policyholders/contract holder. Premiums are shown before deduction of commission.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends receivable are recognised as income in the period in which the right to receive payment is established. Rental income is recognised as income in the period in which it is earned.

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

Commissions payable and deferred policy acquisition costs

A proportion of commissions payable is deferred and amortised over the period in which the related premiums are earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end. The deferred policy acquisition costs are subsequently amortised over the life of the contracts. All other costs are recognised as expenses when incurred.

Claims incurred

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

Notes to the financial Statements

For the year ended 31 December 2014

1 ACCOUNTING POLICIES (Continued)

Reinsurance

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

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

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

Ceded reinsurance arrangements do not relieve the company from its obligations to policyholders. The company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are 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.

Insurance receivables

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

Property and equipment

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

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

Notes to the financial Statements

For the year ended 31 December 2014

1 ACCOUNTING POLICIES (Continued)

Depreciation

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

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

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

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

Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

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

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

Intangible assets

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

Financial instruments

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

Notes to the financial Statements

For the year ended 31 December 2014

1 ACCOUNTING POLICIES (Continued)

Financial assets

Classification

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

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

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking or if so designated by management. Investments in shares of other enterprises that give the company a residual interest in the assets of that enterprise after deducting all of its liabilities are classified as equity instruments. Investments in equity instruments quoted on the Nairobi Stock Exchange or other equity markets are stated at market values ruling as at the year-end and are classified as held for trading. Their fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the end of each reporting period. Gains or losses on revaluation of equity instruments are dealt with in profit or loss.

ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Fixed deposits and commercial paper are classified as originated loans. These are carried at amortised cost (i.e. cost plus accrued income), using the effective yield method.

iii) *Held-to-maturity financial assets*

Securities issued by the Government of Kenya are classified as held to maturity. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs, other than for an insignificant amount of held-to-maturity financial asset, the entire category would be reclassified as available-for-sale.

iv) *Available-for-sale financial assets*

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

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

Notes to the financial Statements

For the year ended 31 December 2014

1. ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Recognition of financial assets

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

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

Derecognition of financial assets

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

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Other financial liabilities

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

Derecognition of financial liabilities

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

Impairment of financial assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset (or company of financial assets) is impaired. Impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

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

Notes to the financial Statements

For the year ended 31 December 2014

1 ACCOUNTING POLICIES (Continued)

Leases

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

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

The company as lessor

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

The company as lessee

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

Taxation

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

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

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

Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

Notes to the financial Statements

For the year ended 31 December 2014

1 ACCOUNTING POLICIES (Continued)

Revaluation surplus

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

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

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

Impairment of assets

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

Retirement benefit obligations

The company operates a defined contribution pension scheme for its employees. The scheme is administered independently by Jubilee Insurance Company Limited and ICEA Lion Life Assurance Company Limited and is funded by contributions from both company and employees at rates that are determined triennially by certified actuaries. Currently, the employer contributes 10% while the employee contributes 10% of the employee's basic pay to the scheme. The scheme's funds are managed by Jubilee Financial Services Limited and ICEA Assets Management Limited.

Notes to the financial Statements

For the year ended 31 December 2014

1 ACCOUNTING POLICIES (Continued)

The scheme is subjected to valuations by independent actuaries once every three years to fulfil the requirements under the scheme rules and the requirements of the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Act 1997. The actuarial valuation method adopted entails the comparison of the value of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The company also contributes to the statutory defined contribution pension schemes, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute and are currently limited to Sh 200 per employee per month.

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

Dividends

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

Comparatives

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

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY.

In the process of applying the entity's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Notes to the financial Statements

For the year ended 31 December 2014

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying techniques applied in the estimation of this liability is that a company's past claims experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

Held -to-maturity financial assets

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

Impairment

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

Property and equipment

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

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

Receivables

Critical estimates are made by the directors in determining the recoverable amount of receivables.

Notes to the financial Statements

For the year ended 31 December 2014

3 RISK MANAGEMENT

Governance framework

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

Management of Insurance and financial risk

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

(i) Insurance risk

Insurance risk in the company arises from:

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

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

Core insurance risk

This risk is managed through:

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

Notes to the financial Statements

For the year ended 31 December 2014

3 RISK MANAGEMENT (Continued)

(i) Insurance risk (continued)

Reinsurance planning

Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the company. The basis of these purchase is underpinned by the company's experience, financial modelling by and exposure of the reinsurance broker.

