Fidelity INSURANCE

Annual Report & Financial Statements

2015

Contents

Corporate Information

DIRECTORS

R. Kemoli	Chairman
M. Koech	Managing Director
A. Kurji	
G. Kemei (Ms)	
S. Ramani	Retired on 31 December 2015
A. Kurji	
S. Shollei	
S. Merali	
R. Likami (Ms)	

AUDIT, RISK AND COMPLIANCE COMMITTEE

S. Merali	Chairman
A. Kurji	
G. Kemei (Ms)	
C. Karanja	Internal Auditor

FINANCE AND INVESTMENT COMMITTEE

S. Shollei	Chairman
A. Kurji	
G. Kemei (Ms)	
R. Likami (Ms)	

MANAGEMENT

Matthew Koech	Managing Director
Richard Marisin	Head of Finance & Administration
Manju Naul (Mrs)	Head of Operations
John Munene	Chief Accountant
Nicholas Malesi	Business Development Manager
Charles Karanja	Head of Audit Risk & Compliance
Janette Awidhi (Ms)	Claims Manager
Mercy Njoroge (Ms)	Manager – Human Resources
Maxwell Kimeu	Underwriting Manager
David Gitau	Manager - Underwriting
Julius Mboya	Manager – ICT
Antony Kiragu	Manager- Agencies and branches
Sammy Wendot	Reinsurance Manager
James Omondi	Actuarial Associate

Corporate Information (Cont...)

Elizabeth Wamae	P.A. Managing Director
Gerand Kanyingi	Regional manager – Nairobi
Nhaaman Shariff	Branch Manager – Coast
Shilpa Thakrar	Branch Manager – Western
Terry Amina	Branch Manager – Nakuru
Alex Z. Andayi	Branch Manager–North Rift
Diana Wainaina	Assistant Manager – Business Development
James Waga	Quality Management Representative
Veteris Mwau (Ms)	Assistant Manager – Underwriting
Winfred Gitonga	Senior Administration Officer

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

Transnational Plaza, 8th Floor
Mama Ngina Street
P O Box 47435-00100
Nairobi

Upcountry Branches:

Fidelity Shield Insurance House,
P O Box 90103
Mombasa

Zion Mall, 1st floor, Uganda Road
P O Box 7877
Eldoret

Corporate Information (Cont...)

Kenya Re Plaza, Oginga Odinga street
P O Box 2243
Kisumu

West Side 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
Coulson & Harney Advocates
ICEA Lion Centre, West Wing
Riverside Park, Chiromo Road
P.O. Box 10643-00100
Nairobi

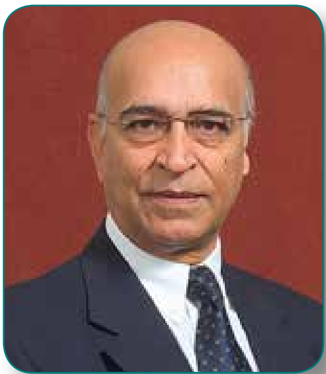
CONSULTING ACTUARY
Alexander Forbes Financial Services (EA) Ltd
Landmark Plaza, 10th Floor
Argwings Kodhek Road
P.O. Box 52439-00100
Nairobi

BANKERS
Equatorial Commercial Bank Limited
Commercial Bank of Africa

Board of Directors

Richard Kemoli
Chairman

Mathew Koech
Managing Director



Akbarali Kurji
Director

Grace Kemei
Director

Sam Shollei
Director

Abdulali Kurji
Director

Sameer Merali
Director

Rebecca Likami
Director

Report of the Directors

The directors have the pleasure of presenting the annual report to the members together with the audited financial statements of Fidelity Shield Insurance Company Limited (the "company") for the year ended 31 December 2015 which show the company's state of affairs.

PRINCIPAL ACTIVITIES

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

	2015 **Ksh' 000**
Profit before tax	40,506
Tax credit	17,998
Profit for the year	58,504

DIVIDEND

The directors do not propose a dividend in respect of the year ended 31 December 2015 (2014: 45,000,000).

DIRECTORS

The current directors are as listed on page 3

AUDITORS

The auditor, Deloitte & Touche, have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Director

Nairobi
16 March 2016

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.

