



FIDELITY SHIELD
INSURANCE COMPANY LIMITED

2012

Annual Report & Financial Statements

Your Preferred Insurer

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)
N. Manju (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

BRANCHES

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

Zion Mall, 1st Floor, Uganda Road
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
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 2012 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 137,833,000 (2011: Shs 61,039,000) has been added to retained earnings.

The directors recommend the approval of a final dividend of Shs 90,135,720 (2011: Shs 40,561,074).

DIRECTORS

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

R. Kemoli	Chairman
S. 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 March 2013



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 or loss 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 March 2013

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 12 to 48. These financial statements comprise the statement of financial position as at 31 December 2012, 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 2012 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

22 April 2013

On behalf of the Board of Directors of Fidelity Shield Insurance Company Limited, I am happy to present to you the Annual Report and Financial Statements of the Company for the year ended 31st December, 2012.

The company's gross premium income is over a billion milestone



R. Kemoli (Chairman)

CHAIRMAN'S STATEMENT

OVERVIEW

The Country's GDP achieved about 4.7% growth, a moderate increase as compared to 4.4% growth achieved in 2011. The stringent monetary policy brought stability to local currency in relation to other foreign currencies. According to analysis by Economic Analysts, the average inflation rate dropped to 3.2% from 18.9% in 2011, due to lower fuel and food prices. The key sectors of the economy namely tourism, agriculture, manufacturing, infrastructure, information and communication have recorded improved performance in 2012. The NSE overall index improved considerably over the previous year. The market interest rate which was around 22% at the beginning of the year dropped to 11% range by December 2012.

In spite of the favourable above scenario, the Insurance Sector continues to face challenges of a seemingly competitive environment. The implementation of new guidelines on Reinsurance, Risk Management, Audit and Actuarial functions by the Insurance Regulatory Authority is a challenge to the Industry, and your Company is

not an exception. Though these guidelines will have a positive impact in the long run, its implementation in the stipulated time-frames has huge cost implications and is also a challenge to sourcing the technically trained and experienced human resources required. We are, however, confident that these short-term issues will come to pass in the course of time.

COMPANY PERFORMANCE

I am pleased to report that the Company's Gross Premium Income registered an increase of 6.7% in 2012 to Kshs.1,080 million (2011: Kshs.1,012 million) and that the underwriting results reflected encouraging signs and reflected a profit of K.shs 29 million (2011- Loss - K.shs 2.5 million). The encouraging results are attributed to the profit from motor and work injury benefit classes of business.

The investment income was K.shs 199.2 million as compared to K.shs 117.4 million in 2011. The increase was due to favourable climate from all our sources of

CHAIRMAN'S STATEMENT (continued)



A.K. Kurji
(Director)



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



R.N. Mbai (Mrs)
(Director)



A.A. Kurji
(Director)

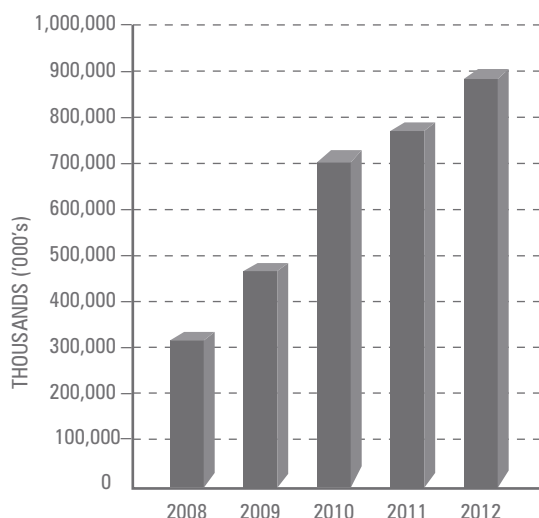


S. Ramani
(Executive Director)

investment. The resultant total comprehensive income after tax for the year was K.shs.152 million which reflects 100% growth over 2011 (K.shs.76 million). These are commendable results and management are to be congratulated on this positive effort.

The Total Assets grew by 14.2% from K.shs. 1.95 billion to K.shs 2.23 billion as at 31st December 2012. The solvency ratio of the Company was at 496% (2011- 451 %). The Shareholders' Funds increased by 14.2% from K.shs 790.4 million in 2011 to K.shs. 902.2 million in 2012.

SHAREHOLDER'S FUNDS



The Board has recommended the payment of a Dividend amounting to K.shs 90.1 million out of the net profit for the year to the Shareholders which represents an increase of 122% over the previous year's dividend (K.shs 40.6 million). I trust the Shareholders will take cognizance of management's sterling effort that enabled the Company to reward them with the enhanced dividend.

CORPORATE GOVERNANCE

The Board is responsible for the overall management, strategic direction and governance of the Company and is accountable to the Shareholders for ensuring that the Company complies with all legal, fiscal and insurance related regulations in force. To this end, the Company is committed to upholding the best international standards

CHAIRMAN'S STATEMENT (continued)

of good corporate governance practices. In carrying out its responsibilities, the Board delegates its authority to the Managing Director to oversee the day to day operations of the Company. The trust the Board has delegated to management on this principle cannot be underrated.