The reinsurance is placed with providers who meet the company's counter party security requirements.

Claims reserving

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

Short-term insurance contracts

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

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

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

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

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

Notes to the financial Statements

For the year ended 31 December 2014

3 RISK MANAGEMENT (Continued)

(i) Insurance risk (continued)

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

31 December 2014

	Gross Liabilities Ksh'000	Reinsurance Share Ksh'000	Net Liabilities Ksh'000
Motor	21,496,787	5,227,719	16,269,068
Fire	135,694,819	103,073,975	32,620,844
Personal Accident	2,509,309	(5,820,655)	8,329,964
Marine	8,329,964	6,625,285	1,704,679
Others	50,066,616	31,484,957	18,581,659
	-----	-----	-----
Total	218,097,495	140,591,281	77,506,214
	-----	-----	-----

31 December 2013

Motor	18,778,334	16,661,883	2,116,451
Fire	84,523,480	12,000,869	72,522,611
Personal Accident	2,269,178	696,367	1,572,811
Marine	5,635,403	1,725,044	3,910,359
Others	49,671,704	17,764,465	31,907,239
	-----	-----	-----
Total	160,878,099	48,848,628	112,029,471
	=====	=====	=====

Key assumptions

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

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

Sensitivities

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

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

Notes to the financial Statements

For the year ended 31 December 2014

3 RISK MANAGEMENT (Continued)

(i) Insurance risk (continued)

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

	Changes in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax
31 December 2014		Ksh'000	Ksh'000	Ksh'000
Average claim processing cost	+10%	77,029 =====	55,469 =====	20,155 =====
31 December 2013				
Average claim processing cost	+10%	62,982 =====	48,474 =====	15,097 =====

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

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

(ii) Financial risks

(a) Market risk

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

(i) Interest rate risk

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

An increase/decrease of 5 percentage points in interest yields would result in an increase/(decrease) in profit before tax for the year by Ksh 2,681,000 (2013: Ksh 2,530,000).

(ii) Equity price risk

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

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

Notes to the financial Statements

For the year ended 31 December 2014

3 RISK MANAGEMENT (Continued)

(ii) Financial risks (Continued)

(a) Market risk (Continued)

(ii) Equity price risk

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

At 31 December 2014, if equity market indices had increased/decreased by 5%, with all other variables held constant, other comprehensive income for the year would increase/decrease by Ksh 4,273,000 (2013: Ksh 3,502,000).

(iii) Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigate the foreign currency exchange rate risk. The currency risk is also effectively managed by ensuring that the transactions between the company and other parties are designated in the functional currencies of the individual companies.

At 31 December 2014, if the Kenya shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the profit before tax for the year would have been Shs nil (2013: Ksh nil) higher/lower, mainly as a result of US dollar denominated deposits with financial institutions in Kenya.

(b) Credit risk

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

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

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. The table below shows the carrying amounts of financial assets bearing credit risk

Notes to the financial Statements

For the year ended 31 December 2014

3 RISK MANAGEMENT (Continued)

(ii) Financial risks (Continued)

(b) Credit risk (Continued)

	Fully performing Ksh'000	Past due Ksh'000	Impaired Ksh'000	Total Ksh'000
31 December 2014				
Receivable arising out of direct insurance arrangements	287,142	320,685	137,195	470,632
Receivable arising out of reinsurance arrangements	1,085	-	-	1,085
Deposits with financial institutions held to maturity	528,457	-	-	528,457
Other receivables – rent receivable	1,885	-	-	1,885
Cash and bank balances	43,470	-	-	43,470
	574,897	-	-	574,897
	=====	=====	=====	=====
31 December 2013				
Receivable arising out of direct insurance arrangements				
Provision for doubtful debts	-	-	-	-
Receivables arising out of direct reinsurance arrangements				
Corporate bonds held to maturity	4,220	-	-	4,220
Deposits with financial institutions held to maturity	409,901	-	-	409,901
Other receivables – rent receivable	2,181	-	-	2,181
Cash and bank balances	29,850	-	-	29,850
	446,152	-	-	446,152
	=====	=====	=====	=====