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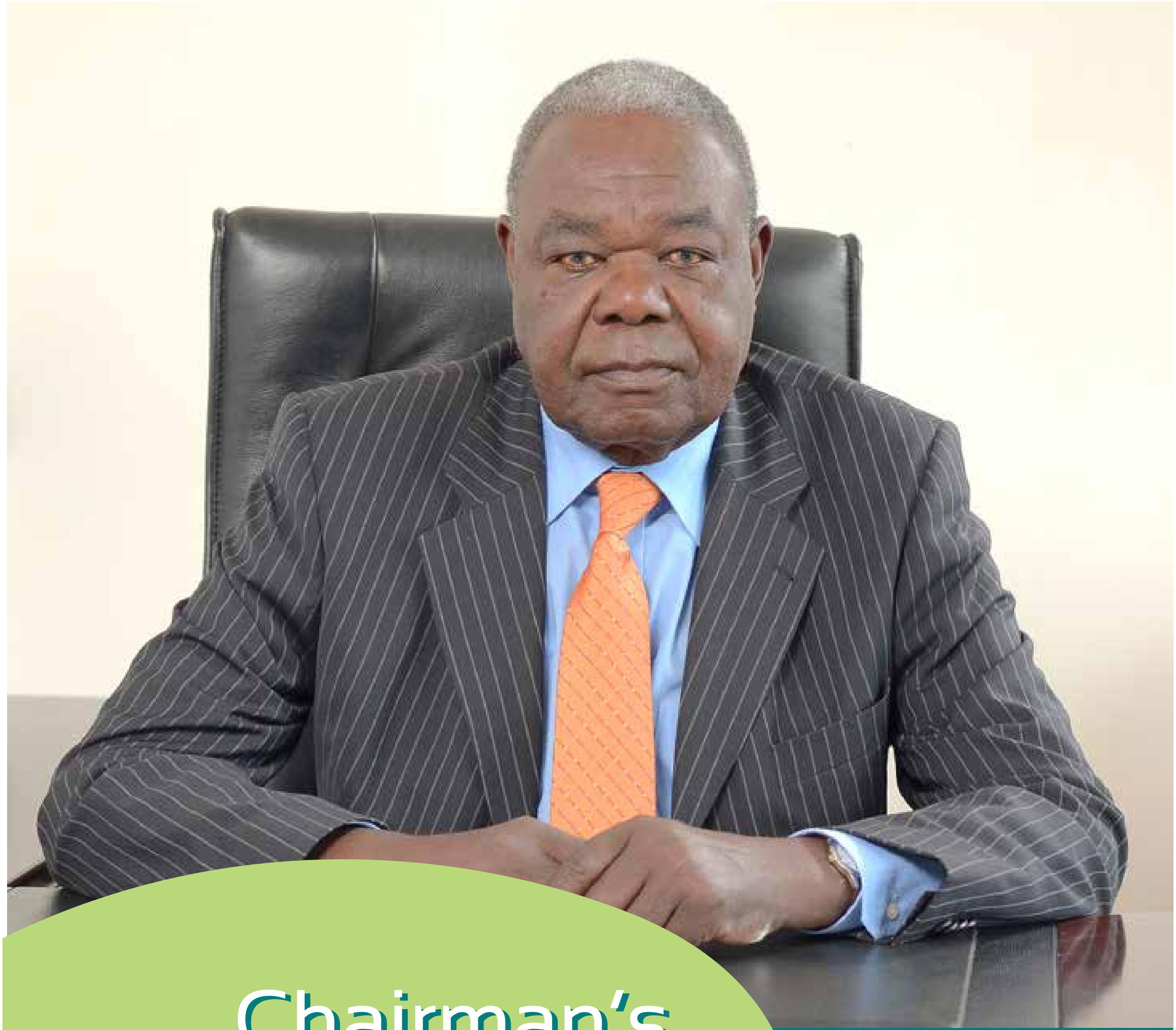
Director	Director
16 March 2016	16 March 2016



Chairman's Statement

INRODUCTION

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 2015

ECONOMIC OVERVIEW

The Global economy grew by 2.4% decelerating from 2.6% in year 2014 mainly as result of the growth decline in China and emerging market economies. Kenyan GDP expanded by 5.6% which was an improvement from 5.3% in year 2014. The growth was mainly supported by improvements in Agriculture sector due to improved weather conditions and the fastest growth of 13.6% registered by the construction sector mainly as a result of the on-going infrastructure projects in both public and the private sector.

OPERATING ENVIRONMENT

The macroeconomic indicators were rather stable during the year with overall inflation easing to 6.6% on the back of lower energy and fuel prices. The month on month Inflation fluctuated at between 5.5% and 8% during the year but largely contained within + (-) 2.5% of the official target of 5%. The Kenya shilling depreciated against its major trading currencies. The KES/US$ nominal exchange rate closed the year with KES 102/US$ depreciating from KES90.5/US$ at the end of December 2014. On the account of rising inflation and depreciating shilling, the Central Bank of Kenya adjusted the Central Bank Rate (CBR) from 8.5% to 11.5% in July 2015.

The current account balance improved owing to the increased exports and decline in fuel import bill following the significant drop in the price of crude oil.

THE INSURANCE INDUSTRY

The Insurance industry continued to record growth during the year. It is estimated that industry premium reached KShs. 173 billion compared to KShs. 157 billion in 2014. Penetration however remains low at just under 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.

The Insurance Act was amended in October 2015 through the Finance Bill 2015. The amendment repealed the capital solvency requirements and introduced Risk Based Capital and Adequacy requirements in which insurers are required to comply with by June 2018. The risk based capital regime requires insurers to maintain capital as determined by their size and specific risk profiles. This change is expected to improve the manner in which insurers are managing their credit, market, insurance and operation risks.

RESULTS AND DIVIDEND

The Company recorded a growth in revenues of 22% to reach KShs 1,822 million compared to KShs 1,473 million in 2014. The increase in revenues is attributed to the new contribution from branches opened during the year and the alignment of processes in the Company. Profitability decreased from a profit before tax of KShs 202 million to KShs 41 million mainly due to the poor claims experience and one-off expenses incurred in the brand re-launch, distribution network expansion and staff capacity development.

Because of the decline in profitability and the impending changes capital requirements, the Board did not recommend a payment of a dividend for the year. Total dividend of KShs. 45 million was paid out for year 2014.

Chairman's Statement (cont..)

THE BOARD

Mr. S. Ramani retired from the service of the Company on 31 December 2015 upon attaining retirement age and subsequently retired from the Board. I take this opportunity to thank him for the unstinting service and commitment during his tenure as a director.

FUTURE OUTLOOK

The World Bank's projections indicates that Kenya's economy is likely to expand further by a rate of 5.9% in 2016. This will be driven by investments in public infrastructure projects like Standard Gauge Railway (SGR) and a fast recovering tourism industry on the back of improved security and incentives rolled out by the Government. It is however expected that the general growth may slow down towards the end of 2016 in anticipation of 2017 elections.

The investment in the Brand refreshment and expansion of distribution network is expected to yield increased revenues for the Company this year. We will also continue to invest in institutional capacity in terms of staff developments and as well build efficient business structure and processes.

The risk based supervision model being implemented by the Insurance regulator is also expected to bring in sanity in terms of risk pricing and business operations.

The Board is confident that the Company will significantly increase its profitable performance in 2016 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.

Richard Kemoli FIoD, MBE
Chairman

16 March 2016.

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, one of whom is executive and seven 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.

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 Managing Director

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.

Corporate Governance Statement (cont..)

Committees of the Board

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

Audit and Governance Committee

The Board has in place an audit and governance committee which meets four times a year or as necessary. Its responsibilities include 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.