The Board has six Directors, four of whom are non-executive Directors (including the Chairman). Two of the Non-Executive Directors are independent. The Directors have the required skills drawn from various sectors of the economy. The Board of Directors continues to review all inspection and management reports at the quarterly Board Meetings and gives appropriate guidance and direction to the Management. The aggregate amount of emoluments paid to both executive and the Non-executive Directors for services rendered during the financial year is disclosed in note 35(v) to the financial statements for the year ended 31 December 2012. The Non-Executive Directors are paid yearly fees as well as sitting allowances for every meeting attended. The Board held 4 meetings during the year.

For effective operations, the Board has delegated some of its responsibilities to the Board Investment Committee which meets frequently and operates in line with the terms of reference set out by the Board. The Board has also set up an Audit and Compliance Committee. The process of setting up Risk Management, Actuarial Functions in line with the guidelines issued by the Insurance Regulatory Authority is in progress and is expected to be finalized by the middle of 2013.

The Board reviews reports of various management committees viz Technical, Credit Risk, Finance and Administration and provides valuable guidance in order to improve the Company's performance.

HUMAN RESOURCES DEVELOPMENT

The Company recognizes the value of Human Resources for its growth, reputation in service and long-term sustainable success. In view of the challenges ahead in implementing various requirements of the Industry and in order to be up to date on various technical and professional matters, the Company encourages and assists its staff to undertake continuous professional and development training programs to fulfill their potential. The Company continues to invest in training, and welfare programs and sponsors deserving staff to pursue further education in their career development. The staff are also given monetary incentives and promotions for successful completion of professional courses.



Staff representatives distributing foodstuffs to orphaned children during Christmas day celebrations

A number of our staff attended seminars, locally and internationally on insurance technicalities and finance related subjects. The Company recognized staff performances by immediate promotions for career development besides cash awards. Job rotation is also considered to enable individual employees to be all rounders in the Company's core business. The Company is confident that the ongoing continuous assessment, education and training will add value in our overall operations. With a view to achieve growth and improved performance, staff recruitments are done on need basis in order to strengthen the service levels and bring in a wide experience to blend in new ideas, knowledge, and broad based business practices.

CORPORATE SOCIAL RESPONSIBILITY

The Company is committed to improve the living conditions of less privileged sections of the society. The Company is mindful of the environment in which it operates and continues to focus on community development, education and public health. Our staff actively participated in all the social responsibility programs identified for support by the Company.

PROSPECTS FOR 2013

The Company is optimistic of a very conducive business environment in later part of 2013. Local investments are expected to grow whilst foreign investors are bound to bring in more resources. We will continue to focus on customers related insurance solutions, high standards of service delivery, while maintaining operational efficiencies and managing costs to ensure sustainable profitability. The Company is planning to expand the marketing wing to hitherto untapped areas and other parts of East Africa in line with its Five Year Strategic Plan

CHAIRMAN'S STATEMENT (continued)

CONCLUSION

The Company performed well in the current year under a very competitive and challenging environment. This would not have been possible without the dedicated support of all our business Producers, our loyal clients, 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. We assure them all our continued dedicated support as they grow in their businesses.

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 contribution at Board deliberations, guidance and support in the development and growth of the Company.

Richard Kemoli (FIOD MBE)
Chairman
26th March, 2013

MANAGEMENT TEAM

C. Mbae
(Manager -
Underwriting)

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

J.A. Awidhi (Ms)
(Manager -
Claims)

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

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

L. Motieri
(Branch Manager -
Eldoret)



M. Mugera
(Assistant Manager -
Accounts)

M. Naul (Mrs)
General Manager

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

S. Ramani
(Executive Director)

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

OUR PROMPT SETTLEMENT HELPS YOU TO RECOVER FROM LOSS FASTER

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December	
		2012 Shs'000	2011 Shs'000 Restated
Gross earned premiums	5	1,061,075	958,827
Less: reinsurance premium ceded		(260,179)	(187,957)
Net earned premiums		800,896	770,870
Investment income	6	199,221	117,428
Commissions earned		64,678	47,682
Other (expense)/ income	7	4,614	(1,011)
Total income		1,069,409	934,969
Claims payable		(568,848)	(570,097)
Less: amounts recoverable from reinsurers		70,875	44,553
Net claims payable	8	(497,973)	(525,544)
Operating and other expenses	9	(263,269)	(215,780)
Commissions payable		(129,967)	(116,215)
		(891,209)	(857,539)
Profit before income tax		178,200	77,430
Income tax expense	11	(40,367)	(16,391)
Profit for the year		137,833	61,039
Other comprehensive income, net of tax			
Gain on property revaluations	15	14,487	14,894
Total comprehensive income		152,320	75,933

The notes on pages 12 to 48 form are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 Dec 2012 Shs'000 Restated	As at 31 Dec 2011 Shs'000 Restated
CAPITAL EMPLOYED			
Share capital	13	300,453	300,453
Revaluation reserve	15	58,954	44,467
Retained earnings	14	452,665	404,968
Proposed dividends	12	90,136	40,561
Shareholders' funds		902,208	790,449
REPRESENTED BY:			
Assets			
Property and equipment	16	235,846	192,257
Intangible asset	17	5,414	7,840
Investment property	18	708,113	665,219
Investment in the Kenya Motor Insurance Pool		15,344	12,960
Equity investments at fair value through profit and loss	19	77,903	96,807
Mortgage loans	20	43,776	45,200
Receivables arising out of reinsurance arrangements		1,210	1,487
Receivables arising out of direct insurance arrangements		248,757	255,452
Reinsurers' share of insurance contract liabilities	21	295,441	246,201
Other receivables	22	16,258	14,679
Deferred acquisition costs	23	22,744	26,341
Government securities held to maturity	24	178,892	198,201
Deposits with financial institutions		347,288	162,784
Cash and bank balances		29,102	23,722
Total assets		2,226,088	1,949,150
Liabilities			
Insurance contract liabilities	26	785,844	705,034
Unearned premium	28	358,851	339,722
Deferred income tax	29	15,916	12,068
Income tax		21,537	2,045
Creditors arising from reinsurance arrangements		95,587	57,883
Other payables	30	46,145	41,949
Total liabilities		1,323,880	1,158,701
Net assets		902,208	790,449

