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2011

ANNUAL REPORT &
FINANCIAL STATEMENTS

FIDELITY SHIELD
INSURANCE COMPANY LIMITED

VISION STATEMENT

To be the preferred professional Insurer.

MISSION STATEMENT

To provide Customer Oriented Service with Sound Security and Growth with Enhanced Efficiency

CORPORATE GOAL

To develop and build a strong Insurance Company through the provision of efficient/prompt service to all our clients and to maintain high professional standards and integrity at all times

CORE VALUES

Integrity
Reliability
Commitment
Professionalism
Consistency

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COMPANY INFORMATION

DIRECTORS
R. Kemoli (Chairman)

S. N. Sumar (Mrs) (Managing Director)

A. Kurji

R. Mbai (Mrs)

S. Ramani (Executive Director)

A. A. Kurji

SECRETARY
Equatorial Secretaries and Registrars

MANAGEMENT
S. N. Sumar (Mrs) (Managing Director)

S. Ramani (Executive Director)

M. Naul (Mrs) (General Manager)

J. M. Muchiri (Assistant General Manager, Operations)

M. A. Odhiambo (Assistant General Manager - Mombasa)

S. Thakrar (Mrs) (Branch Manager– Kisumu)

L. Motieri (Branch Manager-Eldoret)

REGISTERED OFFICE
Equatorial Fidelity Centre, Waridi Lane off Waiyaki Way.
P.O. Box 47435 - 00100, Nairobi, Kenya

BRANCHES
Fidelity Shield Insurance House, Kizingo Road
PO Box 90103, MOMBASA

KVDA Plaza, Oloo Street
PO Box 7877, ELDORET

Kenya Re Plaza (Wedco Centre), Oginga Odinga Street
PO Box 2243-40100, KISUMU

AUDITORS
PricewaterhouseCoopers
The Rahimtulla Tower, Upper Hill Road
PO Box 43963-00100, NAIROBI

BANKERS
Equatorial Commercial Bank Limited

The Standard Chartered Bank Kenya Limited

African Banking Corporation Limited

Commercial Bank of Africa Limited

REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2011 which disclose the state of affairs of Fidelity Shield Insurance Company Limited (the "Company").

PRINCIPAL ACTIVITIES

The Company underwrites general classes of insurance business as defined by the Insurance Act, with the exception of Aviation.

RESULTS AND DIVIDEND

Profit for the year of Shs 61,039,000 (2010: Shs 203,562,000) has been added to retained earnings.

The Directors recommend the approval of a final dividend of Shs 40,561,074 (2010: Shs 9,764,703).

DIRECTORS

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

R. Kemoli	Chairman
S.N. Sumar (Mrs)	Managing Director and Principal Officer
R. Mbai (Mrs)	
A. Kurji	
S. Ramani	Executive Director
A.A. Kurji	

AUDITOR

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Companies Act.

By order of the Board
Director
S.N. Sumar (Mrs)
26 April 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the 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 profit in accordance with International Financial Reporting Standards. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

R. Mbai (Mrs)
Director

S.N. Sumar (Mrs)
Director

26 April 2012

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 (the "Company") set out on pages 11 to 49. These financial statements comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and a 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act and for such internal control, as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF FIDELITY SHIELD INSURANCE COMPANY LIMITED (CONTINUED)

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm 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;

iii) the Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

PRICEWATERHOUSECOOPERS
Certified Public Accountants
Nairobi

30 April 2012

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fidelity Shield Insurance Company Limited, it gives me great pleasure to present to you the Annual Report and Financial Statements of the Company for the year ended 31st December, 2011.

OVERVIEW

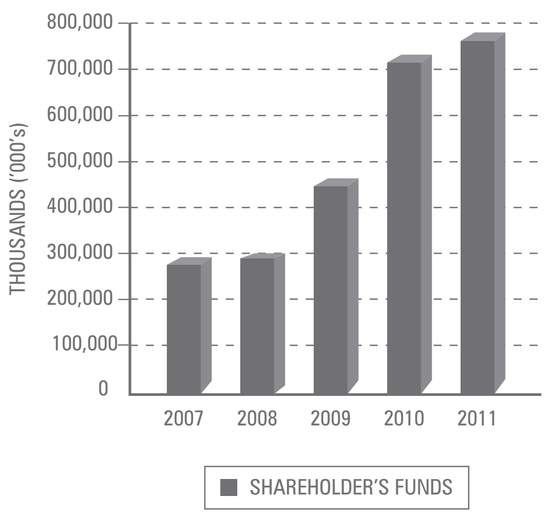
According to Economic Survey and Financial Analysts, the Kenyan economy appears to have slowed down with the GDP growth dropping to 4.4% from 5.8% in 2010. The overall inflation rate rose to 14% from 4.1% in 2010 due to high fuel and food prices. In fact, all the sectors of the economy namely tourism, agriculture, manufacturing, infrastructure, information and communication have recorded reduced growth in 2011. The NSE overall index dropped significantly which negatively affected investors. However, increase in market interest rate in the second half of the year assisted the investors to offset their losses to some extent.

Despite the challenges associated with the global economic crisis it has been observed that the business growth in the Insurance Sector continues to show positive trend. The implementation of stringent underwriting guidelines which are necessary for long term sustenance of the insurance companies underwriting results, and cash and carry essential for the appropriate cash flows, continue to be a big challenge to the Industry, and your Company too is not an exception.

COMPANY PERFORMANCE

The Company's Gross Premium Income crossed a billion milestone in 2011 when it increased by 17% to Kshs.1,012 million (2010: Kshs.864 million). The underwriting results reflected a loss of K.shs 2.5 million (2010: profit of K.shs 15 million) mainly due to losses incurred under motor private and fire industrial classes of business.

SHAREHOLDER'S FUNDS



The investment income achieved was K.shs 117.4 million as compared to K.shs 232.9 million in 2010. The decrease was mainly due to fair value loss on financial assets. The resultant Profit Before Tax for the year was K.shs. 77.4 million (2010: K.shs. 221.7 million).

The Total Assets grew at 7.74% from K.shs. 1.81 billion to K.shs 1.95 billion as at 31st December, 2011. The solvency ratio of the Company was at 451%, (2010 - 444 %). The Shareholders' Funds increased by 9.14% from K.shs. 724.3 million in 2010 to K.shs. 790.5 million in 2011.

CORPORATE GOVERNANCE

The Board is committed to run the business in a professional and transparent manner. The principles and standards adhered to by the Board have been developed with close reference to generally accepted guidelines with emphasis on best practice towards achievement of compliance on corporate governance principles. The guidelines issued by the Insurance Regulatory Authority have been kept in focus for compliance purposes.

The Board consists of six Directors, four of whom are non-executive Directors, including the Chairman. The Directors held 5 Board Meetings during the year. The Board has provided strong leadership to the Management and continues to supervise the delivery of strong business growth coupled with financial performance.

For effective and efficient operations, the Board has delegated some of its responsibilities to:

- The Board Investment Committee which meets frequently under the terms of reference set out by the Board;
- The Audit, Risk Management and Compliance Committee;

The Board reviews reports of various Management Committees such as Technical, Credit Risk, Finance and Administration and provides valuable guidance in order to improve the performance of the Company.

The Board adopted the Five Year Strategic Plan 2012 - 2016 to give the Management the focus for the future growth and development of the Company.

HUMAN RESOURCES DEVELOPMENT

A key determinant for the success, growth and reputation of the Company are the staff force. With the growing customer sophistication and expectations, the Company continues to improve the quality of service to its valued clients. In line with this strategy, substantial amounts of resources were invested in staff management, training, development and welfare programs, some of which include in-house training, sponsoring deserving staff to pursue further education in their career development and workshops and seminars on technical subjects. The deserving staff are given further career development incentives and promotions for successful completion of professional courses as well as contribution to professionalism of services.

The Board is confident that with the ongoing continuous performance appraisals and assessment, education and training will add value in our delivery of timely service to customers and efficiency in overall operations. The Board's focus is to make the Company a choice of employment and career development for the staff.

Long Service certificate presented to Mrs. Roseline Ochieng by Mr R Kemoli (Chairman) looking on is Mrs S N Sumar (Managing Director)

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility continues to be an integral part the Company. The Company is mindful of the environment in which it operates and committed to help the less privileged in the society and promoting the well-being of employees. Our staff actively participated in all the social responsibility programs of the Company and in particular joined the Christmas celebrations organized by various charitable institutions for the less privileged in various orphanage homes in and around Nairobi. Significant contributions were made to meet the monthly food requirements of such homes, conservation of endangered animals and promotion of tree planting.

