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Company Information

Board of directors	Mr. R. C. Kantaria	- Chairman
	Mr. S. K. Shah	
	Mr. A. R. Kantaria	
	Mr. D. S. Bid	
	Mr. D. J. Naran	
	Mr. D. Kapila	
Executive management	Mrs. Rita Thatthi	- Principal Officer / CEO
	Ms. Eva Wambui	- Claims Manager
	Ms. Winfred Muoki	- Legal Manager
	Mr. Crispus Gisemba	- Underwriting Manager
	Mrs. Preeti Shah	- Risk Manager
	Mr. Thomas Njoroge	- IT Manager
	Mr. George Omondi	- Internal Auditor
	Mrs. Fatema Tayebjee	- Accounts Manager
	Mr Steve Ogunde	- Reinsurance Manager

Company secretary

N P Kothari
Certified Public Secretaries (Kenya)
P.O. Box 30633 - 00100
Nairobi

Head office and registered office

Plot L.R. No. 209/2259/1
Tausi Court, Tausi Road
Off Muthithi Road, Westlands
P.O. Box 28889, 00200, Nairobi Kenya.
Tel: 3746602/3/17
Mobile: 0729145888/0735145020
Fax: 3746618

Independent auditor

RSM Ashvir
Certified Public Accountants
1st Floor, Reliance Centre,
Woodvale Grove, Westlands
P.O. Box 349, 00606
Nairobi, Kenya.

Principal banker

Prime Bank Ltd, Nairobi.

Legal advisors

Oraro and Company Advocates,
ACK Garden House,
Nairobi.

Inamdar and Inamdar Advocates,
Sea View Plaza,
Mombasa.

Macharia Mwangi & Njeru,
ACK Garden Annex,
Nairobi.

Mucheru Oyatta and Associates Advocates,
Capitol Hill Towers,
Nairobi.

E W Njeru and Company Advocates,
Kadherboy Building
Mombasa.

Muchui & Company Advocates
Queensway House,
Nairobi.

M/s Mandla & Sehmi Advocates
Queensway House
Nairobi

BOARD DIRECTORS

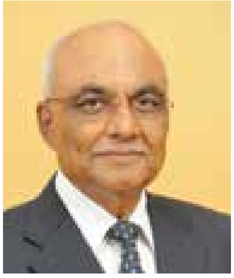
Rasik Kantaria

Mr. Rasik Kantaria joined the Tausi Board in 1993 and was elected Chairman in March 2006. A Bachelor of Science (Economics) graduate, Mr. Kantaria is also the Chairman of Prime Bank Limited, Leisure Lodge Beach and Golf Resort and First Merchant Bank, Malawi. He is a Director of Deposit Protection Fund Board of Kenya.

Dilesh S. Bid

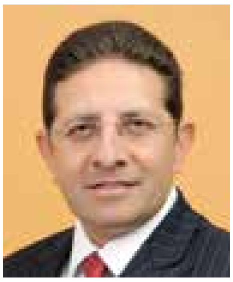
Mr. Dilesh S. Bid joined the Tausi Board in September 2009. He has 30 years experience in the insurance industry and has served on the executive Board of the Association of Insurance Brokers of Kenya for over 10 years. Mr. Bid was appointed in 2008 by the Insurance Regulatory Authority to serve as a member of the Industry Risk Evaluation Committee; which position he currently holds.

Shantilah Shah



Mr. Shantilal Shah joined the Tausi Board in May 2005 and chairs the Audit Board Committee of the Company. A Bachelor of Commerce (Honours) graduate, Mr. Shantilal Shah is an FCA(Chartered Accountant, UK), an FCPA (Certified Public Accountant, Kenya) and a CPS (Certified Public Secretary, Kenya). He is also a Director of Prime Bank Limited.

Amar Kantaria



Mr. Amar Kantaria joined the Tausi Board in June 2007 and chairs the Asset/Liability Board committee of the Company. A Bachelor of Arts (Honours)graduate, Mr. Amar Kantaria is also an MBA in International Management. Currently the Executive Director of Prime Bank Limited, Mr. Kantaria is also a Director of Kenya Community Development Fund and Treasurer of the Rotary Club Nairobi.

Diamond Jamal Naran

Mr. Diamond Jamal Naran joined the Tausi board in July 2010. He is a fellow of the Chartered Certified Accountants, UK (FCCA) and an Associate of the Australian Society of Certified Practising Accountants (ASA, Australia). He is a member of Certified Public Accountants of Kenya (CPA(K) and Certified Public Secretaries of Kenya (CPS(K). He has worked as a Group Accountant for Milling Industries Limited, a large group of companies in the animal feeds Industry in Australia and is a former Executive Partner of PKF Kenya a position he held from August 1988 to December 2009 when he retired.

Dinesh Kapila

Mr Dinesh Kapila joined the Board in November 2012, and is a Barrister at Law from Lincoln's Inn, England, advocate of the High Court of Kenya, partner with D.V Kapila & Co., a legal practitioner in corporate, commercial and conveyancing matters. Has served on AG's Task Force on companies, been a member of committees of Nairobi Securities Exchange, advised on privatization as a member of Parastatal Reform Program Committee of GOK, and is on the board of Kenya Airways and numerous other companies.

EXECUTIVE MANAGEMENT

From left to right: *George Omondi, Crispus Gisemba, Preeti Shah, Eva Wambui, Rita Thatthi, Fatema Taybejee, Winnie Muoki, Steve Ogunde, Thomas Njoroge*

CHAIRMAN'S STATEMENT

RASIK Kantaria
Chairman

It is my pleasure, on behalf of the Board of Directors, to present the Annual Report and financial statements of Tausi Assurance Company Limited for the year ended 31st December 2013.

The Company has run through two years of its Strategic Plan, which is from 2012 to 2016, and has achieved the targets set up to the year 2013. The gross premium underwritten was Ksh. 803m compared to Ksh.727m in 2012 representing a growth of 10%, which was in line with the Company strategy of underwriting good quality business .The net premium underwritten grew by 14% from Ksh. 441m to Ksh. 506m due to increased retention of the business underwritten.

The gross profit increased by 31% from Ksh.197m to Ksh.259m, which attests to the sound strategy of "growth with profit". The underwriting profit is impressive at ksh.103m in 2013 compared to Ksh.55m in the year 2012. In the last five years, the Company has made underwriting profits and our objective is to continue this trend so as to sustain its operations over the long term.

The investment income declined by 8% from Ksh. 151m in 2012 to Ksh. 143m in 2013 due to the reduced interest rates in the market. The commissions earned increased by 17% from Ksh.85m in 2012 to Ksh.99m in 2013.

The gross claims payable dropped from Ksh. 374m in 2012 to Ksh.314m in 2013, and the claims ratio from 55% to 45%. This was due to the effective risk management and internal control procedures in place. The expense ratio increased marginally from 35% to 37%.

The cash flow for 2013 was excellent showing a net increase of Ksh.97.6m over 2012. This is a positive indicator that the Company's core business operation is able to sustain itself and cover the day to day needs of the Company.

The shareholders fund increased by 26% from Ksh. 635m to Ksh.797m and the total assets increased to Ksh. 2.1billion in 2013 from Ksh.1.8 billion.

The paid up capital of the Company has been increased from Ksh. 396m to Ksh. 502m through a bonus share issue. A dividend of Ksh.50m was issued during 2013.

The authorized capital was increased to Ksh.600m from Ksh.400m.