Nominations and Compensation Committee

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

Risk management and internal controls

Risk Management

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

Corporate Governance Statement (cont..)

Conduct of Business

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

Performance reporting

The Business performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and 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 minimize the degradation of our natural heritage. The Company to do this, sets aside a proportion of its gross income to social responsibility issues. This, the company seeks to entrench in its system by having a Corporate Social Responsibility Policy.

The Company continues to support numerous events and activities that aide 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, Sponsorship of a Free medical camp at Oshwal Centre, SICS Annual Cricket Games and the Partnership with the Sports Journalist Association of Kenya in recognizing efforts by various football coaches across in country in nurturing football talent, amongst others.

Richard Kemoli FIoD, MBE
Chairman
16 March 2016.

CSR Activities during the year

Tree planting at the Nakuru Golf Club with Kenya Forest Staff.

Fidelity Shield Kisumu staff giving back to the society at New Life Home.

Alex Andayi, Eldoret Branch Manager enjoys the moment with children from Rescue Centre Childrens Community.

Janet Mwongela, Fidelity Insurance staff enjoying with Children from Rescue Centre Childrens Community.

Regina Mbugua shares a moment with this child at Arap Moi Childrens Home.

Report of the Consulting Actuary

I have conducted an actuarial valuation of the insurance liabilities of the insurer as at 31 December 2015.

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 2015 were adequate.

James Olubayi
Fellow of the Institute of Actuaries

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16 March 2016

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 22 to 57, which comprise the statement of financial position as at 31 December 2015, 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.

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 2015 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 of the Independent Auditor..cont

To the Members of Fidelity Shield Insurance Company Limited

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 FCPA J W Wangai – P/No 1118.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

31 March 2016


SERVICE
IS OUR DNA
Fidelity
INSURANCE

Management Team

Mathew Koech
Managing Director

Richard Marisin
Head of Finance & Administration

Manju Naul
Head of Operations

John Munene
Chief Accountant

Nicholas Malesi
Manager - Business Development & Marketing

Charles Karanja
Head of Audit Risk & Compliance

Janette Awidhi
Claims Manager

Mercy Njoroge
Human Resource Manager

Maxwell Kimeu
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Management Team

Sammy Wendot
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Branch Manager Nakuru

Alex Z. Andayi
Branch Manager - Eldoret

Diana Wainaina
Assistant Manager - Business Development

James Waga
Quality Management Representative

Veteris Mwau
Assistant Manager - Underwriting

Winfred Gitonga
Senior Administration Officer

Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2015

	Note	2015 Sh'000	2014 Sh'000
Gross earned premiums	5	1,712,271	1,384,413
Less: reinsurance premiums ceded		(417,496)	(342,194)
Net earned premiums		1,294,775	1,042,219
Investment income	6	260,756	179,215
Commissions earned		121,157	103,191
Other income	7	53,827	7,033
Total investment and other income		435,740	289,439
Claims payable		(1,152,303)	(851,687)
Less: amounts recoverable from reinsurers		253,573	296,992
Net claims payable	8	(898,730)	(554,695)
Operating and other expenses	9	(559,194)	(391,146)
Commissions payable		(232,086)	(184,272)
		(791,280)	(575,418)
Profit before income tax		**40,505**	**201,545**
Income tax credit/(charge)	11	17,998	(51,745)
Profit for the year		**58,503**	**149,800**
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Gain on land and buildings revaluations	14	17,223	14,309
Total comprehensive income		**75,726**	**164,109**

Statement of Financial Position

As At 31 December 2015

	Note	2015 Sh'000	2014 Sh'000
CAPITAL EMPLOYED			
Share capital	13	450,000	450,000
Revaluation reserve	14	97,920	80,697
Retained earnings	15	550,963	537,460
Shareholders' funds		**1,098,883**	**1,068,157**
REPRESENTED BY:			
Assets			
Property and equipment	16	311,408	274,288
Intangible asset	17	1,204	2,125
Investment property	18	1,275,795	795,411
Investment in the Kenya Motor Insurance Pool		17,717	17,688
Equity investments at fair value through profit or loss	19	110,110	122,079
Mortgage loans	20	25,462	12,875
Receivables arising out of reinsurance arrangements		-	1,085
Receivables arising out of direct insurance arrangements		548,222	470,632
Reinsurers' share of insurance contract liabilities	21	559,148	509,813
Tax recoverable		64,834	-
Other receivables	22	18,137	46,363
Deferred acquisition costs	23	43,897	37,782
Government securities held to maturity	24	233,628	195,992
Deposits with financial institutions		181,873	332,465
Cash and bank balances		55,667	43,470
Total assets		**3,447,102**	**2,862,068**
Liabilities			
Insurance contract liabilities	26	1,241,606	1,029,731
Unearned premium	28	675,439	564,987
Deferred taxation	29	5,833	16,616
Corporate tax payable		-	15,969
Payables arising from reinsurance arrangements		38,913	100,201
Other payables	30(i)	103,951	66,407
Bank borrowings	30(ii)	282,477	-
Total liabilities		**2,348,219**	**1,793,911**
Net assets		**1,098,883**	**1,068,157**

The financial statements on pages 22 to 57 were approved and authorised for issue by the board of directors on 16 March 2016 and signed on its behalf by:

Director　　Director　　Principal Officer

Statement of Changes in Equity

For the year ended 31 December 2015

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Total Shs'000
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
Capitalization of reserves for issue of shares		149,547		(149,547)	
Other comprehensive income					
Gains on revaluation of land and Buildings, net of tax	14	-	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**
Year ended 31 December 2015					
At start of year		450,000	80,697	537,460	1,068,157
Comprehensive income					
Profit for the year		-	-	58,503	58,503
Other comprehensive income					
Gains on revaluation of land and Buildings, net of tax	14	-	17,223	-	17,223
Transactions with owners					
Dividends:					
- Final paid for 2014	12	-	-	(45,000)	(45,000)
At end of year		**450,000**	**97,920**	**550,963**	**1,098,883**

Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 Sh'000	2014 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	27,361	147,409
Interest received		49,283	56,258
Income tax paid		(82,759)	(33,962)
Net cash (used in)/generated from operating activities		(6,115)	169,705
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	16	(32,280)	(24,204)
Purchase of quoted shares	19	(988)	(7,310)
Purchase of intangible assets	17	-	(1,739)
Purchase of investment property	18	(500,504)	-
Purchase of treasury bonds		(55,562)	(60,000)
Loans advanced	20	(19,898)	(6,727)
Loans repaid	20	7,311	27,143
Proceeds of disposal of property and equipment		1,596	450
Proceeds from disposal of quoted shares		-	5,603
Maturity of treasury bonds		20,000	10,000
Proceeds of sale of investment property		210,568	-
Net cash used in investing activities		(369,757)	(56,784)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	12	(45,000)	(30,045)
Proceeds from borrowings		300,000	-
Loans repaid		(17,523)	-
Net cash generated from/(used in) financing activities		237,477	(30,045)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(138,395)	82,876
CASH AND CASH EQUIVALENTS AT 1 JANUARY	33	375,935	293,059
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	33	237,540	375,935

Notes to the financial Statements

For the year ended 31 December 2015

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 2015

Several new and revised standards and interpretations became effective during the year. The directors have evaluated the impact of the 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 2015.

New and Amendments to the standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments (as revised in 2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle	1 January 2016

(iii) Impact of relevant new standards and amendments to published standards effective for the year ended 31 December 2015

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.

Notes to the financial Statements..cont

For the year ended 31 December 2015

1 ACCOUNTING POLICIES (Continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

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

(iv) Early adoption of standards

The company did not early-adopt new or amended standards in 2015.

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.

Notes to the financial Statements..cont.

For the year ended 31 December 2015

1 ACCOUNTING POLICIES (Continued)

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.

Reinsurance

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

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

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

Notes to the financial Statements..cont.

For the year ended 31 December 2015

1 ACCOUNTING POLICIES (Continued)

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

Reinsurance assets or liabilities are derecognized 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..cont.

For the year ended 31 December 2015

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.

Notes to the financial Statements..cont.

For the year ended 31 December 2015

1 ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets

Classification

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

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

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

ii) Loans and receivables

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

iii) Held-to-maturity financial assets

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

For the year ended 31 December 2015

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..cont.

For the year ended 31 December 2015

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..cont.

For the year ended 31 December 2015

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 both ICEA Lion and Jubilee Insurance Company and is funded by contributions from both company and employees at rates that are determined triennially by certified actuaries. Currently, the employer contributes 10% while the employee contributes 10% of the employee's basic pay to the scheme.

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

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

Dividends payable

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

Comparatives

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

Notes to the financial Statements..cont.

For the year ended 31 December 2015

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY.

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:

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..cont.

For the year ended 31 December 2015

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..cont.

For the year ended 31 December 2015

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..cont.

For the year ended 31 December 2015

3 RISK MANAGEMENT (Continued)

i) Insurance risk (continued)

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

31 December 2015	Gross Liabilities Ksh'000	Reinsurance Share Ksh'000	Net Liabilities Ksh'000
Motor	936,763	65,410	871,353
Fire	474,392	359,211	115,181
Personal Accident	17,391	19,151	(1,760)
Marine	54,186	18,639	35,546
Others	318,022	96,737	221,285
Total	1,800,754	559,148	1,241,606
31 December 2014			
Motor	913,014	199,885	713,129
Fire	152,743	93,655	59,089
Personal Accident	20,306	10,681	9,444
Marine	72,197	50,290	21,907
Others	381,284	155,302	225,982
Total	1,539,544	509,813	1,029,731

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..cont.

For the year ended 31 December 2015

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.

31 December 2015	Changes in assumptions	Impact on gross liabilities Ksh'000	Impact on net Liabilities Ksh'000	Impact on profit before tax Ksh'000
Average claim processing cost	+10%	124,161	86,451	4,051
31 December 2014		======	======	======
Average claim processing cost	+10%	102,973	66,157	20,155
		======	======	======

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 2,364,334 (2014: Ksh 2,681,000).

Notes to the financial Statements..cont.

For the year ended 31 December 2015

3 RISK MANAGEMENT (Continued)

(ii) Financial risks (Continued)

a) Market risk (Continued)

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.

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 2015, if equity market indices had increased/decreased by 5%, with all other variables held constant, the profit before tax for the year would increase/decrease by Ksh 5,505 (2014: Ksh 4,273).

(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 2015, 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 (2014: 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..cont.

For the year ended 31 December 2015

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 2015				
Receivable arising out of direct insurance arrangements	407,390	323,784	(182,952)	548,222
Deposits with financial institutions	181,873	-	-	181,873
Government securities held to maturity	233,628	-	-	233,628
Other receivables – rent receivable	6,262	-	-	6,262
Cash and bank balances	55,667	-	-	55,667
	477,430	-	-	477,430
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	27,318	-	-	27,318
Cash and bank balances	43,470	-	-	43,470
	600,330	-	-	600,330

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..cont.

For the year ended 31 December 2015

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.

	0-1 year Ksh'000	Over 1 year Ksh'000	Total Ksh'000
At 31 December 2015			
Outstanding claims provision	769,194	472,412	1,241,606
Payables arising from reinsurance arrangements	38,913	-	38,913
Other payables	66,520	37,431	103,951
Due to related parties	1,943	-	1,943
	876,570	509,843	1,386,413
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
	1,160,027	36,312	1,196,339

(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.

Notes to the financial Statements..cont.

For the year ended 31 December 2015

3 RISK MANAGEMENT (Continued)

(ii) Financial risks (Continued)
d) Fair value hierarchy (Continued)

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

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

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

	Level 1 Ksh'000	Level 2 Ksh'000	Level 3 Ksh'000	Total Ksh'000
31 December 2015				
Available for sale				
- Equity instruments	110,110	-	-	110,110
	======	======	======	=======
31 December 2014				
Available for sale				
- Equity instruments	122,079	-	-	122,079
	========	======	======	========

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.