Staff representatives distributing foodstuffs to orphaned children during Christmas day celebrations

PROSPECTS FOR 2012

The Company expects a challenging business environment in 2012 due to continuous fierce competition, and risks associated with political environment due to election. In addition, foreign investors are bound to exercise caution in their investment decisions. We will continue to focus on customers oriented growth, high standards of service delivery, while maintaining operational efficiencies and managing costs to ensure sustainable profitability. The Company plans to re-structure its asset mix in line with the strategic plan, improve the ICT network for better compliance under regulatory environment and business expansion in hitherto untapped market areas for improved penetration.

CONCLUSION

The performance for 2011 was made possible by the dedicated support of all our Business Producers, my Colleagues on the Board, Management and the Staff. On behalf of the Board and the Management, I would like to thank once again Broker Organizations, Agents, other producers and clients for their dedicated support and commitment to our Company.

On behalf of the Board of Directors, I also wish to thank the Management and the Staff despite difficult environment for their sincere commitment to duty, continued dedication and loyalty to the Company.

Finally, I wish to record my personal appreciation and gratitude to my Colleagues on the Board for their valuable guidance and support in the development and growth of the Company.

Richard Kemoli (FIOB MBE)
Chairman
26th April, 2012

Directors

R. Kemoli
(Chairman)

S.N. Sumar (Mrs)
(Managing Director)

A.K. Kurji
(Director)

R.N. Mbai (Mrs)
(Director)

S. Ramani
(Executive Director)

A.A. Kurji
(Director)

Management

S.N. Sumar (Mrs)
(Managing Director)

S. Ramani
(Executive Director)

Manju Naul (Mrs)
General Manager

J.M. Muchiri
(Assistant General Manager - Operations)

M.A.N. Odhiambo
(Assistant General Manager - Mombasa)

N.S Abour
(Manager Underwriting - Mombasa)

S. Thakrar
(Branch Manager– Kisumu)

L. Motieri
(Branch Manager - Eldoret)

A.K. Njiru
(Manager - Business Development)

C.K. Karanja
(Senior Manager - Audit Risk & Compliance)

J.A. Awidhi
(Manager - Claims)

C. Mbae
(Manager - Underwriting)

M.M. Kimeu
(Manager - Underwriting)

M. Mugera
(Assistant Manager - Accounts)

S.J.W. Waititu
(Manager - IT)

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2011 Shs'000	Year ended 31 December 2010 Shs'000 Restated
Gross earned premiums	5	958,827	851,312
Less: reinsurance premium ceded		(187,957)	(188,890)
Net earned premiums		**770,870**	**662,422**
Investment income	6	117,428	232,907
Commissions earned		47,682	42,899
Other (expense)/ income	7	(1,011)	6,634
Total income		**934,969**	**944,862**
Claims payable		(570,097)	(518,324)
Less: amounts recoverable from reinsurers		44,553	83,489
Net claims payable	8	**(525,544)**	**(434,835)**
Operating and other expenses	9	(215,780)	(181,039)
Commissions payable		(116,215)	(107,252)
		(857,539)	**(723,126)**
Profit before income tax		77,430	221,736
Income tax expense	11	(16,391)	(18,174)
Profit for the year		**61,039**	**203,562**
Other comprehensive income, net of tax			
Gain on property revaluations	15	14,894	29,573
Total comprehensive income		**75,933**	**233,135**

The notes on pages 11 to 49 form are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 Dec 2011 Shs'000	As at 31 Dec 2010 Shs'000 Restated	As at 31 Dec 2009 Shs'000 Restated
CAPITAL EMPLOYED				
Share capital	13	300,453	300,453	266,907
Revaluation reserve	15	44,467	29,573	-
Retained earnings	14	404,968	384,490	218,007
Proposed dividends	12	40,561	9,765	1,335
Shareholders' funds		**790,449**	**724,281**	**486,249**
REPRESENTED BY:				
Assets				
Property and equipment	16	192,257	185,882	8,330
Intangible asset	17	7,840	7,840	-
Investment property	18	665,219	521,943	523,500
Investment in the Kenya Motor Insurance Pool		12,960	14,487	13,708
Equity investments at fair value through profit and loss	19	96,807	133,029	102,750
Mortgage loans	20	45,200	100,162	115,404
Receivables arising out of reinsurance arrangements		1,487	9,157	20,099
Receivables arising out of direct insurance arrangements		255,452	198,093	180,734
Reinsurers' share of insurance contract liabilities	21	246,201	262,922	267,669
Current income tax		-	560	4,472
Deferred income tax	29	-	-	4,240
Other receivables	22	14,679	16,337	46,153
Deferred acquisition costs	23	26,341	23,827	20,578
Government securities held to maturity	24	198,201	129,542	123,680
Deposits with financial institutions		162,784	175,065	68,301
Cash and bank balances		23,722	34,733	15,239
Total assets		**1,949,150**	**1,813,579**	**1,514,857**
Liabilities				
Insurance contract liabilities	26	705,034	690,166	652,648
Unearned premium	28	339,722	286,683	274,203
Deferred income tax	29	12,068	8,050	-
Income tax		2,045	-	-
Creditors arising from reinsurance arrangements		57,883	58,489	48,419
Other payable	30	41,949	45,910	53,338
Total liabilities		**1,158,701**	**1,089,298**	**1,028,608**
Net assets		**790,449**	**724,281**	**486,249**

The financial statements on pages 11 to 49 were approved for issue by the board of Directors on 26 April 2012 and signed on its behalf by:

R. Kemoli	**R. Mbai (Mrs)**	**S.N. Sumar (Mrs)**
Director	**Director**	**Principal Officer**

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Balance at 1 January 2009						
- As previously stated		205,313	-	117,381	5,559	**328,253**
- prior year adjustment	29	-	-	17,083	-	**17,083**
As restated		**205,313**	**-**	**134,464**	**5,559**	**345,336**
Comprehensive income						
Profit for the year		-	-	146,472	-	**146,472**
Other comprehensive income		-	-	-	-	-
Total other comprehensive income		-	-	146,472	-	**146,472**
Transactions with owners						
Bonus issue of shares		61,594	-	(61,594)	-	-
Dividends:						
-Final for 2008 reclassified to liabilities		-	-	-	(5,559)	**(5,559)**
-Final for 2009		-	-	(1,335)	1,335	-
Transactions with owners		**61,594**	**-**	**(62,929)**	**(4,224)**	**(5,559)**
At 31 December 2009		**266,907**	**-**	**218,007**	**1,335**	**486,249**
Balance at 1 January 2010						
- As previously stated		**266,907**	**-**	**171,360**	**1,335**	**439,602**
- prior year adjustment	29	-	-	46,647	-	**46,647**
As restated		**266,907**	-	**218,007**	**1,335**	**486,249**
Comprehensive income						
Profit for the year		-	-	203,562	-	**203,562**
Other comprehensive income						
Gains on revaluation of land and buildings net of tax	15	-	29,573	-	-	**29,573**
Total other comprehensive income		-	29,573	203,562	-	**233,135**

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Transactions with owners						
Bonus issue of shares	13	27,314	-	(27,314)	-	-
Rights issue of shares	13	6,232	-	-	-	6,232
Dividends:						
-Final paid for 2009		-	-	-	(1,335)	**(1,335)**
-Proposed for 2010	12	-	-	(9,765)	9,765	-
Transactions with owners		**33,546**	-	**(37,079)**	**8,430**	**4,897**
At 31 December 2010		**300,453**	**29,573**	**384,490**	**9,765**	**724,281**
Year ended 31 December 2011						
At start of year						
At previously stated		**300,453**	**29,573**	**307,195**	**9,765**	**646,986**
Prior year adjustment	29	-	-	77,295	-	**77,295**
As restated		**300,453**	**29,573**	**384,490**	**9,765**	**724,281**
At start of year		300,453	29,573	384,490	9,765	**724,281**
Comprehensive income						
Profit for the year		-	-	61,039	-	**61,039**
Other comprehensive income						
Gains on revaluation of land and Buildings, net of tax	15	-	14,894	-	-	**14,894**
Total other comprehensive income		-	**14,894**	**61,039**	-	**75,933**
Transactions with owners						
Dividends:						
- Final paid for 2010	12	-	-	-	(9,765)	**(9,765)**
-Proposed for 2011	12	-	-	(40,561)	40,561	-
Transactions with owners		-	-	**(40,561)**	**30,796**	**(9,765)**
At 31 December 2011		**300,453**	**44,467**	**404,968**	**40,561**	**790,449**