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

Notes to the financial Statements

For the year ended 31 December 2014

3 RISK MANAGEMENT (Continued)

(ii) Financial risks (Continued)

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	O-1 year Ksh'000	Over 1 year Ksh'000	Total Ksh'000
At 31 December 2014			
Outstanding claims provision	1,003,464	26,267	1,029,731
Payables arising from reinsurance arrangements	100,201	-	100,201
Other payables	54,490	10,045	64,535
Due to related parties	1,872	-	1,872
	<u>1,160,027</u>	<u>36,312</u>	<u>1,196,339</u>
	=====	=====	=====
At 31 December 2013			
Outstanding claims provision	784,908	22,872	807,780
Payables arising from reinsurance arrangements	58,089	-	58,089
Other payables	41,009	-	41,009
Due to related parties	944	-	944
	<u>884,950</u>	<u>22,872</u>	<u>907,822</u>
	=====	=====	=====

(d) Fair value hierarchy

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

Notes to the financial Statements

For the year ended 31 December 2014

3 RISK MANAGEMENT (Continued)

(d) Fair value hierarchy (Continued)

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

	Level 1 Ksh'000	Level 2 Ksh'000	Level 3 Ksh'000	Total Ksh'000
31 December 2014				
Available for sale				
- Equity instruments	122,079	-	-	122,079
- Corporate bonds	-	-	-	-
	<u>122,079</u>	<u>-</u>	<u>-</u>	<u>122,079</u>
	=====	=====	=====	=====
31 December 2013				
Available for sale				
- Equity instruments	100,068	-	-	100,068
- Corporate bonds	-	-	-	-
	<u>100,068</u>	<u>-</u>	<u>-</u>	<u>100,068</u>
	=====	=====	=====	=====

4 CAPITAL RISK MANAGEMENT

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

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

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

The company has met all of these requirements throughout the financial year.

The Kenyan and Insurance Acts require each insurance company to hold the minimum level of paid up capital as follows:

	Kenya Ksh'000	Ksh'000
Composite insurance companies	450,000	450,000
General insurance companies	300,000	300,000
Long-term insurance companies	150,000	150,000
	=====	=====

The company is in compliance with the capital requirements as at 31 December 2014.

Notes to the financial Statements

For the year ended 31 December 2014

	2014 Ksh'000	2013 Ksh'000
5 GROSS EARNED PREMIUMS		
Motor	779,378	627,944
Fire	233,352	199,540
Marine	57,996	46,973
Personal accident	22,596	22,901
Theft	59,321	55,217
Workmen compensation	168,197	135,696
Other	63,573	54,518
	<u>1,384,413</u>	<u>1,142,789</u>
	=====	=====
6 INVESTMENT INCOME		
Interest from government securities	21,233	21,208
Bank deposit interest	32,384	29,395
Mortgage loan interest receivable	2,641	6,858
Rental income from investment properties	43,902	41,979
Fair value gains on investment properties (Note 18)	56,667	43,571
Dividends receivable from equity investments	2,084	2,682
Gain on sale of quoted shares	-	1,867
Fair value gains on financial assets at fair value	20,304	27,956
	<u>-</u>	<u>12,733</u>
	179,215	188,249
	=====	=====
7 OTHER INCOME		
Kenya Motor Insurance Pool	1,795	3,366
Gain on disposal of property and equipment	450	(1,264)
Other	4,788	2,231
	<u>7,033</u>	<u>4,333</u>
	=====	=====
8 NET CLAIMS PAYABLE		
Claims payable by principal class of business:		
Motor	406,412	362,094
Fire	37,920	26,539
Marine	18,080	10,230
Workmen Compensation	59,420	72,673
Public Liability	7,167	(3,952)
Miscellaneous	25,696	17,158
	<u>554,695</u>	<u>484,742</u>
	=====	=====

Notes to the financial Statements

For the year ended 31 December 2014

9 OPERATING AND OTHER EXPENSES

	2014 Ksh'000	2013 Ksh'000
Staff costs (note 10)	202,678	191,582
Auditors' remuneration (inclusive VAT)	2,917	3,279
Depreciation (note 16)	19,630	18,269
Amortisation (note 17)	2,881	2,533
Impairment charge for doubtful receivables		
- Premium receivables	34,587	33,911
- Other receivables	-	200
Operating lease rentals - land and buildings	12,094	8,965
Repairs and maintenance expenditure	2,218	2,694
Other	114,141	68,426