The financial statements on pages 12 to 48 were approved for issue by the board of Directors on 26 March 2013 and signed on its behalf by:

R. Kemoli
Director

R. Mbai (Mrs)
Director

S.N. Sumar (Mrs)
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
Year ended 31 December 2011						
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 end of year		300,453	44,467	404,968	40,561	790,449
Year ended 31 December 2012						
At start of year		300,453	44,467	404,968	40,561	790,449
Comprehensive income						
Profit for the year		-	-	137,833	-	137,833
Other comprehensive income						
Gains on revaluation of land and buildings net of tax	15	-	14,487	-	-	14,487
Total other comprehensive income		-	14,487	137,833	-	152,320
Transactions with owners						
Dividends:						
-Final paid for 2011	12	-	-	-	(40,561)	(40,561)
-Proposed for 2012	12	-	-	(90,136)	90,136	-
Transactions with owners		-	-	(90,136)	49,575	(40,561)
At end of year		300,453	58,954	452,665	90,136	902,208

The notes on pages 12 to 48 form are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	2012 Shs'000	2011 Shs'000
Operating activities			
Cash generated from operations	34	102,340	15,369
Interest income		109,045	67,464
Income tax paid		(23,237)	(16,151)
Net cash from operating activities		188,148	66,682
Investing activities			
Purchase of property and equipment	16	(21,766)	(2,562)
Purchase of quoted shares	19	(2,323)	(5,947)
Purchase of intangible assets	17	(30)	(2,450)
Purchase of investment property	18	(145)	(64,797)
Purchase of treasury bonds		(10,000)	(43,799)
Loans advanced	20	(5,750)	(11,159)
Loans repaid	20	7,174	66,121
Proceeds from disposal of property and equipment		1,436	-
Proceeds from disposal of quoted shares		44,454	9,499
Investment in fixed deposits		29,778	132,351
Maturity of treasury bonds		10,000	14,000
Net cash generated/ (used) in investing activities		52,828	91,257
Financing activities			
Dividends paid	12	(40,561)	(9,765)
Net cash (used)/ generated from financing activities		(40,561)	(9,765)
Increase/ (decrease) in cash and cash equivalents		200,415	148,174
Movement in cash and cash equivalents			
At start of year	33	190,943	42,769
Increase/ (decrease)		200,415	148,174
At end of year	33	391,358	190,943

The notes on pages 12 to 48 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.

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

Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment

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) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the Company.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

will mainly impact the presentation of the primary statements.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2011, 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

NOTES (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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 the income statement, unless this creates an accounting mismatch.

The directors are 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. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

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, which are largely aligned between IFRSs and US GAAP, 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 application of IFRS 13 may enhance fair value disclosures in certain circumstances.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(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.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(b) Insurance contracts (continued)

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.

(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

NOTES (continued)

2 Summary of significant accounting policies (continued)

(b) Insurance contracts (continued)

II. Recognition and measurement (continued)

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).

(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.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(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.

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.

(iii) Interest income

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

NOTES (continued)

2 Summary of significant accounting policies (continued)

(f) Revenue recognition (continued)

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 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.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(g) Financial assets (continued)

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

Financial assets are derecognised 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 non-monetary 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

NOTES (continued)

2 Summary of significant accounting policies (continued)

(h) Impairment of financial assets (continued)

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

- 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.

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

NOTES (continued)

2 Summary of significant accounting policies (continued)

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

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.

(k) Foreign currency translation

(i) Functional and presentation currency

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.

(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.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(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.

(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 substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable 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:

NOTES (continued)

4 Management of insurance and financial risk (continued)

(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 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 2012

Class of business		Maximum insured loss
		Total Shs'000
Motor	Gross	16,328,986
	Net	15,427,669
Fire	Gross	69,726,780
	Net	10,435,538
Personal accident	Gross	1,890,982
	Net	604,304
Marine	Gross	4,867,599
	Net	1,568,222
Others	Gross	43,192,786
	Net	16,049,514
Total	Gross	136,007,133
	Net	44,085,247

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

NOTES (continued)

4 Management of insurance and financial risk (continued)

(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.

The Company manages these positions within a Board Investment Committee (BIC) 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 BIC 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 2012, the company had no foreign currency balances (2011: Shs Nil)

(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 Securities Exchange (NSE).

At 31 December 2012, 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 5,453,195 (2011: Shs 6,776,475) 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.

NOTES (continued)

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty 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 counterparty, or groups of counterparty. 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 Board Investment Committee (BIC) and ratified quarterly by the Board of Directors.

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. BIC 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 BIC 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+ (2011: 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.