Notes to the financial Statements..cont.

For the year ended 31 December 2015

	2015 Ksh'000	2014 Ksh'000
5 GROSS EARNED PREMIUMS		
Motor	957,577	779,378
Fire	293,651	233,352
Marine	66,418	57,996
Personal accident	25,342	22,596
Theft	67,668	59,321
Workmen compensation	207,613	168,197
Engineering	54,197	31,828
Liability	7,883	6,535
Other	31,921	25,210
	1,712,271	**1,384,413**

	2015 Ksh'000	2014 Ksh'000
6 INVESTMENT INCOME		
Interest from government securities	24,670	21,032
Amortisation of government securities	284	201
Bank deposit interest	22,332	32,384
Mortgage loan interest receivable	1,997	2,641
Rental income from investment properties	80,295	43,902
Fair value gains on investment properties (Note 18)	140,814	56,667
Dividends receivable from equity investments	3,321	2,084
Fair value (losses)/gains on financial assets at fair value through profit or loss (Note 19)	(12,957)	20,304
	260,756	**179,215**

	2015 Ksh'000	2014 Ksh'000
7 OTHER INCOME		
Kenya Motor Insurance Pool	-	1,795
Gain on disposal of investment property	46,568	-
Other	7,259	5,238
	53,827	**7,033**

	2015 Ksh'000	2014 Ksh'000
8 NET CLAIMS PAYABLE		
Claims payable by principal class of business:		
Motor	636,248	406,412
Fire	127,634	37,920
Marine	32,514	18,080
Workmen Compensation	99,743	59,420
Public Liability	(18,772)	7,167
Others	21,363	25,696
	898,730	**554,695**

Notes to the financial Statements..cont.

For the year ended 31 December 2015

		2015 Ksh'000	2014 Ksh'000
9	**OPERATING AND OTHER EXPENSES**		
	Staff costs (note 10)	249,462	202,678
	Auditors' remuneration	3,080	2,917
	Depreciation (note 16)	19,765	19,630
	Amortisation (note 17)	921	2,881
	Impairment charge for doubtful receivables		
	- Premium receivables	43,126	34,587
	Operating lease rentals - land and buildings	12,552	12,094
	Marketing and advertising	62,788	22,843
	Finance and bank charges	39,816	1,215
	Printing, stationery and insurance	23,332	17,358
	Consultancy fees	16,889	14,518
	Other	87,463	60,425
		559,194	**391,146**
10	**STAFF COSTS**		
	Staff costs include the following:		
	- Salaries and wages	202,426	172,602
	- Social security benefit costs	-	196
	- Retirement benefit costs – defined contribution plan	14,223	10,454
	Other staff costs	32,812	19,426
		249,462	**202,678**
11	**INCOME TAX (CREDIT)/EXPENSE**		
	Current tax	166	58,383
	Deferred income tax (Note 29)	(18,164)	(6,638)
		(17,998)	**51,745**

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:

	2015 Shs'000	2014 Shs'000
Profit before tax	**40,505**	**201,545**
Tax calculated at a tax rate of 30%	12,152	60,464
Less: tax effect of income not subject to tax	(43,217)	(30,354
Add: tax effect of expenses not deductible for tax purposes	13,067	21,635
Tax charge	**(17,998)**	**51,745**

Notes to the financial Statements..cont.

For the year ended 31 December 2015

12 DIVIDENDS

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. The directors do not propose dividends for the year ended 31 December 2015.

13 SHARE CAPITAL

	Number of shares (Thousands)	Ordinary shares Shs'000
Balance at 31 December 2014	4,500	450,000
	=======	=========
Balance at 31 December 2015	4,500	450,000
	=======	=========
Balance at 31 December 2013	3,004	300,453
Issued in 2014	1,496	149,547
Balance at 31 December 2014 and 2015		
	4,500	450,000
	========	=========

The total number of authorized ordinary shares is 10,000,000 (2014; 5,000,000) with a par value of Shs 100 per share. As at 31 December 2015, 4,500,000 shares were in issue. All issued shares are fully paid.

14 REVALUATION RESERVE

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

	2015 Shs '000	2014 Shs '000
At beginning of year	80,697	66,388
Revaluation gains – gross (Note 16)	24,604	20,442
Deferred tax on revaluation gains (Note 29)	(7,381)	(6,133)
At end of year	97,920	80,697
	========	=========

15 RETAINED EARNINGS

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the company, except for cumulative fair value gains on the company's investment properties of Shs 527,667,557 (2014: Shs 386,854,433) whose distribution is subject to restrictions imposed by regulation.

16 PROPERTY AND EQUIPMENT

	Land & Buildings Shs'000	Furniture & equipment Shs'000	Motor Vehicles Shs'000	Total Shs'000
At 1 January 2014				
Cost or valuation	228,856	102,823	9,185	340,564
Accumulated depreciation	-	(83,650)	(7,642)	(91,292)
Net book amount	228,856	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
Fair value gains on revaluation	20,442	-	-	20,442
Disposals	-	8,485	-	8,485
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
At 31 January 2015				
Opening net book amount	245,589	27,804	895	274,288
Additions	-	26,709	5,571	32,280
Fair value gains on revaluation	24,604	-	-	24,604
Depreciation charge	(3,389)	(14,336)	(2,040)	(19,765)
Net book amount	266,805	40,177	4,426	311,408
At 31 December 2015				
Cost or valuation	266,805	52,849	12,916	432,570
Disposals	-	(3,825)	(3,825)	-
Accumulated depreciation	-	(112,672)	(8,490)	(121,162)
Accumulated depreciation on disposal	-	-	3,825	3,825
Net book amount	**266,805**	**40,177**	**4,426**	**311,408**

Notes to the financial Statements..cont.