The notes on pages 11 to 49 form are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	2011 Shs'000	2010 Shs'000
Operating activities			
Cash generated from / (used in) operations	34	15,369	88,012
Interest income		67,464	46,712
Income tax paid		(16,151)	(14,648)
Net cash from operating activities		**66,682**	**120,076**
Investing activities			
Purchase of property and equipment	16	(2,562)	(55,582)
Purchase of quoted shares	19	(5,947)	(2,827)
Purchase of intangible assets	17	(2,450)	(9,800)
Purchase of investment property	18	(64,797)	(5,147)
Purchase of treasury bonds		(43,799)	(6,176)
Loans advanced	20	(11,159)	(5,682)
Loans repaid	20	66,121	20,924
Proceeds from disposal of property and equipment		-	1,593
Proceeds from disposal of investment property		-	46,560
Proceeds from disposal of quoted shares		9,499	17,422
Investment in fixed deposits over 3 months		132,351	(167,029)
Maturity of treasury bonds		14,000	-
Net cash generated/ (used) in investing activities		**91,257**	**(165,744)**
Financing activities			
Dividends paid	12	(9,765)	(1,335)
Rights issue of ordinary shares		-	6,232
Net cash (used)/ generated from financing activities		**(9,765)**	**4,897**
Increase/ (decrease) in cash and cash equivalents		**148,174**	**(40,771)**
Movement in cash and cash equivalents			
At start of year	33	42,769	83,540
Increase/ (decrease)		148,174	(40,771)
At end of year	**33**	**190,943**	**42,769**

The notes on pages 11 to 49 form are an integral part of these financial statements.

NOTES

1 General information

Fidelity Shield Insurance Company Limited is incorporated in Kenya under the Companies Act as a private limited liability Company, and is domiciled in Kenya. The address of its registered office is:

Equatorial Fidelity Centre, Waiyaki Way
P. O. Box 47435 - 00100
NAIROBI.

The Company deals in general insurance business. General insurance business relates to underwriting non-life business which includes casualty and property insurance contracts.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

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

Changes in accounting policy and disclosures

(i) Standards that have been early adopted in the Company's 2011 financial statements

Amendments to IAS 12 'Income taxes' - effective from 1st January 2012. The amendments provide that the measurement of deferred tax liabilities and deferred tax assets arising from investment properties which are measured using the fair value model in IAS 40 should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered through sale.

The early adoption of the amendments to IAS 12 by the Company has resulted in a change in accounting policy on the recording of deferred tax on revaluation of investment properties. Previously, provision for deferred tax was made on investment property fair value gains on the basis that their values would be recovered through use rather than through sale. In accordance with the amendments, deferred tax is determined at the income tax rates applicable to capital gains from sale of these properties. As the Company's investment properties are located in Kenya where capital gains tax is nil, deferred tax liabilities relating to fair value gains on investment properties have been released. This change in accounting policy has been accounted for retrospectively and the comparative financial statements have been restated.

Effect of change in accounting policy on the adoption of amendments to IAS 12:

On the income statement for the year ended 31 December

	2010 Shs'000	2009 Shs'000
Decrease in tax	30,648	29,564
Increase in profit after tax	30,648	29,564

NOTES (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

On the statement of financial position for the year ended 31 December

	31 December 2011 Shs'000	31 December 2010 Shs'000	31 December 2009 Shs'000
Decrease in deferred tax liabilities	-	77,295	46,647
Increase in retained earnings	-	77,295	46,647

IAS 1 requires an entity to present a statement of financial position at the beginning of the earliest comparative period when it applies an accounting policy retrospectively. As the Company voluntarily changed its accounting policy with respect to the recording of deferred tax on revaluation of investment properties and applied that change retrospectively in accordance with IAS 8, the Company has also included a statement of financial position as at 1 January 2010. The Company has only represented those notes that were affected by the restatement. The early adoption of IAS 12 amendment resulted in the restatement of the Company's deferred tax as disclosed in note 29.

(ii) New and amended standards adopted by the Company

The amendments to existing standards below are relevant to the Company's operations:

Standard	Title	Applicable for financial year beginning on/after
IAS 1	Presentation of financial statements	1 January 2011
IAS 24	Related party disclosures	1 January 2011
IFRS 7	Financial Instruments: Disclosures	1 January 2011

The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Company was already disclosing the analysis of other comprehensive income on its statement of changes in equity.

The amendment to IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amended definition means that some entities will be required to make additional disclosures, e.g., an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. The amendment has had no material impact in the Company's disclosures.

The amendments to IFRS 7, 'Financial Instruments - Disclosures' are part of the 2010 Annual Improvements and emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendments have also removed the requirement to disclose the following:

NOTES (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
- Fair value of collateral; and
- Renegotiated loans that would otherwise be past due but not impaired.

The application of the above amendment simplified financial risk disclosures made by the Company.

Other amendments and interpretations to standards became mandatory for the year beginning 1 January 2011 but had no significant effect on the Company's financial statements.

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Company. However, the Directors are yet to assess the impact on the Company's operations.

Standard	Title	Applicable for financial year beginning on/after
IAS 1	Presentation of financial statements	1 July 2012
IFRS 9	Financial instruments	1 January 2015
IFRS 13	Fair value measurement	1 January 2013

IAS 1, 'Presentation of financial statements'

The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. Entities will be required to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income', though IAS 1 still permits entities to use other titles. The Company believes that the amendment will not have significant impact on the financial statements when adopted.

IFRS 9, 'Financial instruments'

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

IFRS 13, 'Fair value measurement'

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

(b) Insurance contracts

I. Classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Insurance contracts are classified into two main categories; long term and general insurance business, depending on the duration of risk and in accordance with the provisions of the Insurance Act.

The Company only underwrites general classes of insurance business, with the exception of Aviation.

General insurance business

Classes of General Insurance Include Engineering insurance, Fire insurance - domestic risks, Fire insurance - industrial and commercial risks, Liability insurance, Marine Insurance, Motor insurance - private vehicles, Motor insurance - commercial vehicles, Personal accident insurance, Theft insurance, Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above).

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

Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class.

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

II. Recognition and measurement

(i) Premium income

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the financial reporting date, and is computed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

(ii) Deferred acquisition costs

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

NOTES (continued)

2 Summary of significant accounting policies (continued)

(b) Insurance contracts

II. Recognition and measurement (continued)

(iii) Claims payable

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 financial reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

(iv) Commissions

Commissions payable and earned are recognised in the period in which the related premiums are written.

(v) Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss.

(vi) Reinsurance contracts held

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

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

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

(vii) Receivables and payable related to insurance contracts

Receivables and payable are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 2 (g).

NOTES (continued)

2 Summary of significant accounting policies (continued)

(b) Insurance contracts

II. Recognition and measurement (continued)

(viii) Salvage and subrogation reimbursements

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

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

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

(c) Investment property

Properties held for long-term rental yields that is not occupied by the Company is classified as investment properties.

Investment property comprises freehold land and buildings. It is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

Changes in fair values are recorded in profit or loss.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the Company. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. The property is carried at fair value after initial recognition.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of property and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of property and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

(d) Property and equipment

Land and buildings are shown at fair value, based on periodic, but at least annual, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

NOTES (continued)

2 Summary of significant accounting policies (continued)

(d) Property and equipment (continued)

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Building	40 years
Motor vehicles	4 years
Computers	3.3 years
Furniture, fixtures and equipment	3 - 8 years

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

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Intangible assets

Intangible assets represent computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful economic life of five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method is reviewed at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense is recognised in profit or loss.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de recognised.

(f) Revenue recognition

(i) Insurance premium revenue

The revenue recognition policy relating to insurance contracts is set out under note (b) above.

(ii) Commissions

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

Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognized within 'investment income' (Note 6) in the statement of comprehensive income using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(iv) Dividend income

Dividend income for equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

(g) Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The Directors determine the classification of its financial assets at

NOTES (continued)

2 Summary of significant accounting policies (continued)

(g) Financial assets (continued)

initial recognition and depends on the purpose for which the investments were acquired.