Going forward, I am confident that the Company will fully achieve its laid out strategies and goals and continue adding shareholder value. Our commitment to deliver on our promise to our esteemed customers is stronger than ever as we believe in putting our customers first. Thanks to their support we have come a long way.

I wish to express my gratitude to my fellow directors and the management and staff of the Company for their dedication and tireless efforts.

Finally, I thank the Insurance Regulatory Authority and other business associates for their cooperation and support throughout the year.

RASIK KANTARIA
Chairman

STATEMENT OF CORPORATE GOVERNANCE

Tausi Assurance Company Limited is committed to the principles of Corporate Governance. The Board of Directors is accountable to the Shareholders for ensuring that the company complies with the law, high standard of corporate governance and business ethics.

Tausi Assurance Company Limited has complied with the law and the principles and practice of corporate governance in Kenya.

BOARD OF DIRECTORS

The Board consists of 6 non-executive directors; one third of which are independent. The Board is known for their experience, skills and competencies in the fields of banking, finance, accounting, business, insurance and law.

BOARD MEETINGS

The Board of Directors meets at least four times in a year and the meetings are chaired by a Chairman, who is a non-executive director. The directors are provided with all available information in respect of items to be discussed in all the meetings of the Board prior to the meeting.

All directors are required to declare any conflict of interest for recording in the minutes and to abstain from voting in any matter where their personal interest would conflict with interests of the Company.

PRIMARY RESPONSIBILITIES OF THE BOARD

The Board is responsible for establishing the long-term goals of the Company and ensuring strategic objectives and plans are established to achieve those goals. It ensures that the management structures are in place to achieve these objectives. They guide the implementation of strategic decisions and actions plus advise management as appropriate.

The Board is responsible for the review and adoption of annual budgets, the financial performance of the company plus monitoring Company performance and results on a monthly basis. They ensure the preparation of quarterly financial statements and annual financial statements, communication and disclosure of information to shareholders.

The Board is responsible for management of risk, overseeing implementation of adequate control systems and relevant compliance with the law, governance, accounting and auditing standards. It is responsible for ensuring that the Company remains viable, sustainable and competitive while maintaining and increasing shareholder value.

BOARD COMMITTEES

The Board has constituted various board committees as per the board charter. These committees as shown below; assist the Board in the discharge of its responsibilities including monitoring key activities in the Company.

BOARD ASSET LIABILITY COMMITTEE

The asset liability committee consists of two non-executive directors; Mr. Amar Kantaria (Chairman) and Mr. Diamond Jamal. It is responsible for investments of assets as per the investment policy and as per the requirements of the Insurance Act. This committee is also responsible for the management of assets and liabilities to achieve the Company's financial objectives and for formulating the framework that ensures the Company adheres to the solvency requirements, meets its cash flow needs and capital requirements. It is responsible for setting the Company's risk or reward objectives.

BOARD HUMAN RESOURCE AND ETHICS COMMITTEE

This committee also consists of two non-executive directors; Mr. Diamond Jamal (Chairman), Mr. Dilesh Bid and the chief executive officer, Mrs. Rita Thatthi. It is responsible for the recruitment of persons in control functions and senior management positions. Its responsibilities include overseeing the implementation of the human resource policy. This committee is responsible for addressing succession planning and assessing yearly evaluation recommendations. It addresses matters reported on ethical concerns, compliance concerns or potential breaches or violations of the same.

BOARD NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

This committee consists of three non-executive directors; Mr. Diamond Jamal (Chairman), Mr. Shantilal K. Shah, Mr. Dilesh Bid and the chief executive officer, Mrs. Rita Thatthi. It is responsible for determining, with agreed terms of reference, the Company policy on nomination procedures and specific remuneration packages and any compensation for the principal officer and executive directors. This committee is responsible for the scrutiny and evaluation of declarations made by directors before their appointment or reappointment or election of directors by shareholders. This committee ensures succession planning and board continuity. It is also responsible for addressing corporate governance matters in the Company.

BOARD RISK MANAGEMENT COMMITTEE

This committee consists of two non-executive directors; Mr. Dilesh Bid (Chairman), Mr. Amar Kantaria and the risk manager, Preeti Shah. The committee is responsible for ensuring the effective operation of the risk management system by performance of specialized analysis and quality reviews. It reports on details of risk exposures and actions being taken to manage the exposures. It also advises on risk management decisions in relation to strategic and operational matters like corporate strategy. The risk manager reports to this committee. This committee also addresses policyholder protection matters including periodic review of the status of policyholders' complaints. The compliance manager reports to this committee on key compliance issues.

BOARD AUDIT COMMITTEE

This committee consists of two non-executive directors; Mr. Shantilal K. Shah (Chairman) and Mr. Dilesh Bid. This committee is responsible for overseeing the financial statements, financial reporting and disclosure processes. This committee is responsible for reviewing annual financial statements before they are submitted to the Board. Their responsibility includes reviewing the effectiveness and reliability of management information systems, risk and internal control systems, plus the efficiency and effectiveness of both external and internal audit. They ensure the efficient functioning of the internal audit department and the review of its reports. The Internal Auditor reports to this committee. The committee monitors the progress made in rectification of irregularities and changes in processes where deficiencies are reported. The committee ensures the independence of the external auditors and review of their reports. This committee discusses and agrees with the external auditors the scope, nature and priorities of external audit. The audit committee advises the Board in respect of any issues relevant to the appointment, remuneration, resignation and/or dismissal of the external auditors.

EXECUTIVE COMMITTEE

This committee consists of the chief executive officer and the executive management of the Company. The committee is chaired by the chief executive officer. The committee is responsible for the execution of Board policies and implementation of the strategic plan and Board directions. It is responsible for ensuring implementation of internal control systems, the risk management policy and addressing matters arising in the daily operations of the Company. Any communication from the Board and the Insurance Regulatory Authority is also addressed through this committee.

INTERNAL CONTROLS

The Board has the collective responsibility of the Company's internal controls and for reviewing their effectiveness.

SUPPLY OF INFORMATION TO DIRECTORS AND ACCESS TO PROFESSIONAL ADVICE

The Directors have access to any Company information and are provided with all the information needed to carry out their duties and responsibilities fully and effectively. All Directors are entitled to seek independent professional advice concerning the affairs of the Company at its expense.

ACCOUNTABILITY AND AUDIT

The Board presents a balanced and understandable assessment of the Company's financial position and prospects. It also discloses to shareholders any information that would materially affect either the value or worth of their investments and/or earnings there from. The assessment is provided in the audited financial statement attached to this report. The Company complies with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

CORPORATE SOCIAL RESPONSIBILITY

The Board is conscious of the Company's social responsibility and has ensured that the community at large and the environment has benefited from funds that have been channeled to various worthy causes. Employees have also participated in some of the CSR activities. Listed below are just a few of the projects that the Company has supported over the years:

- Lions gift of sight first project by sponsoring corneal grafts for two eyes of a needy person.
- Amara Charitable Trust donation towards the construction of five classrooms at Kwa Kalusya Primary School – Lukenya.
- Contributing towards the medical costs of a needy patient with a tumor.
- Food for life, Water for life Charity that has an ongoing program for feeding the needy and is also providing water to communities by the rehabilitation of boreholes in semi arid areas.
- Environmental Conservation by sponsoring and planting 2000 trees in Ragia Forest near Susumwa dam with my Millennium tree campaign.
- The Jaipur Foot Trust by the donation of 50 Jaipur feet.
- The Rhino Ark Charitable Trust.
- Assisting various needy students with their school fees.
- Sponsorship for the tennis banda at the Thika Gymkhana.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st December 2013, which disclose the state of affairs of the company.