NOTES (continued)

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Credit risk (continued)

Maximum exposure to credit risk before collateral held			
	Credit rating or classification	2012 Shs'000	2011 Shs'000
Investment in the Kenya Motor Insurance Pool	Group 2	15,344	12,960
Other receivables	Group 2	13,490	13,699
Receivables arising out of reinsurance arrangements	See note below	1,210	1,487
Receivables arising out of direct insurance arrangements	See note below	248,757	255,452
Reinsurers' share of insurance liabilities	Group 2	295,441	246,201
Government securities held to maturity	B+	178,892	198,201
Mortgage loans	Group 3	43,776	45,200
Deposits with financial institutions	Group 2	347,288	162,784
Bank balances	Group 2	29,102	23,722
		1,173,300	959,706

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 (2011: 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

NOTES (continued)

4 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

Credit risk (continued)

Financial assets that are past due or impaired

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

	2012 Shs'000	2011 Shs'000
Past due but not impaired	248,757	255,452
Impaired	84,412	81,586
Gross	333,169	337,038
Less: allowance for impairment	(84,412)	(81,586)
Net	248,757	255,452

Allowance for impairment

At start of year	(81,586)	(68,507)
Impairment allowance write off	26,511	-
Impairment allowance for the period	(29,337)	(13,079)

At end of year	(84,412)	(81,586)
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Receivables arising out of reinsurance arrangements are summarised as follows;

	2012 Shs'000	2011 Shs'000
Past due but not impaired	1,210	1,487
Impaired	-	1,774
Gross	-	3,261
Less: allowance for impairment	-	(1,774)
Net	1,210	1,487

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;

	2012 Shs'000	2011 Shs'000
Past due but not impaired:		
- by up to 30 days	54,977	61,855
- by 31 to 60 days	52,548	57,816
- by 61 to 150 days	74,354	69,969
- over 151 days	66,888	65,812

Total past due but not impaired	248,767	255,452
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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	-	-
- by 31 to 60 days	1,210	1,487
- by 61 to 150 days	-	-
- over 151 days	-	-

Total past due but not impaired	1,210	1,487
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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	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Individually assessed impaired receivables				
- brokers	30,889	47,326	-	1,774
- agents	23,179	18,136	-	-
- insurance companies	20,155	6,794	-	-
- direct clients	10,189	9,330	-	-
	84,412	81,586	-	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 2012:	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Liabilities						
Insurance contract liabilities	42,323	96,407	631,990	15,123	-	785,843
Creditors arising from reinsurance arrangements	8,841	9,998	76,748	-	-	95,587
Other payables	8,445	9,235	11,487	8,082	-	37,249
Total financial liabilities	59,609	115,640	720,225	23,205	-	918,679

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

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 2012.

31 December 2012

	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	77,903	-	-	77,903

31 December 2011

Assets Financial assets at fair value through Profit or loss

- Equity investments	96,807	-	-	96,807
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There are no financial liabilities measured at fair value through profit and loss as at 31 December 2012 (2011: Nil).

NOTES (continued)

4 Management of insurance and financial risk (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 2012	Shs'000	Shs'000	Shs'000	Shs'000
Equity instruments at fair value through profit or loss	-	77,903	-	77,903
Government and other securities held-to-maturity	-	-	178,892	178,892
Mortgage Loans	43,776	-	-	43,776
Receivables arising out of reinsurance arrangements	1,210	-	-	1,210
Receivables arising out of direct insurance arrangements	248,757	-	-	248,757
Other receivables	16,258	-	-	16,258
Deposits with financial institutions	347,288	-	-	347,288
Cash and cash equivalents	29,102	-	-	29,102
	686,391	77,903	178,892	943,186
At 31 December 2011				
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

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 2012 and 2011 is as shown on note 4 (b) on liquidity risk.

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 2012 and 2011 is presented on note 13. The table below summarises the solvency margin of the Company at 31 December:

	2012 Shs'000	2011 Shs'000
Individually assessed impaired receivables		
i. Admitted assets	1,628,461	1,380,139
ii. Admitted liabilities plus Shs 10million	1,038,439	922,499
iii. Admitted liabilities plus 15% of the net premium income during the preceding financial year	1,149,403	1,011,862
Solvency margin (excess of admitted assets over the higher of (ii) or (iii))	479,058	368,277

5 Gross earned premiums

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

	2012 Shs'000	2011 Shs'000
General insurance business:		
Motor	660,131	633,404
Fire	150,724	110,358
Marine	45,813	33,356
Personal accident	21,021	17,573
Theft	51,990	42,413
Workmen compensation	93,596	97,823
Other	37,800	23,900
	1,061,075	958,827

NOTES (continued)

	2012 Shs'000	2011 Shs'000
6 Investment income		
Interest from government securities	26,910	14,972
Bank deposit interest	34,397	12,895
Mortgage loan interest receivable	7,386	6,723
Rental income from investment properties	40,352	32,874
Fair value gains on investment properties (Note 18)	64,749	78,479
Dividends receivable from equity investments	2,200	4,155
Gains/(losses) on sale of quoted shares	3,427	(911)
Fair value gains/(losses) on financial assets at fair value through profit or loss (note 19)	19,800	(31,759)
	199,221	117,428
7 Other (expense)/ income		
Kenya Motor Insurance Pool	2,352	(1,593)
Gain on disposal of property and equipment	413	-
Other	1,849	582
	4,614	(1,011)
8 Net Claims payable		
Claims payable by principal class of business:		
Motor	430,093	435,592
Fire	7,442	15,515
Marine	5,143	2,137
Workmen Compensation	34,287	43,353
Public Liability	4,462	7,726
Miscellaneous	16,546	21,221
	497,973	525,544