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

This category comprises 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 the 'financial assets at fair value through profit or loss' 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. Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets designated as at fair value through profit or loss at inception are those that are:

- Held in internal funds to match insurance and investment contracts liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and
- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The Company's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through 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, other than:

a) those that the Company intends to sell in the short term or that it has designated as at fair value through profit or loss;
b) those that the Company upon initial recognition designates as available-for-sale; or
c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Receivables arising out of reinsurance arrangements or direct insurance arrangements are classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

(iii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Directors have the positive intention and ability to hold to maturity, other than:

a) those that the Company upon initial recognition designates as at fair value through profit or loss;
b) those that the Company designates as available-for-sale; and
c) those that meet the definition of loans and receivables.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Recognition and measurement

Regular-way purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit

2 Summary of significant accounting policies (continued)

(g) Financial assets (continued)

Recognition and measurement (continued)

or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

Financial assets are de recognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

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 financial assets are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of investment income when the Company's right to receive payments is established.

Changes in the fair value of monetary and nonmonetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as net realised gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payments is established. Both are included in the investment income line.

(h) Impairment of financial assets

(i) Financial assets carried at amortised cost

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - (i) adverse changes in the payment status of borrowers in the portfolio; and
    - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2 Summary of significant accounting policies (continued)

(h) Impairment of financial assets

(i) Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(ii) Assets classified as available-for-sale

The Company assesses at the end of each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss. In this respect, a decline of 20% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. If any such quantitative evidence exists for available-for-sale financial assets, the asset is considered for impairment, taking qualitative evidence into account. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(i) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

NOTES (continued)

2 Summary of significant accounting policies (continued)

(i) Impairment of non-financial assets (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other income'.

(k) Share Capital

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

(l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(m) Employee benefits

The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company has a defined contribution plan. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(n) Income tax

(i) Current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

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

(n) Income tax

(ii) Deferred income tax

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

2 Summary of significant accounting policies (continued)

(n) Income tax (continued)

(ii) Deferred income tax (continued)

the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same entity.

(o) Dividends

Dividends payable to the Company's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

3 Critical accounting estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimation of incurred but not yet reported claims (IBNR) is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Note 26 contains further details on this process.

4 Management of insurance and financial risk

The Company's activities expose it to a variety of risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers.

Investment policies are in place which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

This section summarises the way the Company manages key risks:

(a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed

NOTES (continued)

4 Management of insurance and financial risk (continued)

(a) Insurance risk (continued)

its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

Note 5 and the following tables disclose the concentration of insurance liabilities by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the maximum insured loss limit amounts of the insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

Year ended 31 December 2011

Class of business	Maximum	Insured loss
		Total Shs'000
Motor	Gross	8,239,804
	Net	5,125,365
Fire	Gross	43,285,103
	Net	11,082,604
Personal accident	Gross	856,978
	Net	511,854
Marine	Gross	3,972,830
	Net	1,652,132
Others	Gross	13,493,153
	Net	2,427,649
Total	**Gross**	**69,847,868**
	Net	**20,799,604**

Year ended 31 December 2010

Class of business	Maximum	Insured loss
		Total Shs'000
Motor	Gross	7,209,828
	Net	4,484,694
Fire	Gross	34,628,082
	Net	8,866,083
Personal accident	Gross	1,027,762
	Net	338,611
Marine	Gross	900,799
	Net	699,357
Others	Gross	7,462,335
	Net	908,148
Total	**Gross**	**51,228,806**
	Net	**15,296,893**

(b) Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important types of risk are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate risk, equity price risk and other price risks.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

The Company manages these positions within an Investment Board Committee (IBC) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Company's IBC is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders.

Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. However, the Company has minimal transactions denominated in foreign currency hence the exposure is low.

The Company manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities.

At 31 December 2011, if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, the post tax profit for the year would have been Shs Nil (2010: Shs 31,000) higher/lower, mainly as a result of US dollar bank balances.

(ii) Price risk

The Company is exposed to equity securities price risk because of investments in quoted shares classified at fair value through profit or loss. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Company. All quoted shares held by the Company are traded on the Nairobi Stock Exchange (NSE).

At 31 December 2011, if the NSE Index had increased/decreased by 10% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation to the index, post tax profit for the year would have been Shs 9,680,000 (2010: Shs 13,303,000) higher/lower.

(iii) Cash flow and fair value interest rate risk

Fixed interest rate financial instruments expose the Company to fair value interest rate risk. Variable interest rate financial instruments expose the Company to cash flow interest rate risk.

The Company's fixed interest rate financial instruments are government securities, deposits with financial institutions and mortgage loans. These are held at amortised cost thus no fair value risk.

The Company has no variable interest rate financial instruments.

Credit risk

The Company has exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- receivables arising out of direct insurance arrangements;
- receivables arising out of reinsurance arrangements; and
- reinsurers' share of insurance liabilities.

Other areas where credit risk arises include cash and cash equivalents, mortgage loans, Government securities and deposits with banks and other receivables.

The Company has no significant concentrations of credit risk. The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counter party, or groups of counter party. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved periodically by the Investment Board Committee (IBC) and ratified quarterly by the Board of Directors.

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Credit risk (continued)

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The exposure to individual counter parties is also managed by other mechanisms, such as the right of offset where counter parties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on loans and receivables and subsequent write-offs. IBC makes regular reviews to assess the degree of compliance with the Company procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the IBC of the Company.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings if available or historical information about counter party default rates. None of the Company's credit risk counter parties are rated except the Government of Kenya, the issuer of the Company's government securities which has a B+ (2010: B+) credit rating.

The Company classifies counter parties without an external credit rating as below:
Group 1 - new customers/related parties.
Group 2 - existing customers/related parties with no defaults in the past.
Group 3 - existing customers/related parties with some defaults in the past. All defaults were fully recovered.

Maximum exposure to credit risk before collateral held

	Credit rating or classification	2011 Shs'000	2010 Shs'000
Investment in the Kenya Motor Insurance Pool	Group 2	12,960	14,487
Other receivables	Group 2	13,699	14,509
Receivables arising out of reinsurance arrangements	See note below	1,487	9,157
Receivables arising out of direct insurance arrangements	See note below	255,452	198,094
Reinsurers' share of insurance liabilities	Group 2	246,201	262,922
Government securities held to maturity	B+	198,201	129,542
Mortgage loans	Group 3	45,200	100,162
Deposits with financial institutions	Group 2	162,784	175,065
Bank balances	Group 2	23,722	34,733
		959,706	**938,671**

NOTES (continued)

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Credit risk (continued)

No collateral is held for any of the above assets, except for mortgage loans where collateral held is charges on property totalling to Shs 380 million (2010: Shs. 380 million) . All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are past due or impaired except for the following amounts in;

- receivables arising out of direct insurance arrangements
- receivables arising out of reinsurance arrangements

Financial assets that are past due or impaired

Receivables arising out of direct insurance arrangements are summarised as follows:

	2011 Shs'000	2010 Shs'000
Past due but not impaired	255,452	198,093
Impaired	81,586	68,507
Gross	337,038	266,600
Less: allowance for impairment	(81,586)	(68,507)
Net	**255,452**	**198,093**
Allowance for impairment		
At start of year	(68,507)	(57,169)
Impairment allowance for the period	(13,079)	(11,338)
At end of year	**(81,586)**	**(68,507)**

Receivables arising out of reinsurance arrangements are summarised as follows;

	2011 Shs'000	2010 Shs'000
Past due but not impaired	1,487	9,157
Impaired	1,774	1,774
Gross	3,261	10,931
Less: allowance for impairment	(1,774)	(1,774)
Net	**1,487**	**9,157**

NOTES (continued)

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Credit risk (continued)

Receivables arising out of direct insurance arrangements past due but not impaired;	2011 Shs'000	2010 Shs'000
Past due but not impaired:		
- by up to 30 days	61,855	36,306
- by 31 to 60 days	57,816	42,037
- by 61 to 150 days	69,969	74,025
- over 151 days	65,812	45,726
Total past due but not impaired	**255,452**	**198,094**

Financial assets that are past due or impaired (continued)		
Receivable arising out of reinsurance arrangements past due but not impaired;		
Past due but not impaired:		
- by up to 30 days	-	2,222
- by 31 to 60 days	1,487	4,046
- by 61 to 150 days	-	1,560
- over 151 days	-	1,329
Total past due but not impaired	**1,487**	**9,157**

All receivables past due by more than 360 days are considered to be impaired, and are carried at their estimated recoverable value.