For the year ended 31 December 2015

16 PROPERTY AND EQUIPMENT (CONTINUED)

Land and Buildings were valued on 31 December 2015 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 assets or liabilities 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:

	2015 Shs'000	2014 Shs'000
Cost	143,767	143,767
Accumulated depreciation	(16,647)	(12,642)
Net book amount	127,120	131,125

17 INTANGIBLE ASSETS- COMPUTER SOFTWARE

	2015 Shs'000	2014 Shs'000
At 31 December		
At beginning of year	2,125	3,267
Additions	-	1,739
Amortisation charge	(921)	(2,881)
Net book amount	1,204	2,125
At 31 December		
Cost	4,605	14,405
Accumulated amortisation	(3,401)	(12,280)
Net book amount	1,204	2,125

18 INVESTMENT PROPERTY

	2015 Shs'000	2014 Shs'000
At start of year	795,411	738,744
Additions	503,570	-
Disposals	(164,000)	-
Fair value gains	140,814	56,667
At end of year	1,275,795	795,411

The Company's investment property were valued as at 31 December 2015 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 2,824,737 (2014: Shs 4,162,487).

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

Notes to the financial Statements..cont.

For the year ended 31 December 2015

19 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 Shs'000	2014 Shs'000
Quoted investments:		
At start of year	122,079	100,068
Additions	988	7,310
Disposals	-	(5,603)
Fair value gain	(12,957)	20,304
At end of year	110,110	122,079

20 MORTGAGE LOANS

	2015 Shs'000	2014 Shs'000
Mortgage loans:		
At start of year	12,875	33,291
Loans advanced	19,898	6,727
Loan repayments	(7,311)	(27,143)
At end of year	25,462	12,875
Maturity profile of mortgage loans:		
Loans maturing:		
Within 1 year	835	2,766
In 1-5 years	2,723	2,307
In over 5 years	21,904	7,802
	25,462	12,875
Lending commitments:		
Mortgage loans approved by the directors but not advanced at year end	6,020	2,775

21 REINSURERS' SHARE OF INSURANCE LIABILITIES

	2015 Shs'000	2014 Shs'000
Reinsurers' share of:		
- unearned premium (Note 28)	182,053	142,057
- notified claims outstanding (Note 27)	325,109	310,311
- claims incurred but not reported (Note 27)	51,987	57,445
	559,148	509,813

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..cont.

For the year ended 31 December 2015

22 OTHER RECEIVABLES

	2015 Shs'000	2014 Shs'000
Due from related parties (Note 35(ii)	8,465	9,815
Prepayments	527	3,299
Utilities and rental deposit	2,665	3,486
Accrued rent	6,262	27,318
Others	218	2,445
	18,137	46,363

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

23 DEFERRED ACQUISITION COST

	2015 Shs'000	2014 Shs'000
At start of year	37,782	31,442
Additions	43,897	37,782
Amortization charge	(37,782)	(31,442)
At end of year	43,897	37,782

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

	2015	2014
Treasury bills and bonds maturing:		
- Within 1 year	73,992	20,057
- In 1-5 years	95,000	95,959
- After 5 years	64,636	79,976
	233,628	195,992

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:

	2015 %	2014 %
Mortgage loans	9.6	11.30
Government securities	12.1	11.65
Deposits with financial institutions	12.66	10.97

Deposits with financial institutions have an average maturity of 3 months (2014: 3 months).

Notes to the financial Statements..cont.

For the year ended 31 December 2015

26 INSURANCE CONTRACT LIABILITIES

	2015 Shs'000	2014 Shs'000
Short term non-life insurance contracts		
- claims reported and claims handling expenses (note 27)	1,001,147	851,891
- claims incurred but not reported (note 27)	240,459	177,840
Total – short term	1,241,606	1,029,731

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 2015 and 2014 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	2011 Shs'000	2012 Shs'000	2013 Shs'000	2014 Shs'000	2015 Shs'000	Total Shs'000
Cumulative incurred claims estimate:						
– at end of the year	451,490	418,429	520,120	660,481	936,667	**2,987,187**
– one year later	507,457	499,684	588,605	770,466		**2,366,212**
– two years	533,115	512,837	640,154			**1,686,106**
– three years	537,635	543,464				**1,081,099**
– four years	559,878					**559,878**
Current estimate of cumulative incurred claims	559,877.64	543,464.39	640,154.03	770,465.699	36,667.43	3,450,629
Less: cumulative payments to date	(491,074)	(466,960)	(539,758)	(607,474)	(458,062)	(2,563,328)
Liability in the statement of financial position	69,125	76,826	100,718	163,313	478,927	887,301
Liability in respect of prior years						113,846
IBNR						240,459
Total gross claims liability included in the statement of financial position						1,241,606

Notes to the financial Statements..cont.

For the year ended 31 December 2015

27 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
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 beginning of year	1,029,731	(367,756)	661,975	807,780	(208,724)	599,056
Cash paid for claims settled in year	(940,428)	244,909	(695,519)	(629,736)	137,960	(491,776)
Increase in liabilities						
- arising from current year claims	669,233	(186,190)	483,043	641,043	(240,054)	400,989
- arising from prior year claims	483,070	(68,059)	415,011	210,644	(56,938)	153,706
Total at end of year	1,241,606	(377,096)	864,510	1,029,731	(367,756)	661,975
Notified claims	1,001,147	(325,109)	676,038	851,891	(310,311)	541,580
Incurred but not reported	240,459	(51,987)	188,472	177,840	(57,445)	120,395
Total at the end of year	1,241,606	(377,096)	864,510	1,029,731	(367,756)	661,975

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:

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of year	564,987	(142,057)	422,930	456,235	(102,691)	353,544
Increase in the period (net)	110,452	(39,996)	70,456	108,752	(39,366)	69,386
At end of year	675,439	(182,053)	493,386	564,987	(142,057)	422,930

Notes to the financial Statements..cont.