Incorporation

The company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address of the registered office is set out on page 1.

Principal activities

The company is licenced under Section 31 of the Insurance Act (Cap. 487) to transact in all classes of general insurance business with the exception of aviation.

Results and dividends

The net profit for the year of Shs. 188,062,612 (2012: Shs. 149,797,932) has been added to retained earnings. During the year, an interim dividend of Shs 50,224,420 (Shs. 10 per share) ((2012: Shs. 43,615,946) (Shs. 11 per share)) was paid.

	Shs
Profit before tax	259,443,193
Taxation thereon	(71,380,581)
Net profit for the year transferred to reserve	188,062,612

Share Capital and Capitalization

At an Extraordinary General Meeting of the company held on 15th November 2013 the authorized share capital of the company was increased from Shs. 400,000,000 to Shs. 600,000,000 by the creation 2,000,000 additional shares of Shs. 100 each.

On the same day, the issued share capital of the company was increased by Shs. 105,735,600 to Shs. 502,244,200 by a capitalization issue of 1,507,356 shares of Shs. 100 each.

Directorate

The directors who held office during the year and to the date of this report are set out on page 1.

Auditor

The company's auditor, RSM Ashvir, has expressed its willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act, subject to the approval by the Commissioner of Insurance in accordance with Section 56 (4) of the Insurance Act.

By order of the board

....

N P Kothari
Secretary
Nairobi
25th April, 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan 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 and loss for that year. It also requires the directors to ensure that the company maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of these financial statements, which are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgments that are reasonable in the circumstances.

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 as at 31st December 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the board of directors on .... 2014 and signed on its behalf by:

.... Director

.... Director

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF TAUSI ASSURANCE COMPANY LIMITED

Report on the Financial Statements
We have audited the accompanying financial statements of Tausi Assurance Company Limited, set out on pages 5 to 37, which comprise the balance sheet at 31st December 2013, and the profit and loss account, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 audit opinion.

Opinion
In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31st December 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements
As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Simant Prakash - P/No 2065.

RSM Ashvir

Certified Public Accountants
Nairobi
28th April, 2014

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2013

	Notes	2013 Shs	2012 Shs
Gross earned premiums	4	783,598,161	698,740,872
Insurance premiums ceded to reinsurers	4	(279,843,901)	(257,262,111)
Net insurance premium revenue	4	503,754,260	441,478,761
Investment income	5	143,436,633	151,367,346
Other income	6	2,830,218	104,888
Commissions earned		99,226,836	84,618,294
Changes in fair value of financial assets at fair value through profit or loss	7	24,570,895	5,980,184
Total income		**773,818,842**	**683,549,473**
Claims payable	8	(314,827,002)	(374,556,065)
Insurance claims recoverable from reinsurers	8	88,735,189	132,463,829
Net insurance claims	8	(226,091,813)	(242,092,236)
Administrative and other expenses		(148,811,912)	(127,961,285)
Commissions payable		(139,471,924)	(116,476,965)
Total expenses		(288,283,836)	(244,438,250)
Profit before tax	9	259,443,193	197,018,987
Tax (expense)	10	(71,380,581)	(47,221,055)
Profit for the year attributable to the owners of the company		188,062,612	149,797,932
Dividends:			
Interim	11	50,224,420	43,615,946

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 Shs	2012 Shs
Profit for the year		188,062,612	149,797,932
Other comprehensive income:			
Items that will not be reclassified subsquently to profit or loss			
Surplus on revaluation of property, plant and equipment	14	104,027,740	-
Deferred income tax relating to components of other comprehensive income		(31,208,322)	-
Items that will be reclassified subsquently to profit or loss when specific conditions are met			
Changes in fair value of available for sale financial assets	7	(5,194,320)	14,058,340
Other comprehensive income for the year, net of tax		67,625,098	14,058,340
Total comprehensive income for the year attributable to the owners of the company		**255,687,710**	**163,856,272**

FINANCIAL STATEMENT
For the year ended 31 December 2013

BALANCE SHEET AT 31ST DECEMBER 2013

	Notes	2013 Shs	2012 Shs
EQUITY			
Share capital	12	502,244,200	396,508,600
Revaluation surplus	13	116,257,083	43,437,665
Fair value reserve		2,503,105	7,697,425
Retained earnings		176,183,111	144,080,519
Proposed dividends		-	43,615,946
Total equity		**797,187,499**	**635,340,155**
REPRESENTED BY:			
Assets			
Property, plant and equipment	14	243,693,083	138,845,191
Intangible assets	15	5,439,626	9,772,914
Held-to-maturity financial assets	16	581,599,214	541,905,468
Available for sale financial assets	17	36,455,799	41,650,119
Financial assets at fair value through profit or loss	18	104,515,325	80,171,734
Loans receivable	20	121,898,081	125,256,402
Receivables arising out of reinsurance arrangements		1,626,598	14,276,029
Receivables arising out of direct insurance arrangements		78,291,473	48,341,403
Reinsurers' share of insurance liabilities	21	416,175,999	370,714,015
Other receivables	22	80,941,358	71,986,683
Deposits with financial institutions	23	393,142,130	365,774,023
Cash and bank balances	23	50,306,722	13,063,818
Total assets		**2,114,085,408**	**1,821,757,799**
Liabilities			
Insurance contract liabilities	24	775,659,041	721,106,541
Unearned premium	26	328,996,680	320,159,927
Payables arising from reinsurance arrangements		126,099,995	83,358,833
Other payables	27	29,557,296	35,610,386
Current tax payable		13,956,673	14,080,846
Deferred income tax liability	19	42,628,224	12,101,111
Total liabilities		**1,316,897,909**	**1,186,417,644**
		797,187,499	**635,340,155**

The financial statements on pages 5 to 37 were approved for issue by the board of directors on .... 2014 and were signed on its behalf by:

....
Director

....
Director

....
Principal Officer

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

	Note	Share capital Shs	Fair value reserve Shs	Revaluation surplus Shs	Retained earnings Shs	Proposed dividends Shs	Total Shs
At 1st January 2012		330,423,800	(6,360,915)	44,403,665	102,603,333	36,346,618	507,416,501
Profit for the year		-	-	-	149,797,932	-	149,797,932
Gain on revaluation of available for sale financial assets	17	-	14,058,340	-	-	-	14,058,340
Total comprehensive income for the year		-	14,058,340	-	149,797,932	-	163,856,272
Transactions with owners:							
Bonus issue of shares	12	66,084,800	-	-	(66,084,800)	-	-
Transfer of excess depreciation	19	-	-	(1,380,000)	1,380,000	-	-
Deferred income tax on transfer of excess depreciation		-	-	414,000	-	-	414,000
Dividends:							
- Interim for 2012		-	-	-	(43,615,946)	43,615,946	-
- Paid in 2012		-	-	-	-	(36,346,618)	(36,346,618)
		66,084,800	-	(966,000)	(108,320,746)	7,269,328	(35,932,618)
At 31st December 2012		**396,508,600**	**7,697,425**	**43,437,665**	**144,080,519**	**43,615,946**	**635,340,155**
At 1st January 2013		396,508,600	7,697,425	43,437,665	144,080,519	43,615,946	635,340,155
Profit for the year		-	-	-	188,062,612	-	188,062,612
Changes in fair value of available for sale financial assets	17	-	(5,194,320)	-	-	-	(5,194,320)
Gain on revaluation of property, plant and equipment	19	-	-	104,027,740	-	-	104,027,740
Deferred income tax relating to components of other comprehensive income			-	(31,208,322)	-	-	(31,208,322)
Total comprehensive income for the year		-	(5,194,320)	72,819,418	188,062,612	-	255,687,710
Transactions with owners:							
Bonus issue of shares	12	105,735,600	-	-	(105,735,600)	-	-
Dividends:							
- Interim for 2013		-	-	-	(50,224,420)	50,224,420	-
- Paid in 2013		-	-	-	-	(93,840,366)	(93,840,366)
		105,735,600	-	-	(155,960,020)	(43,615,946)	(93,840,366)
At 31st December 2013		502,244,200	2,503,105	116,257,083	176,183,111	-	797,187,499