391,146 **329,859**

10 STAFF COSTS

Staff costs include the following:

- Salaries and wages	172,602	162,419
- Social security benefit costs	196	219
- Retirement benefit costs – defined contribution plan	10,454	9,495
Other staff costs	19,426	19,449

202,678 **191,582**

11 INCOME TAX EXPENSE

Current tax	58,383	38,367
Deferred income tax (Note 29)	(6,638)	(1,981)

51,745 **36,386**

The Company's current tax charge is computed in accordance with income tax rules applicable to Kenyan Insurance Companies. A reconciliation of the tax charge is shown below:

Profit before tax

Tax calculated at a tax rate of 30%	60,464	45,292
Less: tax effect of income not subject to tax	(30,354)	(28,651)
Add: tax effect of expenses not deductible for tax purposes	21,635	19,745

Tax charge **51,745** **36,386**

Notes to the financial Statements

For the year ended 31 December 2014

12 DIVIDENDS

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. The directors have proposed dividends for the year ended 31 December 2014 of Shs 10.00 per share totalling to Shs 45,000,000 (2013: Shs 10.00 per share totalling to Shs 30,045,240).

Payment of dividends is subject to withholding tax at the rate of either 5% or 10%, depending on the residence of the individual shareholders.

13 SHARE CAPITAL

	Number of shares (Thousands)	Ordinary shares Shs'000
Balance at 31 December 2013	3,004	300,453
Issued in 2014	1,496	149,547
	-----	-----
	4,500	450,000
	=====	=====

The total authorised number of ordinary shares is 5,000,000 with a par value of Shs 100 per share. 4,500,000 shares are fully paid.

14 REVALUATION RESERVE

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

	2014 Shs '000	2013 Shs '000
At beginning of year	66,388	58,954
Revaluation gains – gross (Note 16)	20,442	10,620
Deferred tax on revaluation gains (Note 29)	(6,133)	(3,186)
	-----	-----
At end of year	80,697	66,388
	=====	=====

- 15 The retained earnings balance represents the amount available for dividend distribution to the shareholders of the company, except for cumulative fair value gains on the company's investment properties of Shs 386,854,433 (2013: Shs 479,734,970) whose distribution is subject to restrictions imposed by regulation.

Notes to the financial Statements

For the year ended 31 December 2014

16 PROPERTY AND EQUIPMENT

	Land & Buildings Shs'000	Furniture & equipment Shs'000	Motor Vehicles Shs'000	Total Shs'000
At 1 January 2013				
Cost or valuation	204,387	100,122	9,795	314,304
Accumulated depreciation	-	(71,741)	(6,717)	(78,458)
Net book amount	204,387	28,381	3,078	235,846
	=====	=====	=====	=====
At 31 December 2013				
Opening net book amount	204,387	28,381	3,078	235,846
Additions	-	5,054	990	6,044
Transfer from investment property(Note 18)	17,000	-	-	17,000
Fair value gains on revaluation	10,620	-	-	10,620
Disposals	-	(769)	(1,200)	(1,969)
Depreciation charge	(3,451)	(13,493)	(1,325)	(18,269)
Net book amount	228,556	19,173	1,543	249,272
	=====	=====	=====	=====
At 31 December 2013				
Cost or valuation	228,556	102,823	9,185	340,564
Accumulated depreciation	-	(83,650)	(7,642)	(91,292)
Net book amount	228,556	19,173	1,543	249,272
	=====	=====	=====	=====
At 31 December 2014				
Opening net book amount	228,556	19,173	1,543	249,272
Additions	-	15,719	-	15,719
Work in progress	-	8,485	-	8,485
Fair value gains on revaluation	20,442	-	-	20,442
Disposals	-	-	-	-
Depreciation charge	(3,409)	(15,573)	(648)	(19,630)
Net book amount	245,589	27,804	895	274,288
	=====	=====	=====	=====
At 31 December 2014				
Cost or valuation	245,589	127,026	7,345	379,960
Accumulated depreciation	-	(99,222)	(6,450)	(105,672)
Net book amount	245,589	27,804	895	274,288
	=====	=====	=====	=====

Notes to the financial Statements

For the year ended 31 December 2014

16 PROPERTY AND EQUIPMENT (CONTINUED)

Land and Buildings were valued on 31st December 2014 by Knight Frank Valuers Limited. The basis of valuation was current market value with existing use.