Receivables arising out of direct insurance arrangements individually impaired

Of the total gross amount of impaired receivables, the following amounts have been individually assessed:

	Direct insurance arrangements		Reinsurance arrangements	
	2011 Shs'000	2010 Shs'000	2011 Shs'000	2010 Shs'000
Individually assessed impaired receivables				
- brokers	47,326	43,478	1,774	1,774
- agents	18,136	10,345	-	-
- insurance companies	6,794	4,863	-	-
- direct clients	9,330	9,821	-	-
	81,586	**68,507**	**1,774**	**1,774**

NOTES (continued)

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Company is exposed to daily calls on its available cash for claims settlement and other administration expenses. The Company does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum level of bank overdraft facilities that should be in place to cover expenditure at unexpected levels of demand.

The table below presents the cash flows payable by the Company under financial liabilities by remaining contractual maturities (other than insurance contract liabilities which are based in expected maturities) at the financial reporting date. All figures are in thousands of Kenya Shillings.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2011: Liabilities	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Insurance contract liabilities	42,646	89,488	572,900	-	-	**705,034**
Creditors arising from reinsurance arrangements	-	24,800	33,083	-	-	**57,883**
Other payable	5,479	5,835	8,351	13,182	-	**32,847**
Total financial liabilities	**48,125**	**120,123**	**614,334**	**13,182**	**-**	**795,764**

	Up to 1 month	1-3 Months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2010: Liabilities	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Insurance contract liabilities	36,494	71,676	581,996	-	-	**690,166**
Creditors arising from reinsurance arrangements	-	58,489	-	-	-	**58,489**
Other payable	21,708	10,316	1,740	4,780	-	**38,544**
Total financial liabilities	**58,202**	**140,481**	**583,736**	**4,780**	**-**	**787,199**

NOTES (continued)

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Fair values estimation

Effective 1 January 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- **Level 1 –** Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities 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 (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3** – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All the Company's financial assets at fair value are in active markets is based on quoted market prices at the financial reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service, or regulatory agency, and those prices represent actual and regular occurring market transactions on an arm's length basis.

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2011.

31 December 2011	Level 1	Level 2	Level 3	Total Balance
	Shs'000	Shs'000	Shs'000	Shs'000
Assets				
Financial assets at fair value through Profit or loss				
- Equity investments	96,807	-	-	**96,807**
31 December 2010				
Assets				
Financial assets at fair value through Profit or loss				
- Equity investments	133,029	-	-	**133,029**

There are no financial liabilities measured at fair value through profit and loss as at 31 December 2011 (2010: Nil).

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Fair values estimation (continued)

Financial assets by category

Financial assets	Loans and receivables	Financial assets at fair value through profit or loss – initial recognition	Held to maturity	Total
At 31 December 2011	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Equity instruments at fair value through profit or loss	-	96,807	-	**96,807**
Government and other securities held-to-maturity	-	-	198,201	**198,201**
Mortgage Loans	45,200	-	-	**45,200**
Receivables arising out of reinsurance arrangements	1,487	-	-	**1,487**
Receivables arising out of direct insurance arrangements	255,452	-	-	**255,452**
Other receivables	14,679	-	-	**14,679**
Deposits with financial institutions	162,784			**162,784**
Cash and cash equivalents	23,722	-	-	**23,722**
	503,324	**96,807**	**198,201**	**798,332**
At 31 December 2010				
Equity instruments at fair value through profit or loss	-	133,029	-	**133,029**
Government and other securities held-to-maturity	-	-	129,542	**129,542**
Mortgage Loans	100,162	-	-	**100,162**
Receivables arising out of reinsurance arrangements	9,157	-	-	**9,157**
Receivables arising out of direct insurance arrangements	198,093	-	-	**198,093**
Other receivables	16,337	-	-	**16,337**
Deposits with financial institutions	175,065			**175,065**
Cash and cash equivalents	34,733	-	-	**34,733**
	533,547	**133,029**	**129,542**	**796,118**

Financial liabilities

All the Company's financial liabilities are measured at amortised cost. The carrying value of the Company's financial liabilities at the end of 2011 and 2010 is as shown on note 4 (b).

NOTES (continued)

4 Management of insurance and financial risk (continued)

(c) Capital management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position are:

- to comply with the capital requirements as set out in the Insurance Act;
- to comply with regulatory solvency requirements as set out in the Insurance Act;
- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The Insurance Act requires a general insurance Company to hold the minimum level of paid up capital of Shs 300 million.

General insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 15% of the net premium income during the preceding financial year.

The Company's paid up Capital at the end of 2011 and 2010 is presented on note 13. The table below summarises the solvency margin of the Company at 31 December:

	2011 Shs'000	2010 Shs'000
Individually assessed impaired receivables		
i. Admitted assets	1,380,139	1,296,846
ii. Admitted liabilities plus Shs 10million	922,499	913,671
iii. Admitted liabilities plus 15% of the net premium income during the preceding financial year	1,011,862	991,267
Solvency margin (excess of admitted assets over the higher of (ii) or (iii))	368,277	305,578

5 Gross earned premiums

The premium income of the Company can be analysed between the main classes of business as shown below:

	2011 Shs'000	2010 Shs'000
General insurance business:		
Motor	633,404	558,781
Fire	110,358	93,088
Marine	33,356	37,152
Personal accident	17,573	17,784
Theft	42,413	42,019
Workmen compensation	97,823	84,373
Other	23,900	18,115
	958,827	**851,312**

	2011 Shs'000	2010 Shs'000

6 Investment income

	2011 Shs'000	2010 Shs'000
Interest from government securities	14,972	11,938
Bank deposit interest	12,895	6,891
Mortgage loan interest receivable	6,723	12,908
Rental income from investment properties	32,874	14,975
Fair value gains on investment properties (Note 18)	78,479	134,159
Dividends receivable from equity investments	4,155	3,602
(Loss)/ gain on sale on sale of quoted shares	(911)	4,043
Fair value (losses)/ gains on financial assets at fair value through profit and loss (note 19)	(31,759)	40,831
Gains on sale of investment property	-	3,560
	117,428	**232,907**

7 Other (expense)/ income

	2011 Shs'000	2010 Shs'000
Kenya Motor Insurance Pool	(1,593)	4,761
Gain on disposal of property and equipment	-	667
Other	582	1,206
	(1,011)	**6,634**

8 Claims payable

	2011 Shs'000	2010 Shs'000
Claims payable by principal class of business:		
Motor	435,592	360,659
Fire	15,515	11,057
Marine	2,137	1,232
Workmen Compensation	43,353	35,883
Public Liability	7,726	3,847
Miscellaneous	21,221	22,157
	525,544	**434,835**

	2011 Shs'000	2010 Shs'000

9 Operating and other expenses

	2011 Shs'000	2010 Shs'000
Staff costs (note 10)	123,359	95,704
Auditors' remuneration (inclusive VAT)	2,903	2,491
Depreciation (note 16)	17,464	17,217
Amortisation (note 17)	2,450	1,960
Impairment charge for doubtful receivables		
- Premium debtors	13,079	11,338
- Other debtors	(1,713)	111
Operating lease rentals - land and buildings	7,323	7,202
Repairs and maintenance expenditure	307	626
Other	50,608	44,390
	215,780	**181,039**

10 Staff costs

	2011 Shs'000	2010 Shs'000
Staff costs include the following:		
- Salaries and wages	101,006	81,668
- Social security benefit costs	203	204
- Retirement benefit costs – defined contribution plan	7,039	4,659

11 Income tax expense

	2011 Shs'000	2010 Shs'000 Restated
Current tax	18,756	18,558
Deferred tax (Note 29)	(2,365)	(384)
	16,391	**18,174**

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:

	2011 Shs'000	2010 Shs'000 Restated
Profit before tax	77,430	221,736
Tax calculated at a tax rate of 30%	23,229	66,521
Less: tax effect of income not subject to tax	(24,790)	(85,626)
Add: tax effect of expenses not deductible for tax purposes	17,952	37,279
Tax charge	**16,391**	**18,174**

12 Dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. A final dividend in respect of the year ended 31 December 2011 of Shs. 13.50 (2010: Shs 3.25) per share amounting to a total of Shs 40,561,074 (2010: 9,764,703) is to be proposed at the annual general meeting on 26 April 2012. These financial statements do not reflect this dividend payable.