STATEMENT OF CASH FLOWS
For the year ended 31 December 2013

	Notes	2013 Shs	2012 Shs
Cash flows from operating activities			
Profit before income tax		**259,443,193**	**197,018,987**
Adjustments for:			
Depreciation on property, plant and equipment	14	4,623,595	6,779,146
Amortisation of intangible assets	15	4,333,288	4,409,788
Fair value (gain) / loss on financial assets at fair value through profit or loss	7	(24,570,895)	(5,980,184)
Investment income		(136,058,871)	(142,196,700)
(Gain) on sale of property, plant and equipment	6	-	(104,888)
Dividend income	5	(2,330,518)	(2,540,655)
Operating profit before working capital changes		105,439,792	57,385,494
(Increase) in insurance contract and other receivables		(71,717,298)	(94,384,609)
Increase in insurance contract and other payables		91,240,572	88,309,622
Increase in provision for unearned premium		8,836,753	62,461,299
Cash generated from operations		**133,799,819**	**113,771,806**
Income tax paid		(72,185,963)	(35,438,786)
Net cash generated from operating activities		61,613,856	78,333,020
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(5,443,747)	(7,825,036)
Purchase of intangible assets	15	-	(2,625,300)
Disposal/(purchase) of financial assets at fair value through profit or loss	18	227,304	(12,728,125)
Proceeds from disposal of property, plant and equipment		-	180,000
Loans received/(issued) net of repayments		3,358,321	(62,105,108)
Deposits with financial institutions		33,349,875	(196,427,694)
Investment in held-to-maturity investments		(39,693,746)	(143,762,108)
Investment income		136,058,871	142,196,700
Dividends received		2,330,518	2,540,655
Net cash generated from / (used in) investing activities		**130,187,396**	**(280,556,016)**
Cash flows from financing activities			
Payment of dividends		(93,840,366)	(36,346,618)
Net cash (used in) financing activities		(93,840,366)	(36,346,618)
Net increase / (decrease) in cash and cash equivalents		97,960,886	(238,569,614)
Cash and cash equivalents at 1st January		92,063,818	330,633,432
Cash and cash equivalents at 31st December	23	190,024,704	92,063,818

NOTES
For the year ended 31 December 2013

1. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, which is also the functional currency (see (c) below).

The financial statements comprise a profit and loss account (income statement), statement of comprehensive income, balance sheet (statement of financial position), statement of changes in equity, statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the profit and loss account. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expense (including reclassification adjustments) that are not recognised in the profit and loss account as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognised in the statement of changes in equity.

Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

“Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the company at the end of the reporting period during which the change occurred.

b) New and revised standards

i) Adoption of new and revised standards

All new and revised standards and interpretations that have become effective for the first time in the financial year beginning 1st January 2013 have been adopted by the company. Of those, the following have had an effect on the company’s financial statements:

- IAS 1 (Amendment) - Presentation of financial statements: the amendment requires entities to group items of other comprehensive income according to whether or not they will be subsequently reclassified to profit or loss.

NOTES (Continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

b) New and revised standards (continued)

i) Adoption of new and revised standards (continued)

- IAS 19 (Amendment) - Employee Benefits: The key amendments include elimination of the 'corridor approach' and modification of accounting for termination payments.
- IFRS 13 - Fair Value Measurement: the new standard defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements: it does not introduce any new requirements to measure an asset or a liability at fair value.

ii) New and revised standards and interpretations which have been issued but are not yet effective

The company has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1st January 2013.

• Amendments to IAS 32 titled Offsetting Financial Assets and Financial Liabilities (issued in December 2011) – The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. They are effective for annual periods beginning on or after 1 January 2014, with retrospective application.

- IFRS 9 - Financial Instruments will eventually replace IAS 39 - Financial Instruments, Recognition and Measurement. The effective date is not currently determined. The chapters published to date cover recognition, derecognition, classification and measurement of financial assets and financial liabilities, and hedge accounting. Most gains or losses on financial assets measured at fair value will then be recognised in profit or loss, but the company will be able to make an irrevocable election to present changes in fair value of investments in equity instruments in other comprehensive income.

The Directors have assessed the potential impact of the above and expect that they will not have a significant impact on the company's financial statements for 2014.

c) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates), which is Kenya Shillings.
Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

d) Insurance contracts

i) Classification

The company issues insurance contracts that transfer insurance risk or financial risk or both from the insured to the insurer. The company carries on general insurance business and its insurance contracts are classified into categories in accordance with the provisions of the Insurance Act. Classes of general insurance include: engineering, fire - domestic risks and industrial and commercial risks, liability, marine, motor - private and commercial vehicles, personal accident, theft, workmen's compensation and employers' liability, and miscellaneous (i.e. class of insurance 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.

NOTES (Continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

i) Classification (continued)
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 or becoming incapacitated in consequence of disease or of disease of a specified nature.

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

ii) Recognition and measurement

a) Premium income

Premium income is recognised on assumption of risk, and includes estimates of premiums due but not yet received, less an allowance for cancellations and unearned premiums. Unearned premiums represent the proportion of premiums written up to the accounting date that relates to the unexpired terms of policies in force at the balance sheet date. Unearned premium is computed using the 1/24th method.

Commission income in respect of insurance ceded is recognised over the period in which related premium is earned.

b) Claims

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 year or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet 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'). IBNR provisions are based on management experience and estimates, but are subject to a minimum percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

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 from disposal 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.

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

c) Commissions payable and commission receivable

A proportion of commissions 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.

A proportion of commissions receivable is deferred and amortised over the period in which the related premium income is earned.

NOTES (Continued)

For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

ii) Recognition and measurement (continued)

d) Liability adequacy test

At each balance sheet date, the company performs liability adequacy tests to ensure the adequacy of contract liabilities. 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 by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

e) Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on insurance contracts issued by it are classified as reinsurance contracts held. Contracts issued by the company that do not meet the classification requirements of insurance contracts are classified as financial assets. Insurance contracts entered into by the company 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 profit and loss account. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost.

e) Investment income

Rental income from operating leases is recognised on a straight line basis over the period of the lease.

Dividend income is recognised when the right to receive the payment is established.

Interest income is recognised on a time proportion basis using the effective interest method.

f) Property, plant and equipment

All categories of property, plant and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment. Leasehold land and buildings are subsequently carried at a revalued amount, based on bi-annual valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

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. Repairs and maintenance are charged to the profit and loss account in the year in which they are incurred.