For the year ended 31 December 2015

29 DEFERRED INCOME TAX

Deferred tax is calculated using the enacted income tax rate of 30% (2013: 30%) The movement on the deferred income tax account is as follows:

		31 December 2015 Shs'000	31 December 2014 Shs'000
At start of year		(16,616)	(17,121)
Income statement credit (Note 11)		18,164	6,638
Charge to Other Comprehensive Income (OCI)	(Note 15)	(7,381)	(6,133)
At end of year		(5,833)	(16,616)

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 2015

	1.1.2015 Shs'000	Credited to P/L Shs'000	Charged to OCI Shs'000	31.12.2015 Shs'000
Property and equipment: - on historical cost basis	10,368	283	-	10,651
Property and equipment: - on revaluation surplus	(34,585)	-	(7,381)	(41,966)
Provisions	7,601	27,580	-	35,181
Tax loses	-	175	-	175
Fair value gains on investment property	-	(9,874)	-	(9,874)
Net deferred tax asset/ (liability)	(16,616)	18,164	(7,381)	(5,833)

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)	(17,121)	6,638	(6,133)	(16,616)

Notes to the financial Statements..cont.

For the year ended 31 December 2015

30 (i) OTHER PAYABLES

		2015	2014
		Shs'000	Shs'000
Amounts due to related companies	(Note 35)	1,943	1,872
Accrued expenses		51,638	22,641
Leave accrual		6,973	7,833
Rental Deposits		18,428	11,128
Other liabilities		24,969	22,933
		103,951	66,407

(ii) BANK BORROWINGS

	2015	2014
At start of the year	-	-
Proceeds from borrowing	300,000	-
Interest payable	24,193	-
Loan and interest paid	(41,716)	-
At the end of the year	282,477	-

The Company obtained a 7 year loan facility for Ksh 300M to acquire an investment property in Westland, Nairobi. The rate of interest for the bank borrowing is subject to Kenya Bankers Reference Rate (KBBR) which was at 9.87% at the time of borrowing plus a bank margin of 5.62% p.a. The facility is secured by a charge over title of the same property.

The carrying amounts of the borrowings approximate to their fair values.

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.

Notes to the financial Statements..cont.

For the year ended 31 December 2015

32 COMMITMENTS

Operating lease commitments

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

	2015 Shs'000	2014 Shs'000
Not later than 1 year	12,586	7,916
Later than 1 year and not later than 5 years	47,162	36,525
Later than 5 years	-	-
	59,748	44,441

Capital commitments	2015 Shs'000	2014 Shs'000
Approved and committed	-	500,000

33 CASH AND CASH EQUIVALENTS

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

	2015 Shs'000	2014 Shs'000
Cash and bank balances	55,667	43,470
Deposits with financial institutions with 3 months maturity	181,873	332,465
Treasury bills with less than 91 days maturity		-
	237,540	375,935

Notes to the financial Statements..cont.

For the year ended 31 December 2015

34 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations:

		2015 Shs'000	2014 Shs'000
Profit before tax		40,505	201,545
Adjustments for:			
Interest income	(note 6)	(49,283)	(56,258)
Depreciation	(Note 16)	19,765	19,630
Amortisation charge	(Note 17)	921	2,881
Gain on sale of equipment	(Note 7)	(48,164)	(450)
Change in fair value of investment property	(Note 18)	(143,881)	(56,667)
Change in fair value of quoted shares	(Note 19)	12,957	(20,304)
Amortisation of government securities		(284)	(201)
Changes in:			
– technical provisions		272,992	132,305
– trade and other payables		(23,744)	66,566
– trade and other receivables		(54,423)	(142,538)
Cash generated from operations		27,361	147,409

35 RELATED PARTY TRANSACTIONS

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

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

	2015 Shs'000	2014 Shs'000
(i) Transactions with related parties		
Gross earned premium:		
- Related parties – directors	375	667
- Related parties – other	1,061	315
(ii) Outstanding balances with related parties		
Amounts due from related parties	-	-
Loans advanced to staff	8,465	9,815
Amount due to related parties		
Equatorial Commercial bank	1,866	1,866
Southern Shield Holdings	77	6
	1,943	1,872

Notes to the financial Statements..cont.

For the year ended 31 December 2015

35 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2015 Shs'000	2014 Shs'000
At start of year	10,968	9,847
Loans advanced during the period	19,898	6,727
Loan repayments received	(5,404)	(5,606)
At end of year	25,462	10,968

(iv) Key management compensation

	2015 Shs'000	2014 Shs'000
Salaries and other short-term employment benefits	35,250	28,355
Termination benefits	7,000	2,040
	42,250	30,395

(v) Directors' remuneration

	2015 Shs'000	2014 Shs'000
Directors' fees	6,336	6,330
Other remuneration (included in key management compensation above)	35,050	28,850
	41,386	35,180