NOTES (continued)

	2012 Shs'000	2011 Shs'000
9 Operating and other expenses		
Staff costs (note 10)	143,103	123,359
Auditors' remuneration (inclusive VAT)	3,025	2,903
Depreciation (note 16)	19,849	17,464
Amortisation (note 17)	2,456	2,450
Impairment charge for doubtful receivables		
- Premium debtors	29,337	13,079
- Other debtors	-	(1,713)
Operating lease rentals - land and buildings	7,963	7,323
Repairs and maintenance expenditure	1,355	307
Other	56,181	50,608
	263,269	215,780

10 Staff costs

Staff costs include the following:

- Salaries and wages	116,837	101,006
- Social security benefit costs	215	203
- Retirement benefit costs – defined contribution plan	8,078	7,039

11 Income tax expense

Current tax	42,728	18,756
Deferred income tax (Note 29)	(2,361)	(2,365)
	40,367	16,391

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:

	2012 Shs'000	2011 Shs'000
Profit before tax	178,200	77,430
Tax calculated at a tax rate of 30%	53,460	23,229
Less: tax effect of income not subject to tax	(29,538)	(24,790)
Add: tax effect of expenses not deductible for tax purposes	16,445	17,952
Tax charge	40,367	16,391

NOTES (continued)

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 2012 of Shs. 30.00 (2011: Shs 13.50) per share amounting to a total of Shs 90,135,720 (2011: 40,561,074) is to be proposed at the annual general meeting on 23 April

2013. 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 2011	3,004	300,453
Balance at 1 January 2012	3,004	300,453
Balance at 31 December 2012	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 prop-

erties of Shs 423,430,010 (2011: Shs 358,680,760) 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.

	2012 Shs '000	2011 Shs '000
At beginning of year	44,467	29,573
Revaluation gains – gross (Note 16)	20,696	21,277
Deferred tax on revaluation gains (Note 29)	(6,209)	(6,383)
At end of year	58,954	44,467

NOTES (continued)

16 Property and equipment

	Land & Buildings	Furniture & equipment	Motor Vehicles	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2011				
Cost or valuation	140,110	86,743	10,690	237,543
Accumulated depreciation	(2,053)	(44,888)	(4,720)	(51,661)
Net book amount	138,057	41,855	5,970	185,882
At 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	161,387	89,305	10,690	261,382
Accumulated depreciation	(4,107)	(57,626)	(7,392)	(69,125)
Net book amount	157,280	31,679	3,298	192,257
Year ended 31 December 2012				
Opening net book amount	157,280	31,679	3,298	192,257
Additions	6,904	11,662	3,200	21,766
Transfer from investment property (Note !8)	22,000	-	-	22,000
Fair value gains on revaluation	20,696	-	-	20,696
Disposals	-	(845)	(4,095)	(4,940)
Depreciation charge	(2,493)	(14,960)	(2,396)	(19,849)
Accumulated depreciation on disposal	-	845	3,071	3,916
Net book amount	204,387	28,381	3,078	235,846
At 31 December 2012				
Cost or valuation	210,987	100,122	9,795	320,904
Accumulated depreciation	(6,600)	(71,741)	(6,717)	(85,058)
Net book amount	204,387	28,381	3,078	235,846

Land and Buildings were valued on 31st December 2012 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:

	2012 Shs'000	2011 Shs'000
Cost	126,767	97,863
Accumulated depreciation	(6,600)	(4,107)
Net book amount	120,167	93,756

NOTES (continued)

17 Intangible Assets – Computer Software

	2012 Shs'000	2011 Shs'000
At 31 December 2012		
At beginning of year	7,840	7,840
Additions	30	2,450
Amortisation charge	(2,456)	(2,450)
Net book amount	5,414	7,840
At 31 December 2012		
Cost	12,280	12,250
Accumulated amortisation	(6,866)	(4,410)
Net book amount	5,414	7,840

18 Investment property

At start of year	665,219	521,943
Additions	145	64,797
Transfer to property and equipment (Note 16)	(22,000)	-
Fair value gains	64,749	78,479
At end of year	708,113	665,219

The Company's investment properties were valued as at 31 December 2012 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 2,887,909 (2011: Shs 2,306,387).

19 Equity investments at fair value through profit and loss

	2012 Shs'000	2011 Shs'000
<u>Quoted investments:</u>		
At start of year	96,807	133,029
Additions	2,323	5,947
Disposals	(41,027)	(10,410)
Fair value gain/(loss) on revaluation	19,800	(31,759)
At end of year	77,903	96,807

All quoted investments are classified as current assets.

NOTES (continued)

20 Mortgage Loans

	2012 Shs'000	2011 Shs'000
<u>Mortgage loans:</u>		
At start of year	45,200	100,162
Loans advanced	5,750	10,750
Interest due	-	409
Loan repayments	(7,174)	(66,121)
At end of year	43,776	45,200
<u>Maturity profile of mortgage loans:</u>		
Loans maturing:		
Within 1 year	1,799	10,910
In 1-5 years	15,780	4,829
In over 5 years	26,197	29,461
At end of year	43,776	45,200
<u>Lending commitments:</u>		
Mortgage loans approved by the Directors but not advanced at 31 December 2012	8,920	-

21 Reinsurers' share of insurance liabilities

Reinsurers' share of:		
- unearned premium (Note 28)	86,599	57,469
- notified claims outstanding (Note 27)	172,267	155,427
- claims incurred but not reported (Note 27)	36,575	33,305
At end of year	295,441	246,201