NOTES (Continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

f) Property, plant and equipment (continued)

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

Depreciation is calculated using the straight line or reducing balance method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate - %	
Leasehold land	Over the life of the lease	
Buildings	2	Straight line
Motor vehicles	25	Reducing balance
Furniture & fittings	12.5	“
Computers, copiers & faxes	30	“

As no parts of items of property, plant and equipment have a cost that is significant in relation to the total cost of the item, the same rate of depreciation is applied to the whole item.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

Intangible assets
Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using an annual rate of 20%.

Impairment of non-financial assets
Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, 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.

Retirement benefit obligations

Defined contribution
The company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company. A defined contribution plan is a plan under which the company pays fixed contributions into a separate fund, and has no legal or constructive obligation 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 or prior periods. The company's contributions are charged to the profit and loss account in the year to which they relate.

NOTES (Continued)

For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

i) Retirement benefit obligations (continued)

Defined contribution (continued)

The company and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate.

j) Short term employee benefits

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

k) Leases

Operating leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made/received under operating leases are charged/credited to the profit and loss account on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

l) Income taxes

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the profit and loss account except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current tax

Current tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities. However, for investment property that is measured using the fair value model, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Deferred tax liabilities are recognised for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

NOTES (Continued)

For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

m) Financial instruments

The company classifies its financial instruments into the following categories:

i) Financial assets and financial liabilities at fair value through profit or loss, which comprise financial assets and financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term or to generate short-term profit-taking.

ii) Held-to-maturity investments which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the company has a positive intention and ability to hold to maturity.

iii) Loans and receivables which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates at fair value through profit or loss or as available-for-sale financial assets.

iv) Available-for-sale financial assets, which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets.

v) Financial liabilities, which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

Financial assets

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method, while all other financial assets are carried at their fair values, without deduction for transaction costs that may be incurred on sale.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The fair value for quoted shares is determined using the quoted bid price at the balance sheet date while that of non-quoted shares is determined using valuation techniques.

The company assesses at each balance sheet whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in fair value of financial assets at fair value through profit or loss are recognised in the profit and loss account.

NOTES (Continued)

For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

m) Financial instruments (continued)

Financial assets (continued)

Changes in the carrying values and impairment losses of held-to-maturity investments and loans and receivables are recognised in the profit and loss account. Trade and other receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

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

Financial assets held during the year were classified as follows:

- Demand and term deposits with banking institutions and trade and other receivables were classified as 'loans and receivables'.

- Government securities were classified as 'held-to-maturity investments', except those designated as ''Available for sale" on inception of contract.

- Investments in quoted shares were classified as financial assets at fair value through profit or loss.

Financial liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account.

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Trade and other liabilities are classified as financial liabilities by the directors and are carried at amortised cost.

Offsetting

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

NOTES (Continued)

For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

n) Provision for liabilities and charges

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

p) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity.

q) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting.

2. Significant judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the company, the directors make certain judgements and estimates that may affect the amounts recognised in the financial statements. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. However, actual results may differ from those estimates. The judgements and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgements and estimates are recognised in the year in which the revision is made.

a) Significant judgements made in applying the company's accounting policies

The judgements made by the directors in the process of applying the company's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

i) Whether it is probable that future taxable profits will be available against which temporary differences can be utilised; and

ii) Whether the company has the ability to hold 'held-to maturity' investments until they mature. If the company were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.

b) Key sources of estimation uncertainty

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

i) The ultimate liability arising from claims made under insurance contracts

Estimates made in the determination of outstanding claims under insurance contracts including an estimate of IBNR. Such estimates are made on the basis of the best information available at the time the records for the year are closed. The amount of claims outstanding provision net of amounts recoverable under reinsurance contracts at the year end amounted to Shs. 466,348,469 (2012: Shs. 468,024,339).

NOTES (Continued)

For the year ended 31 December 2013

2. Significant judgements and key sources of estimation uncertainty (continued)

b) Key sources of estimation uncertainty (continued)

ii) Impairment losses on receivables

The company regularly reviews its receivables to assess impairment. In determining whether an impairment loss should be recorded in the profit and loss account, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of any receivables.

3. Risk management objectives and policies

The company's activities expose it to a variety of risks which include insurance risk and financial risk (credit, liquidity and market risks). The company's overall risk management policies are set out by the board and implemented by management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the company's performance by setting acceptable levels of risk. The company has developed policies on underwriting, reinsurance, credit and has defined criteria for the approval of intermediaries and reinsurers. The company does not hedge against any risks.

a) Insurance risk

The risk under any one insurance contract is the possibility of the occurrence of the insured event and the uncertainty of the resulting claim. The inherent nature of an insurance contract makes this risk random and unpredictable as the number and amount of claims and benefits vary from year to year from levels established by using statistical data.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces is that the actual claims and benefit payments may exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than that estimated at the time of the claim intimation and subsequent revision based on the best information available at the time of estimation.

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 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. In addition, the company reviews the risk of each client prior to the renewal of insurance policies.

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

i) Underwriting

The company ensures that the underwriting department takes into consideration the class of risk being underwritten, the amount of the risk and the specific risks attached to the industry and the client before underwriting or renewing policies. Management has put in place controls ensure that high risk policies are renewed through a scrutiny of the claims paid ratios and the profitability on each client portfolio.

Reinsurance is used to manage insurance risk. Reinsurance arrangements include excess of loss and stop-loss coverage. The effect of such reinsurances is that the company should not suffer total net insurance losses in any one year.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

3. Risk management objectives and policies (continued)

a) Insurance risk (continued)

i) Underwriting (continued)

The concentration of insurance risk before and after reinsurance by class of insurance is summarised below:

Year ended 31st December 2013	Class of Insurance						
	Motor Shs	Fire Shs	Theft Shs	Workmen's compensation Shs	Marine Shs	Others Shs	Total Shs
Gross earned premiums	190,235,485	183,866,422	103,033,436	117,316,527	113,404,628	75,741,663	783,598,161
Less: premiums ceded to reinsurers	(6,136,840)	(140,078,230)	(46,136,428)	(2,825,976)	(44,450,444)	(40,215,983)	(279,843,901)
Net earned premiums	184,098,645	43,788,192	56,897,008	114,490,551	68,954,184	35,525,680	503,754,260
Gross earned premiums - %	24.28%	23.46%	13.15%	14.97%	14.47%	9.67%	100%
Premiums ceded to reinsurers - %	2.19%	50.06%	16.49%	1.00%	15.88%	14.37%	100%
Net earned premiums - %	36.55%	8.69%	11.29%	22.73%	13.69%	7.05%	100%

Year ended 31st December 2012	Class of Insurance						
	Motor Shs	Fire Shs	Theft Shs	Workmen's compensation Shs	Marine Shs	Others Shs	Total Shs
Gross earned premiums	165,694,395	154,775,966	78,013,927	107,104,073	108,870,670	84,281,841	698,740,872
Less: Premiums ceded to reinsurers	(10,554,260)	(118,764,216)	(34,449,692)	(2,894,551)	(40,170,140)	(50,429,252)	(257,262,111)
Net earned premiums	155,140,135	36,011,750	43,564,235	104,209,522	68,700,530	33,852,589	441,478,761
Gross earned premiums - %	23.71%	22.15%	11.16%	15.33%	15.58%	12.06%	100%
Premiums ceded to reinsurers - %	4.10%	46.16%	13.39%	1.12%	15.61%	19.60%	100%
Net earned premiums - %	35.14%	8.16%	9.87%	23.60%	15.56%	7.67%	100%