General Insurance Business Revenue Account For Year 2015

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Comm	Personal Accident	Theft	Workmen's Comp	Misc	2015 Total
Gross written premium	67,030	34,401	286,910	9,063	72,615	449,281	566,880	203,228	30,572	71,049	31,693	1,822,723
UPR- January 2015	23,570	9,263	84,724	1,768	17,239	143,885	169,066	69,386	7,466	16,614	22,007	564,987
UPR- December 2015	36,403	11,563	110,084	2,947	23,435	181,197	190,338	65,002	12,696	19,995	21,780	675,439
Gross earned premium	**54,197**	**32,100**	**261,550**	**7,883**	**66,418**	**411,969**	**545,609**	**207,613**	**25,342**	**67,668**	**31,921**	**1,712,271**
Gross claims paid	11,061	15,853	160,374	592	56,965	287,022	291,461	67,901	15,689	33,511	-	940,428
At 31 December 2015	12,700	7,551	384,984	(5,073)	52,999	222,867	344,496	156,122	(733)	57,383	8,310	1,241,606
At 1 January 2015	11,445	3,314	56,456	19,812	55,100	235,328	416,685	157,254	13,052	60,082	1,204	1,029,732
Gross claims incurred	**12,316**	**20,091**	**488,902**	**(24,293)**	**54,864**	**274,561**	**219,272**	**66,769**	**1,904**	**30,812**	**7,106**	**1,152,303**
Net written premium	11,987	22,181	69,392	8,000	34,891	432,814	539,599	199,660	9,723	35,934	1,050	1,365,231
UPR- January 2015	2,452	6,838	23,245	1,739	5,164	140,376	163,451	68,018	3,888	5,741	2,018	422,930
UPR- December 2015	5,401	9,055	19,109	2,594	13,674	178,584	184,634	64,934	4,192	8,700	2,509	493,386
Net earned premium	**9,038**	**19,964**	**73,527**	**7,145**	**26,380**	**394,607**	**518,417**	**202,745**	**9,419**	**32,975**	**559**	**1,294,775**
Net claims paid	3,572	8,351	42,538	592	19,280	282,245	262,579	62,865	4,186	9,584	-	695,792
At 31 December 2015	4,067	5,749	100,002	(4,019)	29,981	233,180	322,498	152,535	(8,617)	26,607	2,528	864,511
At 1 January 2015	2,659	1,217	27,789	15,345	16,747	173,901	290,353	115,657	5,556	11,585	765	661,573
Net claims incurred	**4,981**	**12,883**	**114,751**	**(18,772)**	**32,514**	**341,524**	**294,724**	**99,743**	**(9,987)**	**24,605**	**1,763**	**898,730**
Commissions payable	10,962	6,134	49,528	1,558	11,884	39,632	53,190	43,840	5,110	6,803	3,444	232,085
Commissions receivable	(22,937)	(2,893)	(52,135)	(123)	(12,217)	(1,795)	(2,652)	(46)	(4,478)	(6,851)	(15,030)	(121,157)
Management Expenses	13,885	7,126	59,432	1,877	15,042	93,066	117,426	42,098	6,333	14,717	6,565	377,568
Total expenses	**6,890**	**23,251**	**171,577**	**(15,460)**	**47,223**	**472,427**	**462,688**	**185,635**	**(3,022)**	**39,275**	**(3,258)**	**1,387,225**
Net U/W Profit/(Loss)	**2,148**	**(3,287)**	**(98,050)**	**22,605**	**(20,842)**	**(77,820)**	**55,729**	**17,110**	**12,440**	**(6,300)**	**3,817**	**(92,450)**

Fidelity INSURANCE

General Insurance Business Revenue Account for Year 2014

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine & Aviation	Motor Private	Motor Comm	Personal Accident	Theft	Workmen's Comp	Misc	2014 Total
Gross written premium	38,090	28,051	232,887	5,811	62,413	354,159	468,199	179,152	24,198	62,562	37,643	1,493,165
UPR- January 2014	16,945	8,169	57,219	2,463	12,801	91,996	172,987	57,315	5,652	13,373	9,526	448,445
UPR- December 2014	23,570	9,263	84,724	1,768	17,239	143,885	169,066	69,386	7,466	16,614	22,007	564,987
Gross earned premium	**31,465**	**26,957**	**205,382**	**6,506**	**57,974**	**302,271**	**472,120**	**167,080**	**22,384**	**59,321**	**25,162**	**1,376,623**
Gross claims paid	8,747	4,414	81,785	476	27,559	169,591	226,136	63,104	13,514	34,034	376	629,736
At 31 December 2014	11,445	3,314	56,456	19,812	55,100	235,328	416,685	157,254	13,052	60,082	1,204	1,029,732
At 1 January 2014	11,263	2,322	78,836	26,503	63,877	239,815	436,458	154,587	14,464	63,189	1,340	1,092,654
Gross claims incurred	**8,929**	**5,406**	**59,405**	**(6,215)**	**18,782**	**165,104**	**206,363**	**65,771**	**12,102**	**30,927**	**240**	**566,814**
Net written premium	7,103	19,893	58,120	5,743	17,239	347,905	438,599	178,783	12,343	21,882	3,996	1,111,605
UPR- January 2014	2,550	6,013	10,994	1,443	5,284	91,864	170,029	57,518	1,849	4,965	1,036	353,545
UPR- December 2014	2,452	6,838	23,245	1,739	5,164	140,376	163,451	68,018	3,888	5,741	2,018	422,930
Net earned premium	**7,200**	**19,068**	**45,870**	**5,447**	**17,359**	**299,392**	**445,177**	**168,283**	**10,303**	**21,107**	**3,014**	**1,042,219**
Net claims paid	3,287	4,101	12,434	476	9,304	169,574	212,579	62,087	2,671	14,888	376	491,776
At 31 December 2014	2,659	1,217	27,789	15,345	16,746	173,902	290,754	115,657	5,556	11,585	765	661,975
At 1 January 2014	2,841	2,211	5,409	8,653	7,970	169,414	270,981	118,323	4,145	8,479	629	599,055
Net claims incurred	**3,106**	**3,106**	**34,814**	**7,167**	**18,080**	**174,061**	**232,351**	**59,420**	**4,083**	**17,995**	**512**	**554,695**
Commission payable	6,531	5,396	41,551	1,432	9,748	29,190	46,489	32,434	3,231	5,879	2,391	184,272
Commissions	(10,882)	(3,041)	(54,075)	(130)	(11,264)	(1,114)	(1,987)	(29)	(3,590)	(10,632)	(6,447)	(103,191)
Management Expenses	(7,771)	(5,723)	(47,514)	(1,186)	(12,733)	(72,256)	(95,522)	(36,550)	(4,937)	(12,763)	(7,680)	(304,635)
Total expenses	**(6,526)**	**(11,184)**	**(69,804)**	**(9,655)**	**(29,297)**	**(274,393)**	**(372,375)**	**(128,375)**	**(8,661)**	**(26,005)**	**(4,136)**	**(940,411)**
Net U/W Profit/(Loss)	**674**	**10,245**	**(9,685)**	**2,959**	**(9,824)**	**(30,677)**	**104,220**	**98,328**	**(30,480)**	**(11,232)**	**(610)**	**101,808**

The Team behind Fidelity Insurance Brand

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