Land and Buildings are carried at the fair value hierarchy level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

	2014 Shs'000	2013 Shs'000
Cost	143,767	143,767
Accumulated depreciation	(12,642)	(9,233)
Net book amount	131,125	134,534
	=====	=====
17 INTANGIBLE ASSETS – COMPUTER SOFTWARE		
At 31 December		
At beginning of year	3,267	5,414
Additions	1,739	386
Amortisation charge	(2,881)	(2,533)
Net book amount	2,125	3,267
	=====	=====
At 31 December		
Cost	14,405	12,666
Accumulated amortisation	(12,280)	(9,399)
Net book amount	2,125	3,267
	=====	=====
18 INVESTMENT PROPERTY		
At start of year	738,744	708,113
Additions	-	4,060
Transfer to property and equipment (Note 16)	-	(17,000)
Fair value gains	56,667	43,571
At end of year	795,411	738,744
	=====	=====

The Company's investment properties were valued as at 31 December 2014 by Knight Frank Valuers Limited. The basis of the valuation was open market value. Direct operating expenses attributable to management of the investment property amounted to Shs 4,162,487 (2013: Shs 2,878,700).

The investment property is carried at the fair value hierarchy level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Notes to the financial Statements

For the year ended 31 December 2014

19 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Quoted investments:

	2014 Shs'000	2013 Shs'000
At start of year	100,068	77,903
Additions	7,310	-
Disposals	(5,603)	(5,791)
Fair value gain	20,304	27,956
At end of year	122,079	100,068
	=====	=====

20 MORTGAGE LOANS

Mortgage loans:

At start of year	33,291	43,776
Loans advanced	6,727	8,897
Loan repayments	(27,143)	(19,382)
At end of year	12,875	33,291
	=====	=====

Maturity profile of mortgage loans:

Loans maturing:		
Within 1 year	2,766	-
In 1-5 years	2,307	8,587
In over 5 years	7,802	24,704
	12,875	33,291
	=====	=====

Lending commitments:

Mortgage loans approved by the directors but not advanced at year end	2,775	-
	=====	=====

21 REINSURERS' SHARE OF INSURANCE LIABILITIES

Reinsurers' share of:

- unearned premium (Note 28)	134,267	102,691
- notified claims outstanding (Note 27)	310,311	162,708
- claims incurred but not reported (Note 27)	57,445	46,016
	502,023	311,415
	=====	=====

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

Notes to the financial Statements

For the year ended 31 December 2014

22 OTHER RECEIVABLES

Due from related parties (Note 35(ii))
Prepayments
Utilities and rental deposit
Others

2014 Shs'000	2013 Shs'000
9,815	13,167
3,299	1,335
3,486	1,356
29,763	7,391
<u>46,363</u>	<u>23,249</u>
=====	=====

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

23 DEFERRED ACQUISITION COSTS

At start of year
Additions
Amortization charge

2014 Shs'000	2013 Shs'000
31,442	22,744
37,782	31,442
(31,442)	(22,744)
<u>37,782</u>	<u>31,442</u>
=====	=====

At end of year

As disclosed in Note 2(b), the Company's policy is to recognise the proportion of acquisition costs that relate to policies that are in force at year end ("deferred acquisition costs").

24 GOVERNMENT SECURITIES HELD TO MATURITY

Treasury bills and bonds maturing:
- Within 1 year
- In 1-5 years
- After 5 years

20,057	40,222
95,959	75,607
79,976	60,604
<u>195,992</u>	<u>176,433</u>
=====	=====

25 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

Mortgage loans
Government securities
Deposits with financial institutions

2014 %	2013 %
11.30	12.31
11.65	10.66
10.97	10.15

Deposits with financial institutions have an average maturity of 3 months (2013: 3 months).

Notes to the financial Statements

For the year ended 31 December 2014

26 INSURANCE CONTRACT LIABILITIES

	2014 Shs'000	2013 Shs'000
Short term non-life insurance contracts		
- claims reported and claims handling expenses	851,891	665,324
- claims incurred but not reported	177,840	142,456
Total – short term	1,029,731	807,780
	=====	=====

Movements in insurance liabilities and reinsurance assets are shown in note 27.