NOTES (Continued)

For the year ended 31 December 2013

3. Risk management objectives and policies (continued)

a) Insurance risk (continued)

ii) Claims

a) Claims management

The frequency and severity of claims is affected by several factors including the underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The company has a specialised claims department dealing with claims management. The department assesses all claims and also carries out investigations where such claims do not conform to expected norms. Claims are reviewed individually at the time of intimation and subsequently reviewed when new information regarding the claim is received, and at least once every quarter, and adjusted to reflect the last information based on the underlying facts, contractual terms and conditions, assessments provided by independent loss adjustors and changes in the current laws, amongst other factors. The company actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments. Outstanding claims are not discounted.

b) Claims provisions

Claims are paid on a claims-occurrence basis and the company is liable for all insured events that occurred during the contract term, even if the loss is notified after the end of the contract term. As a result, liability claims are settled over a long period of time. In addition, a provision is made by the management for claims that may have occurred but have not been reported to the company at the date of the financial statements. Such provisions are termed as Incurred But Not Reported (IBNR), and are based on the managements' experience and estimates, but subject to the minimum percentages set by the Commissioner of Insurance.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of expected subrogation value and other recoveries. In calculating the claims outstanding provision, the company uses the information available and adjusts this for an estimate based on the claims experience. The claims experience is based on the loss ratio, which is defined as the ratio between the ultimate cost of the insurance claims to the insurance premium earned in a particular financial year in relation to such claims. The company takes all reasonable steps to ensure that it has all appropriate information regarding its claims exposures. However, due to the inherent uncertainty in establishing claims provisions, it is likely that the financial settlement may be different from the assessed liability. Moreover, the amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedents on matters of contract and tort. Casualty claims are also subject to the emergence of new types of latent claims, but no allowance is included for this at the balance sheet date.

The estimation of IBNR is subject to greater degrees of uncertainty than the estimation of the cost of settling claims already notified to the company. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claim. For casualty contracts, IBNR proportion to the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the company considers any information available from loss adjustors and information on the cost of settling claims with similar characteristics in previous periods.

NOTES (Continued)

For the year ended 31 December 2013

3. Risk management objectives and policies (continued)

ii) Claims (continued)

b) Claims provisions

The rates used by the company for each class of insurance business are:

	Class of Insurance				
Year	**Motor private**	**Fire**	**Workmen's compensation**	**Marine**	**Others**
2013	5%	1%	5%	2.5%	5%
2012	5%	1%	5%	2.5%	5%
Minimum prescribed rates by Commissioner of Insurance	5%	1%	5%	2.5%	5%

b) Financial risk

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a company-wide basis. The company does not grade the credit quality of financial assets that are neither past due nor impaired. Key areas where the company is exposed to credit risk are:

- financial assets at fair value through profit and loss;
- deposits with financial institutions;
- loans receivable;
- receivables arising out of reinsurance arrangements; and
- receivables arising out of direct insurance arrangements.

Exposure to credit risk on loans receivable is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans in the form of mortgage interests over property and other registered securities over assets.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.

The company has reinsurance arrangements in place to minimise its exposure to claims. 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. Credit risk on receivables arising out of reinsurance arrangements is managed by assessing the creditworthiness of reinsurers on an annual basis by reviewing their financial strength prior to finalisation of any contract.

Credit risk on receivables arising out of direct insurance arrangements is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer.

The utilisation of the credit limits and the credit period is monitored by management on a monthly basis. Due to the inherent nature of government securities, these are considered to have minimal credit risk. For other assets which are not material, credit risk is not managed.

NOTES (Continued)

For the year ended 31 December 2013

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

i) Credit risk (continued)

The maximum exposure of the company to credit risk as at the balance sheet date is as follows:

	Fully performing Shs	Past due but not impaired Shs	Past due and impaired Shs	Total Shs
31st December 2013				
Financial assets at fair value through profit or loss	104,515,325	-	-	104,515,325
Loans receivable	121,898,081	-	-	121,898,081
Held-to-maturity investments	581,599,214	-	-	581,599,214
Available for sale financial assets	36,455,799	-	-	36,455,799
Deposits with financial institutions	358,142,130	35,000,000	-	393,142,130
Receivables arising out of reinsurance arrangements	1,626,598	-	-	1,626,598
Receivables arising out of direct insurance arrangements	78,291,473	-	-	78,291,473
Reinsurers' share of insurance liabilities	416,175,999	-	-	416,175,999
Other receivables	80,941,358	-	-	80,941,358
Cash and bank balances	50,306,722	-	-	50,306,722
	1,829,952,699	**35,000,000**	**-**	**1,864,952,699**

	Fully performing Shs	Past due but not impaired Shs	Past due and impaired Shs	Total Shs
31st December 2012				
Financial assets at fair value through profit or loss	80,171,734	-	-	80,171,734
Loans receivable	125,256,402	-	-	125,256,402
Held-to-maturity investments	541,905,468	-	-	541,905,468
Available for sale financial assets	41,650,119	-	-	41,650,119
Deposits with financial institutions	330,774,023	35,000,000	-	365,774,023
Receivables arising out of reinsurance arrangements	14,276,029	-	-	14,276,029
Receivables arising out of direct insurance arrangements	48,341,403	-	-	48,341,403
Reinsurers' share of insurance liabilities	370,714,015	-	-	370,714,015
Other receivables	71,986,683	-	-	71,986,683
Cash and bank balances	13,063,818	-	-	13,063,818
	1,638,139,694	**35,000,000**	**-**	**1,673,139,694**

The past due receivables are not impaired and continue to be paid. The carrying amount of net receivables approximate their fair value. The company does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

NOTES (Continued)
For the year ended 31 December 2013

3. Risk management objectives and policies (continued)

b) Financial risk (continued)

ii) Liquidity risk
Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The company manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table below analyses liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

At 31st December 2013	90 days Shs	1 year Shs	1 - 5 years Shs	Over 5 years Shs
Liabilities				
Insurance contract liabilities	77,565,904	155,131,808	542,961,329	-
Payables arising out of reinsurance arrangements	126,099,995	-	-	-
Unearned premium	19,783,075	309,213,605	-	-
Other payables	29,557,296	-	-	-
	253,006,270	**464,345,413**	**542,961,329**	**-**

At 31st December 2012	90 days Shs	1 year Shs	1 - 5 years Shs	Over 5 years Shs
Liabilities				
Insurance contract liabilities	72,110,654	144,221,308	504,774,579	-
Payables arising out of reinsurance arrangements	83,358,833	-	-	-
Unearned premium	19,783,075	300,376,852	-	-
Other payables	35,610,386	-	-	-
	210,862,948	**444,598,160**	**504,774,579**	**-**

The past due receivables are not impaired and continue to be paid. The carrying amount of net receivables approximate their fair value. The company does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

iii) Market risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

a) Interest rate risk
The company is exposed to cash flow interest risk on its variable rate borrowings resulting from changes in market interest rates. The company manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs. Management consider that a change in interest rates of 1% percentage points in the year ending 31st December 2014 is reasonably possible. If the interest rates on the company's borrowings at the year-end were to increase/decrease by this number of percentage points, with all other factors remaining constant, the post tax profit and equity would be lower/higher by Shs 7,676,476 (2012: Shs 7,230,511) respectively.