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

13 Share capital

	Number of Shares (Thousands)	Ordinary shares Shs '000
Balance at 1 January 2010	2,669	266,907
Issue of shares - Rights	62	6,232
Bonus issue	273	27,314
Balance at 1 January 2011	3,004	300,453
Balance at 31 December 2011	**3,004**	**300,453**

The total authorised number of ordinary shares is 3,100,000 with a par value of Shs 100 per share. 3,004,524 shares are fully paid.

14 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 358,680,760 (2010: Shs 280,201,469) whose distribution is subject to restrictions imposed by regulation.

15 Revaluation reserve

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

	2011 Shs '000	2010 Shs '000
At beginning of year	29,573	-
Revaluation gains – gross (Note 16)	21,277	42,247
Deferred tax on revaluation gains (Note 29)	(6,383)	(12,674)
At end of year	**44,467**	**29,573**

NOTES (continued)

16 Property and equipment

	Land & Buildings	Furniture & equipment	Motor Vehicles	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2010				
Cost or valuation	-	50,592	13,174	63,766
Accumulated depreciation	-	(48,194)	(7,242)	(55,436)
Net book amount	**-**	**2,398**	**5,932**	**8,330**
At 31 December 2010				
Opening net book amount	-	2,398	5,932	8,330
Additions	-	52,872	2,710	55,582
Transfer from investment property	97,863	-	-	97,863
Fair value gains on revaluation	42,247	-	-	42,247
Disposals	-	(16,721)	(5,194)	(21,915)
Depreciation charge	(2,053)	(12,492)	(2,672)	(17,217)
Accumulated depreciation on disposal	-	15,798	5,194	20,992
Net book amount	**138,057**	**41,855**	**5,970**	**185,882**
At 31 December 2010				
Cost or valuation	138,057	86,743	10,690	235,490
Accumulated depreciation	-	(44,888)	(4,720)	(49,608)
Net book amount	**138,057**	**41,855**	**5,970**	**185,882**
Year ended 31 December 2011				
Opening net book amount	138,057	41,855	5,970	185,882
Additions	-	2,562	-	2,562
Fair value gains on revaluation	21,277	-	-	21,277
Depreciation charge	(2,054)	(12,738)	(2,672)	(17,464)
Net book amount	**157,280**	**31,679**	**3,298**	**192,257**
At 31 December 2011				
Cost or valuation	157,280	89,305	10,690	257,275
Accumulated depreciation	-	(57,626)	(7,392)	(65,018)
Net book amount	**157,280**	**31,679**	**3,298**	**192,257**

Land and Buildings were valued on 31st December 2011 by Knight Frank Valuers Limited. The basis of valuation was current market value with existing use.

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

	2011	2010
	Shs'000	Shs'000
Cost	97,863	97,863
Accumulated depreciation	(4,107)	(2,053)
Net book amount	**93,756**	**95,810**

NOTES (continued)

17 Intangible Assets – Computer Software

	2011 Shs'000	2010 Shs'000
At 31 December 2011		
At beginning of year	7,840	-
Additions	2,450	9,800
Amortisation charge	(2,450)	(1,960)
Net book amount	**7,840**	**7,840**
At 31 December 2011		
Cost	12,250	9,800
Accumulated amortisation	(4,410)	(1,960)
Net book amount	**7,840**	**7,840**

18 Investment property

At start of year	521,943	523,500
Additions	64,797	5,147
Disposals	-	(43,000)
Transfer to property and equipment (Note 16)	-	(97,863)
Fair value gains	78,479	134,159
At end of year	**665,219**	**521,943**

The Company's investment properties were valued as at 31 December 2011 by Knight Frank Valuers Limited. The basis of the valuation was open market value. Direct operating expenses arising on the investment property amounted to Shs 2,306,387 (2010: Shs 7,256,112).

19 Equity investments at fair value through profit and loss

Quoted investments:		
At start of year	133,029	102,750
Additions	5,947	2,827
Disposals	(10,410)	(13,379)
Fair value (loss)/ gain	(31,759)	40,831
At end of year	**96,807**	**133,029**

All quoted investments are classified as current assets.

20 Mortgage Loans

	2011 Shs'000	2010 Shs'000
Mortgage loans:		
At start of year	100,162	115,404
Loans advanced	10,750	-
Interest due	409	5,682
Loan repayments	(66,121)	(20,924)
At end of year	**45,200**	**100,162**
Maturity profile of mortgage loans:		
Loans maturing:		
Within 1 year	10,910	33,120
In 1-5 years	4,829	31,358
In over 5 years	29,461	35,684
At end of year	**45,200**	**100,162**
Lending commitments:		
Mortgage loans approved by the Directors but not advanced at 31 December 2011	-	3,000

21 Reinsurers' share of insurance liabilities

Reinsurers' share of:		
- unearned premium (Note 28)	57,469	39,987
- notified claims outstanding (Note 27)	155,427	194,224
- claims incurred but not reported (Note 27)	33,305	28,711
At end of year	**246,201**	**262,922**

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 on the statement of financial position.

22 Other receivables

Due from related parties (Note 36)	10,248	11,389
Prepayments	980	1,828
Utilities and rental deposit	2,103	2,022
Others	1,348	1,098
At end of year	**14,679**	**16,337**

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

23 Deferred acquisition cost

	2011 Shs'000	2010 Shs'000
Deferred acquisition cost	**26,341**	**23,827**
At start of year	23,827	20,578
Additions	26,341	23,827
Amortisation charge	(23,827)	(20,578)
At end of year	**26,341**	**23,827**

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

24 Government securities held to maturity

Treasury bills and bonds maturing:		
- Within 1 year	54,027	18,703
- In 1-5 years	105,104	90,651
- After 5 years	39,070	20,188
	198,201	**129,542**

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:

	2011 %	2010 %
Mortgage loans	12.52	13.38
Government securities	12.58	10.00
Deposits with financial institutions	9.86	7.66

Deposits with financial institutions have an average maturity of 6 months (2010: 6 months).

26 Insurance contract liabilities

	2011 Shs'000	2010 Shs'000
Short term non-life insurance contracts		
- claims reported and claims handling expenses	601,928	601,282
- claims incurred but not reported	103,106	88,884
Total – short term	**705,034**	**690,166**

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

Accident year	2007 Shs'000	2008 Shs'000	2009 Shs'000	2010 Shs'000	2011 Shs'000	Total Shs'000
Estimate of ultimate claims costs:						
– at end of	304,533	347,578	392,479	386,053	451,490	1,882,133
– one year later	385,747	419,201	517,634	498,879		
– two years	400,169	408,226	507,060			
– three years	389,821	409,498				
– four years	391,813					
Current estimate of cumulative claims	391,813	409,498	507,060	498,879	451,490	2,258,740
Less: cumulative payments to date	(349,837)	(386,681)	(456,323)	(416,801)	(225,173)	(1,834,815)
Liability in the statement of financial position	41,976	22,837	50,737	82,078	226,317	423,945
Liability in respect of prior years						177,983
IBNR						103,106
Total gross claims liability included in the statement of financial position						**705,034**

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 2011 and 2010 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.