Short term non-life insurance contracts

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2014 and 2013 are not material.

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

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

Accident year	2010 Shs'000	2011 Shs'000	2012 Shs'000	2013 Shs'000	2014 Shs'000	Total Shs'000
Cumulative incurred claims estimate:						
– at end of the year	386,053	451,490	418,429	520,120	660,481	2,436,573
– one year later	498,879	507,457	499,684	588,605		
– two years	534,848	533,115	512,837	-		
– three years	557,516	537,635	-	-		
– four years	577,848	-	-	-		
Current estimate of cumulative incurred claims	577,848	537,635	512,837	588,605	660,481	2,877,406
Less: cumulative payments to date	(531,360)	(471,253)	(429,705)	(495,921)	(270,417)	(2,198,656)
Liability in the statement of financial position	46,488	66,382	83,132	92,684	390,064	678,750
Liability in respect of prior years						173,141
IBNR						177,840
Total gross claims liability included in the statement of financial position						1,029,731

Notes to the financial Statements

For the year ended 31 December 2014

27 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

	2014			2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	665,324	(162,708)	502,616	672,614	(172,267)	500,347
Incurred but not reported	142,456	(46,016)	96,440	113,230	(36,575)	76,655
Total at beginning of year	807,780	(208,724)	599,056	785,844	(208,842)	577,002
Cash paid for claims settled in year	(629,736)	137,960	(491,776)	(607,879)	145,190	(462,689)
Increase in liabilities						
- arising from current year claims	641,043	(240,054)	400,989	516,078	(160,089)	355,989
- arising from prior year claims	210,644	(56,938)	153,706	113,737	15,017	128,754
Total at end of year	1,029,731	(367,756)	661,975	807,780	(208,724)	599,056
Notified claims	851,891	(310,311)	541,580	665,324	(162,708)	502,616
Incurred but not reported	177,840	(57,445)	120,395	142,456	(46,016)	96,440
Total at the end of year	1,029,731	(367,756)	661,975	807,780	(208,724)	599,056

28 PROVISIONS FOR UNEARNED PREMIUM

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

	2014			2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of year	456,235	(102,691)	353,544	358,851	(86,599)	272,252
Increase in the period (net)	100,962	(31,576)	69,386	97,384	(16,092)	81,292
At end of year	557,197	(134,267)	422,930	456,235	(102,691)	353,544

Notes to the financial Statements

For the year ended 31 December 2014

29 DEFERRED INCOME TAX

Deferred tax is calculated using the enacted income tax rate of 30% (2012: 30%) The movement on the deferred income tax account is as follows:

	31 December 2014 Shs'000	31 December 2013 Shs'000
At start of year	(17,121)	(15,916)
Income statement credit (Note 11)	6,638	1,981
Charge to Other Comprehensive Income (OCI) (Note 15)	(6,133)	(3,186)
At end of year	<u>(16,616)</u> =====	<u>(17,121)</u> =====

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

Year ended 31 December 2014

	1.1.2014 Shs'000	Credited to P/L Shs'000	Charged to OCI Shs'000	31.12.2014 Shs'000
Property and equipment: - on historical cost basis	8,682	1,686	-	10,368
Property and equipment: - on revaluation surplus	(28,452)	-	(6,133)	(34,585)
Provisions	2,649	4,952	-	7,601
Net deferred tax asset/ (liability)	<u>(17,121)</u> =====	<u>6,638</u> =====	<u>(6,133)</u> =====	<u>(16,616)</u> =====

Year ended 31 December 2013

	1.1.2013 Shs'000	Cr Charged to to P/L OCI Shs'000	31.12.2013 Shs'000
Property and equipment: - on historical cost basis	6,681	2,001	8,682
Property and equipment: - on revaluation surplus	(25,266)	-	(28,452)
Provisions	2,669	(20)	2,649
Net deferred tax asset/ (liability)	<u>(15,916)</u> =====	<u>1,981</u> =====	<u>(17,121)</u> =====

Notes to the financial Statements

For the year ended 31 December 2014

30 OTHER PAYABLES

Amounts due to related companies (Note 35)
Accrued expenses
Leave accrual
Other liabilities

2014 Shs'000	2013 Shs'000
1,872	944
22,641	4,770
7,833	8,828
34,061	27,411
<u>66,407</u>	<u>41,953</u>
=====	=====

31 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 this litigation will not have a material effect on the financial position or profits of the Company.