NOTES (Continued)
For the year ended 31 December 2013

3. Risk management objectives and policies (continued)

b) Financial risk (continued)
iii) Market risk (continued)

b) Currency risk

Currency risk arises on financial instruments that are denominated in foreign currency. The company's underwriting, reinsurance and claims settlements are done in the principal currency, which is the Kenya Shilling. The limited exposure to foreign currency risk relates to the amounts invested in foreign currency bank accounts.

c) Other price risk

Other price risk arises on financial instruments because of changes in the price of a financial instrument. The company is exposed to other price risk on its investment in quoted shares. Management consider that a change in the market prices of its quoted shares of 5% either way in the year ending 31st December 2014 is reasonably possible. If the price of financial assets held at fair value and available-for-sale financial assets decreased/increased by the said percentage, with other factors remaining constant, profit or loss account, other comprehensive income and equity would decrease/increase by Shs 7,048,556 (2012: Shs 6,091,093).

Capital management

The company's objectives when managing capital are:

- to comply with the insurance capital requirements required by Insurance Act (Cap. 487);
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk; and
- to maintain as strong capital base to support the development of its business.

The Insurance Act (Cap. 487) specifies the minimum amount and type of capital that must be held. The minimum required capital (presented in the table below) must be maintained at all times throughout the year. The company is subject to insurance solvency regulations. With effect from 14th June 2010, the required minimum capital has been increased to Shs. 300,000,000.

The table below summarises the minimum required capital and the regulatory capital held:

	2013 Shs	2012 Shs
Capital held	502,244,200	396,508,600
Required minimum capital	300,000,000	300,000,000

4. Net insurance premium revenue

The premium income of the company, analysed between the principal classes of business is as follows:

	Gross Shs	Reinsurance Shs	Net Shs
Year ended 31st December 2013			
Fire	183,866,422	(140,078,230)	43,788,192
Motor	190,235,485	(6,136,840)	184,098,645
Workmen's compensation	117,316,527	(2,825,976)	114,490,551
Marine	113,404,628	(44,450,444)	68,954,184
Theft	103,033,436	(46,136,428)	56,897,008
Others	75,741,663	(40,215,983)	35,525,680
	783,598,161	**(279,843,901)**	**503,754,260**

NOTES (Continued)

For the year ended 31 December 2013

4. Net insurance premium revenue (continued)

	Gross Shs	Reinsurance Shs	Net Shs
Year ended 31st December 2012			
Fire	154,775,966	(118,764,216)	36,011,750
Motor	165,694,395	(10,554,260)	155,140,135
Workmen's compensation	107,104,073	(2,894,551)	104,209,522
Marine	108,870,670	(40,170,140)	68,700,530
Theft	78,013,927	(34,449,692)	43,564,235
Others	84,281,841	(50,429,252)	33,852,589
	698,740,872	**(257,262,111)**	**441,478,761**

5. Investment income

	2013 Shs	2012 Shs
Interest income		
- Interest from government securities	79,834,845	70,217,454
- Bank deposits and bank balances	40,244,657	51,338,682
- Loans and receivables	15,979,369	20,640,564
Net rental income	4,127,829	6,277,831
Profit from sale of financial assets at fair value through profit or loss	495,936	-
Dividend income		
- Financial assets at fair value through profit or loss	2,330,518	2,540,655
Miscellaneous income	423,479	352,160
	143,436,633	**151,367,346**

6. Other income

	2013 Shs	2012 Shs
Service charge recovered	2,830,218	-
Gain on disposal of property, plant and equipment	-	104,888
	2,830,218	**104,888**

7. Changes in fair value

	2013 Shs	2012 Shs
Financial assets at fair value through profit and loss (Note 18)	24,570,895	5,980,184
Available for sale financial assets recognised in other comprehensive income (Note 17)	(5,194,320)	14,058,340
	19,376,575	**20,038,524**

8. Net insurance claims

The claims of the company, analysed between the principal classes of business is as follows:

	Gross Shs	Reinsurance Shs	Net Shs
Year ended 31st December 2013			
Motor	(97,613,817)	4,897,535	(92,716,282)
Workmen's compensation	(55,876,401)	(1,422,167)	(57,298,568)
Theft	(84,089,857)	49,320,629	(34,769,228)
Others	(77,246,927)	35,939,192	(41,307,735)
	(314,827,002)	**88,735,189**	**(226,091,813)**

NOTES (Continued)

For the year ended 31 December 2013

8. Net insurance claims (continued)

	Gross Shs	Reinsurance Shs	Net Shs
Year ended 31st December 2012			
Motor	(106,690,249)	26,225,099	(80,465,150)
Workmen's compensation	(47,525,039)	(19,800)	(47,544,839)
Theft	(88,269,885)	43,832,782	(44,437,103)
Others	(132,070,892)	62,425,748	(69,645,144)
	(374,556,065)	**132,463,829**	**(242,092,236)**

9. Profit before tax expense

(a) Items charged

The following items have been charged in arriving at profit before tax expense:	2013 Shs	2012 Shs
Employee benefits expense (Note 9(b))	101,239,190	82,865,740
Depreciation of property, plant and equipment (Note 14)	4,623,595	6,779,146
Amortisation of intangible assets (Note 15)	4,333,288	4,409,788
Auditors' remuneration		
Current year	**1,400,000**	**1,400,000**

(b) Employee benefits expense

The following items are included in employee benefits expense:		
Retirement benefit costs		
Defined contribution scheme	3,937,430	2,138,749
National Social Security Fund	**165,200**	**163,000**

10. Tax expense

Current income tax	72,061,790	52,822,831
Deferred income tax credited to profit and loss account (Note 19)	(681,209)	(5,601,776)
Income tax expense in profit and loss account	71,380,581	47,221,055
Deferred income tax credited to equity (Note 19)	-	(414,000)
Deferred income tax charged to other comprehensive income (Note 19)	31,208,322	-
Income tax expense	**102,588,903**	**46,807,055**

The tax on the company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2013 Shs	2012 Shs
Profit before income tax	259,443,193	197,018,987
Tax calculated at the statutory tax rate of 30%	77,832,958	59,105,696
Tax effect of:		
Expenses not deductible for tax purposes	5,589,223	1,917,120
Deferred tax on revaluation surplus	31,208,322	(5,842,595)
Deferred tax recognised	(157,516)	-
Income not subject to tax	(11,884,084)	(8,373,166)
Tax expense	**102,588,903**	**46,807,055**

NOTES (Continued)

For the year ended 31 December 2013

11. Dividends per share

During the year, an interim dividend of Shs. 10 per share amounting to Shs. 50,224,420 (2012: Shs 11 per share amounting to Shs 43,615,946) was approved by directors. Where applicable, payment of non-qualifying dividend is subject to deduction of withholding tax at a rate of 5% for residents and 10% for non-residents.

12. Share capital

	No. of ordinary shares	Issue and paid up capital Shs
At 31st December 2012	3,965,086	396,508,600
At 1st January 2013	3,965,086	396,508,600
Bonus issue	1,057,356	105,735,600
At 31st December 2013	**5,022,442**	**502,244,200**

The total number of authorised ordinary shares is 6,000,000 (2012: 4,000,000) with a par value of Shs. 100 each.

On 15th November 2013, the issued and paid up capital was increased from Shs 330,423,800 to Shs 502,244,200 by a bonus issue of 1,057,356 ordinary shares for Shs 100 each from retained earnings.