27 Movements in insurance liabilities and reinsurance assets

Short term insurance business

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	601,282	(194,224)	407,058	579,364	(188,497)	390,867
Incurred but not reported	88,884	(28,711)	60,173	73,284	(22,900)	50,384
Total at beginning of year	**690,166**	**(222,935)**	**467,231**	**652,648**	**(211,397)**	**441,251**
Cash paid for claims settled in year	(556,971)	80,498	(476,473)	(508,776)	99,921	(408,855)
Increase in liabilities						
- arising from current year claims	411,356	(66,203)	345,153	400,787	(94,287)	306,500
- arising from prior year claims	160,483	19,908	180,391	145,507	(17,172)	128,335
Total at end of year	**705,034**	**(188,732)**	**516,302**	**690,166**	**(222,935)**	**467,231**
Notified claims	601,928	(155,427)	446,501	601,282	(194,224)	407,058
Incurred but not reported	103,106	(33,305)	69,801	88,884	(28,711)	60,173
Total at the end of year	**705,034**	**(188,732)**	**516,302**	**690,166**	**(222,935)**	**467,231**

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 is shown below:

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of year	286,683	(39,987)	246,696	274,203	(56,272)	217,931
Increase in the period (net)	53,039	(17,482)	35,557	12,480	16,285	28,765
At end of year	**339,722**	**(57,469)**	**282,253**	**286,683**	**(39,987)**	**246,696**

NOTES (continued)

29 Deferred income tax

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

	31 December 2011 Shs'00	31 December 2010 Shs'000 Restated	31 December 2009 Shs'000 Restated
At start of year			
- As previously stated	(8,050)	(42,407)	(12,790)
- Prior year adjustment (note 2a(i))	-	46,647	17,083
- As restated	(8,050)	4,240	4,293
Income statement credit/(charge) (Note 11)	2,365	384	(53)
Charge to OCI	(6,383)	(12,674)	-
At end of year	**(12,068)**	**(8,050)**	**4,240**

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

Year ended 31 December 2011

	1.1.11 Shs'000	Cr to P/L Shs'000	Charged to *OCI Shs'000	31.12.11 Shs'000
Property and equipment: - on historical cost basis	2,414	1,844	-	4,258
Property and equipment: - on revaluation surplus	(12,674)	-	(6,383)	(19,057)
Provisions	2,210	521	-	2,731
Net deferred tax asset/ (liability)	**(8,050)**	**2,365**	**(6,383)**	**(12,068)**

Year ended 31 December 2010 - Restated

	1.1.10 Shs'000	Cr to P/L Shs'000	Charged to *OCI Shs'000	31.12.10 Shs'000
Property and equipment: - on historical cost basis	2,040	374	-	2,414
Property and equipment: - on revaluation surplus	-	-	(12,674)	(12,674)
Provisions	2,200	10	-	2,210
Net deferred tax asset/ (liability)	**4,240**	**384**	**(12,674)**	**(8,050)**

Year ended 31 December 2009 - Restated

	1.1.09 Shs'000	(Dr)/Cr to P/L Shs'000	Charged to *OCI Shs'000	31.12.09 Shs'000
Property and equipment: - on historical cost basis	2,390	(350)	-	2,040
Provisions	1,903	297	-	2,200
Net deferred tax asset/ (liability)	**4,293**	**(53)**	**-**	**4,240**

**Other comprehensive income*

NOTES (continued)

30 Other payable

	2011 Shs'000	2010 Shs'000
Amounts due to related companies (Note 36)	614	983
Accrued expenses	3,599	8,093
Leave accrual	9,102	7,366
Other liabilities	28,634	29,468
	41,949	**45,910**

31 Contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. The Directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the Company.

32 Commitments

Capital commitments

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

	2011 Shs'000	2010 Shs'000
Computer software	-	2,450

Operating lease commitments

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

	2011 Shs'000	2010 Shs'000
Not later than 1 year	1,640	1,116
Later than 1 year and not later than 5 years	782	154
Later than 5 years	-	-
	2,422	**1,270**

33 Cash and cash equivalents

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

	2011 Shs'000	2010 Shs'000
Cash and bank balances	23,722	34,733
Deposits with financial institutions	167,221	8,036
	190,943	**42,769**

34 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2011 Shs'000	2010 Shs'000
Profit before tax	77,430	221,736
Adjustments for:		
Interest income	(67,464)	(46,712)
Depreciation (Note 16)	17,464	17,217
Amortisation charge (Note 17)	2,450	1,960
Gain on sale of equipment	-	(667)
Gain on sale of Investment Property	-	(3,560)
Gain on sale of quoted shares	911	(4,043)
Change in fair value of investment property (Note 18)	(78,479)	(134,159)
Change in fair value of quoted shares (Note 19)	31,759	(40,831)
Amortisation of government securities	255	314
Changes in:		
– technical provisions	84,628	54,745
– trade and other payable	(4,567)	2,642
– trade and other receivables	(49,018)	19,370
Cash generated from operations	15,369	88,012

35 Related party transactions

The Company is related to other Companies through common share holdings 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.

(i) Transactions with related parties	2011 Shs'000	2010 Shs'000
Gross earned premium:		
- Related parties – Directors	320	702
- Related parties – other	4,028	6,258
Net claims incurred		
- Related parties	659	2,473

NOTES (continued)

36 Related party transactions (continued)

(ii) Outstanding balances with related parties

	2011 Shs'000	2010 Shs'000
Mortgages receivable from related parties	15,096	44,100
Amounts due from related parties		
Key management personnel	407	900
Other receivables	2,212	2,953
	2,619	3,853
Amount due to related parties	614	983

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

	2011 Shs'000	2010 Shs'000
At start of year	15,587	18,531
Loans advanced during the period	2,000	-
Loan repayments received	(2,491)	(2,944)
At end of year	**15,096**	**15,587**

(iv) Key management compensation

Salaries and other short-term employment benefits	39,287	24,907
Termination benefits	2,039	1,367
	41,326	**26,274**

(v) Directors' remuneration

Directors' fees	3,680	1,618
Other remuneration	21,474	14,621
	25,154	**16,239**

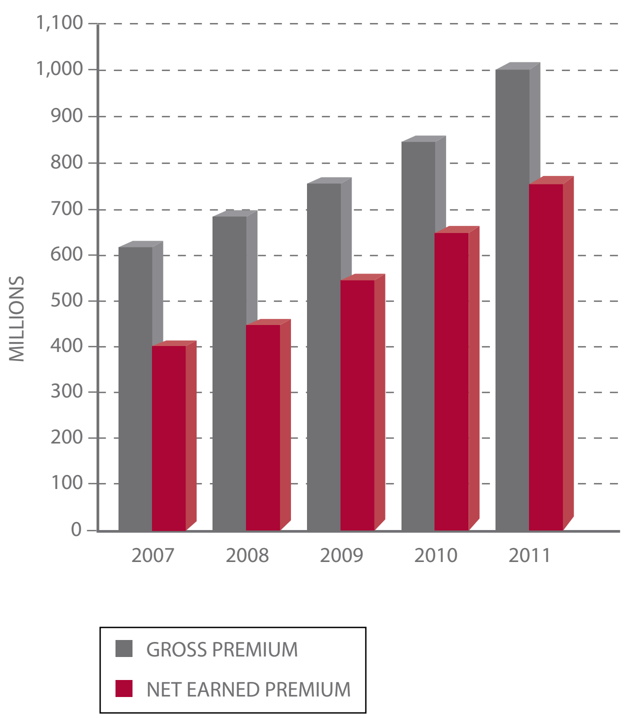
GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Class of insurance BusinesS	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Comm	Personal Accident	Theft	Workmen's Comp	Miscellaneous	2011 Total
Gross premiums written	15,079	14,918	103,996	5,946	37,688	276,828	399,108	15,979	43,341	90,605	8,377	**1,011,865**
Change in gross UPR	(3,706)	(1,548)	(7,008)	(11,749)	(4,332)	(4,494)	(25,028)	1,594	(928)	7,218	(3,057)	**(53,038)**
Gross earned premiums	11,373	13,370	96,988	(5,803)	33,356	272,334	374,080	17,573	42,413	97,823	5,320	**958,827**
Less: reinsurance payable	(8,742)	(4,533)	(79,888)	9,066	(21,566)	(11,000)	(14,856)	(9,188)	(30,093)	(12,681)	(4,476)	**(187,957)**
Net earned premiums	2,631	8,837	17,100	3,263	11,790	261,334	359,224	8,385	12,320	85,142	844	**770,870**
Net written premiums												
Gross claims paid	(2,254)	(5,968)	(28,253)	(26,697)	(30,177)	(205,326)	(189,487)	(13,875)	(27,063)	(22,966)	(4,905)	**(556,971)**
Change in gross o/s claims	(983)	994	34,742	18,976	36,654	(25,204)	(13,134)	24,945	25,081	(18,189)	(7,902)	**75,980**
Less: Reinsurance recoverable	812	(807)	(16,222)	(5)	(8,614)	98	(2,539)	(14,927)	(148)	(2,199)	(2)	**(44,553)**
Net claims incurred	(2,425)	(5,781)	(9,733)	(7,726)	(2,137)	(230,432)	(205,160)	(3,857)	(2,130)	(43,354)	(12,809)	**(525,544)**
Commissions receivable	2,829	2,508	20,268	225	5,649	497	683	2,062	3,944	14	9,003	**47,682**
Commissions payable	(2,305)	(2,617)	(17,979)	(1,020)	(6,178)	(26,357)	(36,712)	(2,212)	(1,588)	(18,173)	(1,074)	**(116,215)**
Expenses of management	(2,672)	(2,643)	(18,429)	(1,054)	(6,678)	(49,055)	(70,724)	(2,832)	(7,680)	(16,056)	(1,484)	**(179,307)**
Total expenses and commissions	(2,148)	(2,752)	(16,140)	(1,849)	(7,207)	(74,915)	(106,753)	(2,982)	(5,324)	(34,215)	6,445	**(247,840)**
Underwriting profit/(loss)	(1,942)	304	(8,773)	(6,312)	2,446	(44,013)	47,311	1,546	4,866	7,573	(5,520)	**(2,514)**