32 COMMITMENTS

Operating lease commitments

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

Not later than 1 year
Later than 1 year and not later than 5 years
Later than 5 years

2014 Shs'000	2013 Shs'000
7,916	1,187
36,525	3,424
-	-
<u>44,441</u>	<u>4,611</u>
=====	=====

Capital commitments

Approved and committed

2014 Shs'000	2013 Shs'000
500,000	-
=====	=====

33 CASH AND CASH EQUIVALENTS

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

Cash and bank balances
Deposits with financial institutions with 3 months maturity
Treasury bills with less than 91 days maturity

2014 Shs'000	2013 Shs'000
43,470	29,850
332,465	233,468
-	29,741
<u>375,935</u>	<u>293,059</u>
=====	=====

Notes to the financial Statements

For the year ended 31 December 2014

34 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

		2014 Shs'000	2013 Shs'000
Profit before tax		201,545	150,973
Adjustments for:			
Interest income	(note 6)	(56,258)	(57,461)
Depreciation	(Note 16)	19,630	18,269
Amortisation charge	(Note 17)	2,881	2,533
Gain/(Loss) on sale of equipment	(Note 7)	450	(1,264)
Gain on sale of quoted shares		-	(1,867)
Change in fair value of investment property	(Note 18)	(56,667)	(43,571)
Change in fair value of quoted shares	(Note 19)	(20,304)	(27,956)
Amortisation of government securities		(201)	2,232
Changes in:			
- technical provisions		132,305	103,346
- trade and other payables		66,566	(41,690)
- trade and other receivables		(142,538)	(126,698)
Cash generated from/(absorbed in) operations		147,409	(20,626)

35 RELATED PARTIES

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

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

		2014 Shs'000	2013 Shs'000
(i)	Transactions with related parties		
	Gross earned premium:		
	- Related parties – directors	667	539
	- Related parties – other	315	615
	Net claims incurred		
	- Related parties	-	724
(ii)	Outstanding balances with related parties		
	Amounts due from related parties		
	Loans advanced to staff	9,815	13,167
	Amount due to related parties		
	Equatorial Commercial bank	1,866	889
	Southern Shield Holdings	6	55
		1,872	944

Notes to the financial Statements

For the year ended 31 December 2014

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Mortgage loans to directors and key management staff of the Company

	2014 Shs'000	2013 Shs'000
At start of year	9,847	12,398
Loans advanced during the period	3,727	8,897
Loan repayments received	(5,606)	(11,448)
At end of year	7,968	9,847
	=====	=====

(iv) Key management compensation

Salaries and other short-term employment benefits	28,355	44,618
Termination benefits	2,040	33,074
	30,395	77,692
	=====	=====

(v) Directors' remuneration

Directors' fees	6,330	4,468
Other remuneration (included in key management compensation above)	28,850	59,657
	35,180	64,125
	=====	=====