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

	2012 Shs'000	2011 Shs'000
Due from related parties (Note 35)	12,269	10,248
Prepayments	1,940	980
Utilities and rental deposit	828	2,103
Others	1,221	1,348
At end of year	16,258	14,679

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

NOTES (continued)

23 Deferred acquisition cost

	2012 Shs'000	2011 Shs'000
Deferred acquisition cost	22,742	26,341
At start of year	26,341	23,827
Additions	22,744	26,341
Amortisation charge	(26,341)	(23,827)
At end of year	22,744	26,341

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	118,202	54,027
- In 1-5 years	20,528	105,104
- After 5 years	40,162	39,070
	178,892	198,201

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:

	2012 %	2011 %
Mortgage loans	13.50	12.52
Government securities	14.07	12.58
Deposits with financial institutions	13.59	9.86

Deposits with financial institutions have an average maturity of 3 months (2011: 6 months).

26 Insurance contract liabilities

	2012 Shs'000	2011 Shs'000
Short term non-life insurance contracts		
- claims reported and claims handling expenses	672,614	601,928
- claims incurred but not reported	113,230	103,106
Total – short term	785,844	705,034

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

NOTES (continued)

26 Insurance contract liabilities (continued)

Accident year	2008	2009	2010	2011	2012	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Estimate of ultimate claims costs:						
– at end of	347,578	392,479	386,053	451,490	418,429	1,996,029
– one year later	419,201	517,634	498,879	507,457	-	-
– two years	408,226	507,060	534,848	-	-	-
– three years	409,498	528,882	-	-	-	-
– four years	415,562	-	-	-	-	-
Current estimate of cumulative claims	415,562	528,882	534,848	507,457	418,429	2,405,178
Less: cumulative payments to date	(397,688)	(484,013)	(469,606)	(400,679)	(188,280)	(1,940,266)
Liability in the statement of financial position	17,874	44,869	65,242	106,778	230,149	464,912
Liability in respect of prior years						207,702
IBNR						113,230
Total gross claims liability included in the statement of financial position						785,844

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 2012 and 2011 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.

NOTES (continued)

27 Movements in insurance liabilities and reinsurance assets

Short term insurance business

	2012			2011		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
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 beginning of year	705,034	(188,732)	516,302	690,166	(222,935)	467,231
Cash paid for claims settled in year	(488,038)	50,765	(437,273)	(556,971)	80,498	(476,473)
Increase in liabilities						
- arising from current year claims	423,234	(94,957)	328,277	411,356	(66,203)	345,153
- arising from prior year claims	145,614	24,082	169,696	160,483	19,908	180,391
Total at end of year	785,844	(208,842)	577,002	705,034	(188,732)	516,302
Notified claims	672,614	(172,267)	500,347	601,928	(155,427)	446,501
Incurred but not reported	113,230	(36,575)	76,655	103,106	(33,305)	69,801
Total at the end of year	785,844	(208,842)	577,002	705,034	(188,732)	516,302

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:

	2012			2011		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of year	339,722	(57,469)	282,253	286,683	(39,987)	246,696
Increase in the period (net)	19,129	(29,130)	(10,001)	53,039	(17,482)	35,557
At end of year	358,851	(86,599)	272,252	339,722	(57,469)	282,253

NOTES (continued)

29 Deferred income tax

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

	31 December 2012 Shs'000	31 December 2011 Shs'00
At start of year	(12,068)	(8,050)
Income statement credit (Note 11)	2,361	2,365
Charge to Other Comprehensive Income (OCI)	(6,209)	(6,383)
At end of year	(15,916)	(12,068)

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

Year ended 31 December 2012

	1.1.12 Shs'000	Cr to P/L Shs'000	Charged to *OCI Shs'000	31.12.12 Shs'000
Property and equipment: - on historical cost basis	4,258	2,423	-	6,681
Property and equipment: - on revaluation surplus	(19,057)	-	(6,209)	(25,266)
Provisions	2,731	(62)	-	2,669
Net deferred tax asset/ (liability)	(12,068)	2,361	(6,209)	(15,916)

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)

30 Other payables

	2012 Shs'000	2011 Shs'000
Amounts due to related companies (Note 35)	3,417	614
Accrued expenses	4,714	3,599
Leave accrual	8,895	9,102
Other liabilities	29,119	28,634
	46,145	41,949

NOTES (continued)

31 Contingent liabilities

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

32 Commitments

Operating lease commitments

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

	2012 Shs'000	2011 Shs'000
Not later than 1 year	1,147	1,640
Later than 1 year and not later than 5 years	4,279	782
Later than 5 years	58	-
	5,484	2,422

33 Cash and cash equivalents

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

	2012 Shs'000	2011 Shs'000
Cash and bank balances	29,102	23,722
Deposits with financial institutions with 3 months maturity	342,288	128,106
Treasury bills with less than 91 days maturity	19,968	39,115
	391,358	190,943

NOTES (continued)

34 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2012 Shs'000	2011 Shs'000
Profit before tax	178,200	77,430
Adjustments for:		
Interest income	(109,045)	(67,464)
Depreciation (Note 16)	19,849	17,464
Amortisation charge (Note 17)	2,456	2,450
Gain on sale of equipment	(413)	-
Gain on sale of quoted shares	(3,427)	911
Change in fair value of investment property (Note 18)	(64,749)	(78,479)
Change in fair value of quoted shares (Note 19)	(19,800)	31,759
Amortisation of government securities	63	255
Changes in:		
– technical provisions	50,699	84,628
– trade and other payable	41,900	(4,567)
– trade and other receivables	6,607	(49,018)
Cash generated from operations	102,340	15,369