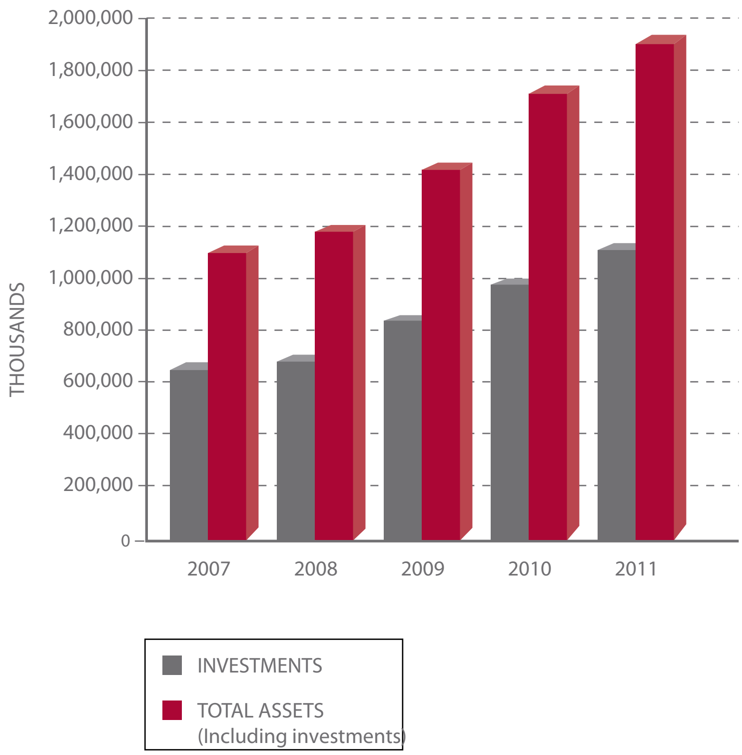
GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Comm	Personal Accident	Theft	Workmen's Comp	Miscellaneous	2010 Total
Gross premiums written	8,900	12,150	75,879	4,181	32,766	245,940	342,143	18,563	39,553	81,527	2,190	**863,792**
Change in gross UPR	866	(326)	5,385	(16)	4,386	(26,833)	(2,469)	(779)	2,466	2,846	1,994	**(12,480)**
Gross earned premiums	9,766	11,824	81,264	4,165	37,152	219,107	339,674	17,784	42,019	84,373	4,184	**851,312**
Less: reinsurance payable	(7,656)	(5,204)	(66,932)	(927)	(24,231)	(15,575)	(23,621)	(8,718)	(27,781)	(4,919)	(3,326)	**(188,890)**
Net earned premiums	2,110	6,620	14,332	3,238	12,921	203,532	316,053	9,066	14,238	79,454	858	**662,422**
Net written premiums												
Gross claims paid	(3,922)	(1,817)	(18,003)	(1,227)	(43,369)	(175,536)	(180,759)	(7,002)	(31,878)	(43,213)	(2,050)	**(508,776)**
Change in gross o/s claims	380	(2,774)	420	(2,938)	7,971	(4,202)	(12,536)	2,640	(5,669)	8,015	(114)	**(8,807)**
Less: Reinsurance recoverable	(881)	744	10,373	318	34,166	(1,951)	14,325	(807)	27,146	(685)	-	**82,748**
Net claims incurred	(4,423)	(3,847)	(7,210)	(3,847)	(1,232)	(181,689)	(178,970)	(5,169)	(10,401)	(35,883)	(2,164)	**(434,835)**
Commissions receivable	1,689	1,011	19,548	16	6,822	2,924	686	2,199	7,094	(541)	1,451	**42,899**
Commissions payable	(1,807)	(2,219)	(16,230)	(623)	(5,507)	(23,814)	(33,637)	(3,265)	(3,851)	(16,090)	(209)	**(107,252)**
Expenses of management	(1,524)	(2,081)	(12,994)	(716)	(5,611)	(42,116)	(58,591)	(3,179)	(6,773)	(13,961)	(375)	**(147,921)**
Total expenses and commissions	(1,642)	(3,289)	(9,676)	(1,323)	(4,296)	(63,006)	(91,542)	(4,245)	(3,530)	(30,592)	867	**(212,274)**
Underwriting profit/(loss)	**(3,955)**	**(516)**	**(2,554)**	**(1,932)**	**7,393**	**(41,163)**	**45,541**	**(348)**	**307**	**12,979**	**(439)**	**15,313**

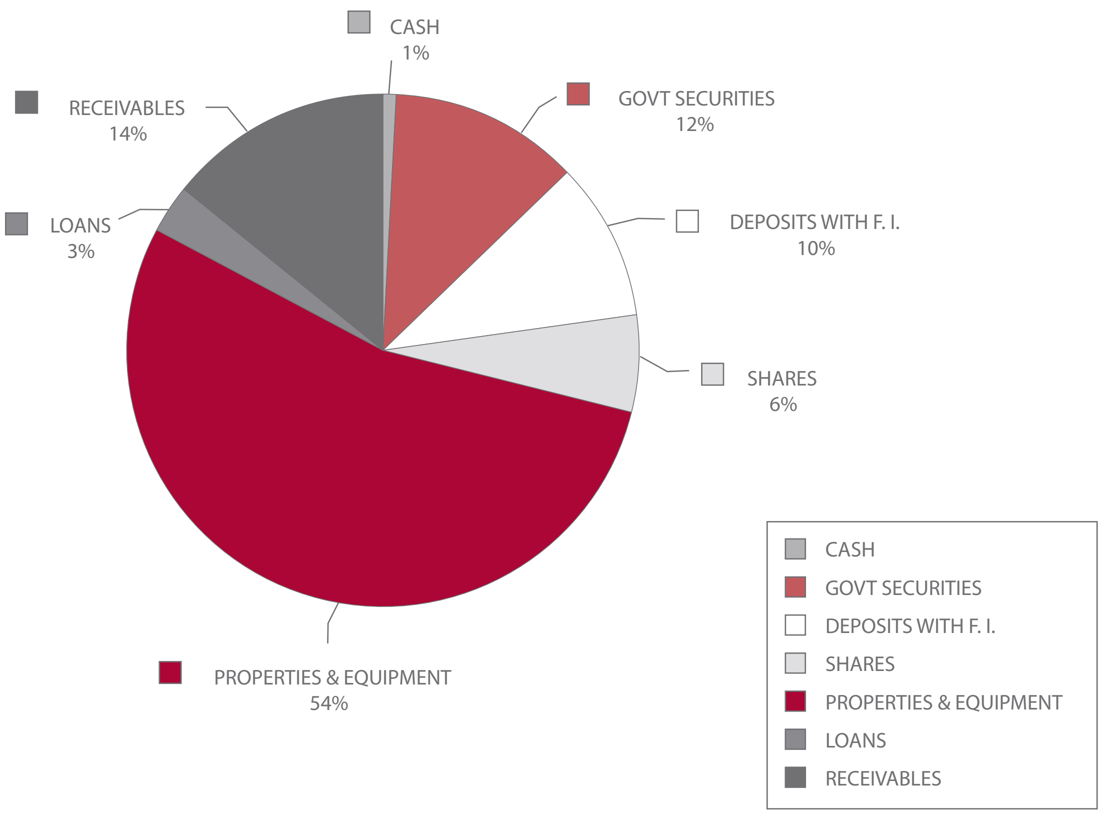
GROSS AND NET EARNED PREMIUM



INVESTMENTS/TOTAL ASSETS



DISTRIBUTION OF ASSETS 2011



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