General Insurance Business Revenue Account

Class of insurance Business	Aviation	Fire			Motor		Motor Personal		Workmen's		2014		
		Engineering	Domestic	Industrial	Liability	Marine	Private	Comm	Accident	Theft	Comp	Misc	Total
Gross premiums written	120	38,090	28,051	232,887	5,811	62,293	354,159	468,199	24,198	62,562	179,152	37,643	1,493,165
Change in gross UPB	(72)	(6,262)	(81)	(27,505)	724	(4,297)	(49,584)	6,604	(1,602)	(3,241)	(10,955)	(12,481)	(108,752)
Gross earned premiums	48	31,828	27,970	205,382	6,535	57,996	304,575	474,803	22,596	59,321	168,197	25,162	1,384,413
Less: reinsurance payable	46	24,627	8,902	159,512	1,088	40,640	5,183	29,626	12,349	38,215	(86)	22,092	342,194
Net earned premiums	2	7,201	19,068	45,870	5,447	17,356	299,392	445,177	10,247	21,106	168,283	3,070	1,042,219
Net written premiums													
Gross claims paid	-	(8,747)	(4,414)	(81,785)	(476)	(27,559)	(169,591)	(226,136)	(13,514)	(34,034)	(63,104)	(376)	(629,736)
Change in gross o/s claims	-	182	995	(22,380)	(6,691)	(8,777)	(4,487)	(19,773)	(1,412)	(3,107)	2,667	(136)	(62,919)
Less: Reinsurance recoverable	-	5,459	313	69,351	-	18,256	17	13,558	10,843	19,146	1,017	-	137,960
Net claims incurred	-	(3,106)	(3,106)	(34,814)	(7,167)	(18,080)	(174,061)	(232,351)	(4,083)	(17,995)	(59,420)	(512)	(554,695)
Commissions receivable	8	10,882	3,041	54,075	130	11,256	1,114	1,987	3,590	10,632	29	6,447	103,191
Commissions payable	(5)	(6,531)	(5,396)	(41,551)	(1,432)	(9,743)	(29,190)	(46,489)	(3,231)	(5,879)	(32,434)	(2,391)	(184,272)
Expenses of management	(25)	(7,771)	(5,723)	(47,514)	(1,186)	(12,708)	(72,256)	(95,522)	(4,937)	(12,763)	(36,550)	(7,680)	(304,635)
Total expenses and commissions	(22)	(3,420)	(8,078)	(34,990)	(2,488)	(11,195)	(100,332)	(140,024)	(4,578)	(8,010)	(68,955)	(3,624)	(385,716)
Underwriting profit/(loss)	(20)	675	7,884	(23,934)	(4,208)	(11,919)	24,999	72,802	1,586	(4,899)	39,908	(1,066)	101,808

General Insurance Business Revenue Account

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Fire Liability	Marine	Motor Private	Motor Comm	Motor Accident	Personal Theft	Workmen's Comp	Misc	2013 Total
Gross premiums written	37,937	24,858	189,296	11,773	47,866	248,329	426,519	23,558	54,710	158,968	16,359	1,240,173
Change in gross UPR	(5,966)	(1,836)	(12,779)	(2,035)	(892)	(4,922)	(41,982)	(657)	508	(23,272)	(3,551)	(97,384)
Gross earned premiums	31,971	23,022	176,517	9,738	46,974	243,407	384,537	22,901	55,218	135,696	12,808	1,142,789
Less: reinsurance payable	(25,562)	(9,318)	(145,380)	(2,732)	(31,832)	(8,390)	(19,080)	(15,250)	(38,059)	(2,516)	(11,136)	(309,255)
Net earned premiums	6,409	13,704	31,137	7,006	15,142	235,017	365,457	7,651	17,159	133,180	1,672	833,534
Net written premiums												
Gross claims paid	(3,050)	(4,518)	(98,206)	(1,233)	(34,422)	(162,219)	(208,850)	(11,755)	(33,938)	(49,470)	(218)	(607,879)
Change in gross o/s claims	726	(2,063)	(38,086)	5,202	6,502	23,639	(6,037)	552	9,340	(21,819)	108	(21,936)
Less: Reinsurance recoverable	1,470	670	115,664	(17)	17,690	(7,823)	(804)	4,814	14,827	(1,384)	(34)	145,073
Net claims incurred	(854)	(5,911)	(20,628)	3,952	(10,230)	(146,403)	(215,691)	(6,389)	(9,771)	(72,673)	(144)	(484,742)
Commissions receivable	10,003	2,694	48,455	243	7,733	621	1,591	4,137	10,548	-	5,659	91,684
Commissions payable	(6,534)	(4,317)	(34,429)	(1,381)	(8,005)	(23,037)	(37,316)	(3,885)	(5,652)	(26,410)	(1,260)	(152,226)
Expenses of management	(7,392)	(4,844)	(36,887)	(2,294)	(9,327)	(48,391)	(83,114)	(4,591)	(10,661)	(30,977)	(3,188)	(241,666)
Total expenses and commissions	(3,923)	(6,467)	(22,861)	(3,432)	(9,599)	(70,807)	(118,839)	(4,339)	(5,765)	(57,387)	1,211	(302,208)
Underwriting profit/(loss)	1,632	1,326	(12,352)	7,526	(4,687)	17,807	30,927	(3,077)	1,623	3,120	2,739	46,584

Notes

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The Team behind Fidelity Insurance Brand