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	2012 Shs'000	2011 Shs'000
Gross earned premium:		
– Related parties – Directors	235	320
– Related parties – other	362	4,028
Net claims incurred		
– Related parties	2,061	659

NOTES (continued)

35 Related party transactions (continued)

(ii) Outstanding balances with related parties

	2012 Shs'000	2011 Shs'000
Mortgages receivable from related parties	12,398	15,096
Amounts due from related parties		
Key management personnel	-	407
Loans advanced to staff	8,689	7,629
Equatorial Commercial bank	3,580	-
Southern Shield Holdings	-	2,212
	12,269	10,248
Amount due to related parties		
Equatorial Commercial bank	3,310	614
Southern Shield Holdings	107	-
	3,417	614

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

	2012 Shs'000	2011 Shs'000
At start of year	15,096	15,587
Loans advanced during the period	-	2,000
Loan repayments received	(2,698)	(2,491)
At end of year	12,398	15,096

(iv) Key management compensation

Salaries and other short-term employment benefits	47,254	39,287
Termination benefits	2,778	2,039
	50,032	41,326

(v) Directors' remuneration

Directors' fees	3,628	3,680
Other remuneration (included in key management compensation above)	23,584	21,474
	27,212	25,154

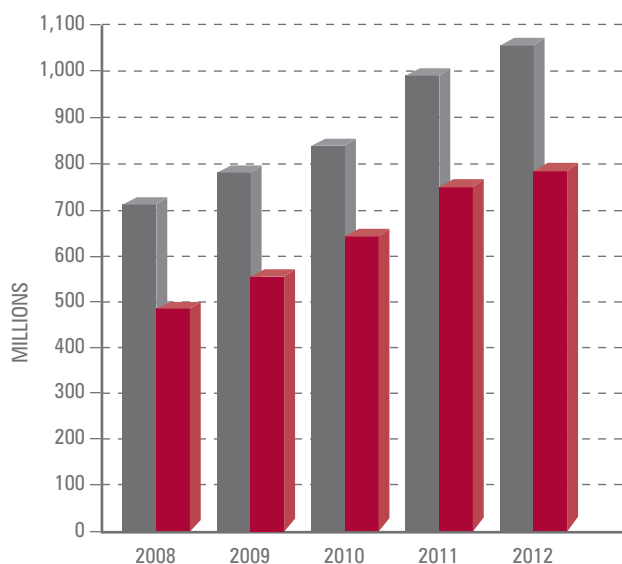
GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Class of Insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Comm	Personal Accident	Theft	Workmen's Comp	Miscellaneous	2012 Total
Gross premiums written	24,855	18,973	150,667	7,365	47,985	233,725	402,786	21,243	55,440	104,518	12,648	1,080,205
Change in gross UPB	(4,457)	(1,844)	(17,072)	(434)	(2,172)	9,569	14,051	(222)	(3,450)	(10,922)	(2,177)	(19,130)
Gross earned premiums	20,398	17,129	133,595	6,931	45,813	243,294	416,837	21,021	51,990	93,596	10,471	1,061,075
Less: reinsurance payable	(15,844)	(6,107)	(110,628)	(2,815)	(29,348)	(12,764)	(19,005)	(14,659)	(37,631)	(2,268)	(9,110)	(260,179)
Net earned premiums	4,554	11,022	22,967	4,116	16,465	230,530	397,832	6,362	14,359	91,328	1,361	800,896
<i>Net written premiums</i>												
Gross claims paid	(3,817)	(6,774)	(9,647)	(7,404)	(26,515)	(161,043)	(204,928)	(16,348)	(21,622)	(27,374)	(2,566)	(488,038)
Change in gross o/s claims	2,232	4,424	(15,278)	4,256	(3,182)	(24,241)	(46,066)	9,641	(5,532)	(8,661)	1,596	(80,811)
Less: Reinsurance recoverable	2,118	110	19,723	(1,314)	24,554	(71)	6,256	(1,396)	19,173	1,748	(25)	70,876
Net claims incurred	533	(2,240)	(5,202)	(4,462)	(5,143)	(185,355)	(244,738)	(8,103)	(7,981)	(34,287)	(995)	(497,973)
Commissions receivable	5,101	1,668	32,748	181	7,626	656	1,109	3,093	9,133	1	3,363	64,679
Commissions payable	(3,870)	(3,027)	(24,244)	(876)	(7,247)	(23,395)	(40,515)	(3,062)	(4,521)	(18,223)	(987)	(129,967)
Expenses of management	(4,800)	(3,664)	(29,095)	(1,422)	(9,267)	(45,135)	(77,784)	(4,103)	(10,705)	(20,184)	(2,442)	(208,601)
Total expenses and commissions	(3,569)	(5,023)	(20,591)	(2,117)	(8,888)	(67,874)	(117,190)	(4,072)	(6,093)	(38,406)	(66)	(273,889)
Underwriting profit/(loss)	1,518	3,759	(2,826)	(2,463)	2,434	(22,699)	35,904	(5,813)	285	18,635	300	29,034

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

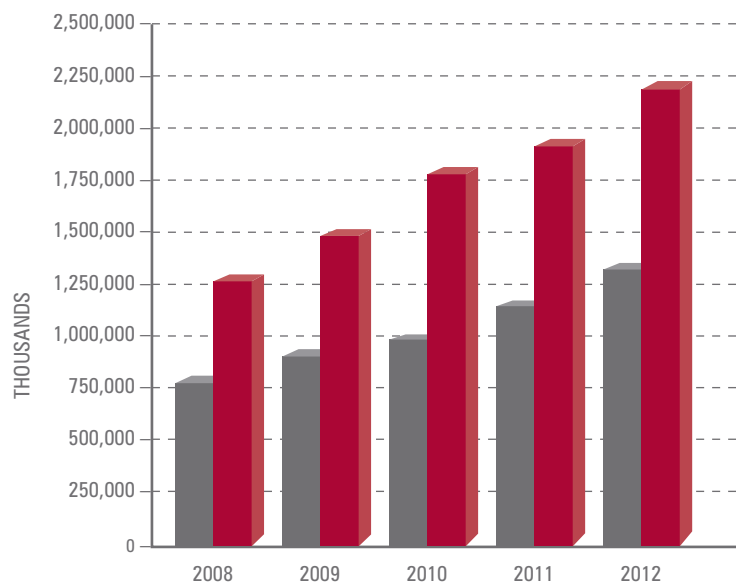
Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Comm	Personal Accident	Theft	Workmen's Comp	Miscellaneous	2011 Total
Gross premiums written	15,079	14,918	103,996	5,946	37,688	276,828	399,108	15,979	43,341	90,605	8,377	1,011,865
Change in gross UPB	(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)

GROSS AND NET EARNED PREMIUM



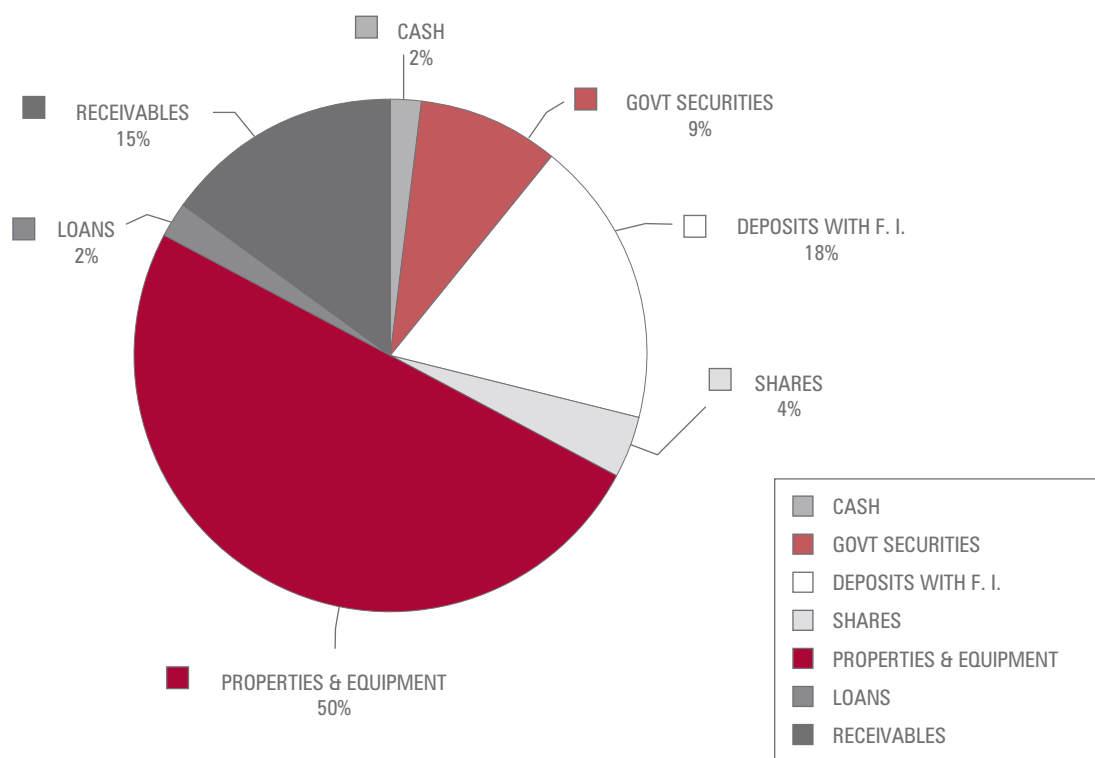
■ GROSS PREMIUM
■ NET EARNED PREMIUM

INVESTMENTS/TOTAL ASSETS



■ INVESTMENTS
■ TOTAL ASSETS (Including investments)

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Fax: 4445699
Email: info@fidelityshield.com

MOMBASA BRANCH

Fidelity Shield Insurance House
Kaunda Street
Tel: +254 041 2312651/2/3/4
Fax: 041 2221098
Email: fsic@msa.fidelityshield.com

ELDORET BRANCH

Zion Mall, 1st Floor
Along Uganda Road
Tel: +254 053 2030393
Fax: 053 2063581
Email: fsic@eldoret.fidelityshield.com

KISUMU BRANCH

Kenya Re Plaza (Wedco Centre)
Shop Unit 2, Block B
Oginga Odinga Street
Tel: +254 057 2021739
Fax: 057 2026421
Email: fsic@kisumu.fidelityshield.com

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