13. Revaluation surplus

The revaluation surplus arose on the revaluation of the leasehold land and building and is stated net of deferred income tax. The Commissioner of Insurance has allowed capitalisation of revaluation reserves up to a maximum of 50%. The reserve is not distributable.

Year ended 31st December 2013	Leasehold land Shs	Building Shs	Total Shs
At start of year	-	43,437,665	43,437,665
Gain on revaluation of leasehold land and buildings	60,647,740	43,380,000	104,027,740
Deferred tax on revaluation	(18,194,322)	(13,014,000)	(31,208,322)
At end of year	**42,453,418**	**73,803,665**	**116,257,083**

Year ended 31st December 2012	Leasehold land Shs	Building Shs	Total Shs
At start of year	-	44,403,665	44,403,665
Transfer of excess depreciation	-	(1,380,000)	(1,380,000)
Deferred tax on depreciation transfer	-	414,00	414,000
At end of year	**-**	**43,437,665**	**43,437,665**

NOTES (Continued)

For the year ended 31 December 2013

14. Property, plant and equipment

	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture, fittings and equipments Shs	Computers, Copiers & faxes Shs	Total Shs
At 1st January 2012						
Cost or valuation	5,000,000	119,000,000	2,158,750	24,282,484	18,519,439	168,960,673
Accumulated depreciation	(591,820)	-	(1,480,180)	(13,955,747)	(15,058,512)	(31,086,259)
Net carrying value	4,408,180	119,000,000	678,570	10,326,737	3,460,927	137,874,414
Year ended 31st December 2012						
Opening carrying value	4,408,180	119,000,000	678,570	10,326,737	3,460,927	137,874,414
Revaluation	-	-	(75,113)	-	-	(75,113)
Additions	-	-	1,250,000	2,410,109	4,164,927	7,825,036
Depreciation charge	(55,920)	(2,380,000)	(463,364)	(1,592,106)	(2,287,756)	(6,779,146)
Closing carrying value	4,352,260	116,620,000	1,390,093	11,144,740	5,338,098	138,845,191
At 31st December 2012						
Cost or valuation	5,000,000	119,000,000	2,658,750	26,692,593	22,684,366	176,035,709
Accumulated depreciation	(647,740)	(2,380,000)	(1,268,657)	(15,547,853)	(17,346,268)	(37,190,518)
Net carrying value	4,352,260	116,620,000	1,390,093	11,144,740	5,338,098	138,845,191
Year ended 31st December 2013						
Opening carrying value	4,352,260	116,620,000	1,390,093	11,144,740	5,338,098	138,845,191
Revaluation surplus	60,647,740	43,380,000	-	-	-	104,027,740
Additions	-	-	-	2,008,991	3,434,756	5,443,747
Depreciation charge	-	-	(347,523)	(1,644,216)	(2,631,856)	(4,623,595)
Closing carrying value	65,000,000	160,000,000	1,042,570	11,509,515	6,140,998	243,693,083
At 31st December 2013						
Cost or valuation	65,000,000	160,000,000	2,658,750	28,701,584	26,119,122	282,479,456
Accumulated depreciation	-	-	(1,616,180)	(17,192,069)	(19,978,124)	(38,786,373)
Net carrying value	65,000,000	160,000,000	1,042,570	11,509,515	6,140,998	243,693,083

Leasehold land and buildings were valued on 20th December 2013 by R.R. Oswald & Co. Ltd., independent valuers, on the basis of open market value. The carrying amount of the asset was restated to the revalued amount of the asset, and the resulting gain arising on revaluation net of deferred income tax was recognised in other comprehensive income and credited to the revaluation surplus in equity.

NOTES (Continued)

For the year ended 31 December 2013

14. Property, plant and equipment (continued)

If the building was stated on the historical cost basis, the carrying values would be as follows:

	Leasehold land Shs	Building Shs	Total Shs
31st December 2013			
Cost	5,000,000	50,000,000	55,000,000
Accumulated depreciation	(703,660)	(12,000,000)	(12,703,660)
	4,296,340	**38,000,000**	**42,296,340**
31st December 2012			
Cost	5,000,000	50,000,000	55,000,000
Accumulated depreciation	(647,740)	(11,000,000)	(11,647,740)
	4,352,260	**39,000,000**	**43,352,260**

15. Intangible assets

	Software Shs	Total Shs
Cost		
At 1st January 2013	24,895,184	24,895,184
At 31st December 2013	24,895,184	24,895,184
Amortisation		
At 1st January 2013	15,122,270	15,122,270
Charge for the year	4,333,288	4,333,288
At 31st December 2013	19,455,558	19,455,558
Net book value		
At 31st December 2013	5,439,626	5,439,626
At 31st December 2012	9,772,914	9,772,914

16. Held to maturity financial assets

	2013 Shs	2012 Shs
Non current		
Treasury bonds	518,262,416	491,292,006
Listed bonds	43,336,798	50,613,462
	561,599,214	541,905,468
Current		
Treasury bills	20,000,000	-
	581,599,214	**541,905,468**

Treasury bonds amounting to Shs.141,000,000 (201: Shs. 101,000,000) are held under lien with the Central Bank of Kenya in accordance with Section 32(1) of the Insurance Act (Cap. 487). These funds are not available to finance the company's operations.

The fair value of the Treasury Bonds carried at amortised cost at the balance sheet date, based on prices published by brokers, was Shs. 524 million (2012: Shs. 508 million)

NOTES (Continued)

For the year ended 31 December 2013

17. Available for sale financial assets

	2013 Shs	2012 Shs
Non current		
At 1st January	41,650,119	27,591,779
Fair value (loss) / gain recognised in other comprehensive income (Note 7)	(5,194,320)	14,058,340
At end of year	**36,455,799**	**41,650,119**

18. Financial assets at fair value through profit or loss

Current (quoted securities):

	2013 Shs	2012 Shs
Start of the year	80,171,734	61,463,425
(Disposals)/additions	(227,304)	12,728,125
Total fair value gain recognised in profit or loss (Note 7)	24,570,895	5,980,184
At end of year	**104,515,325**	**80,171,734**

19. Deferred income tax

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

	2013 Shs	2012 Shs
At 1st January	12,101,111	18,116,887
(Credit) to profit and loss account (Note 10)	(681,209)	(5,601,776)
(Credit) to equity	-	(414,000)
Charge to other comprehensive income	31,208,322	-
At 31st December	**42,628,224**	**12,101,111**

The charge / (credit) to other comprehensive income relates to:

	2013 Shs	2012 Shs
Profit on changes in fair value of available for sale financial assets		14,058,340
Surplus on revaluation of property, plant and equipment	104,027,740	-

Deferred tax assets and liabilities, deferred tax charge / (credit) in the profit and loss account, in equity and in the statement of comprehensive income are attributable to the following items:

	At 1st January 2013 Shs	(Credited) to profit & loss Shs	(Credited) to equity Shs	Charged to other comprehensive income Shs	At 31st December 2013 Shs
Excess depreciation over capital allowances	20,937	(43,318)	-	-	(22,381)
Provision for liabilities and charges	(951,126)	(207,396)	-	-	(1,158,522)
Provision for bad debts	-	(430,495)	-	-	(430,495)
Revaluation surplus of property, plant and equipment	13,031,300	-	-	31,208,322	44,239,622
Net deferred tax liability	12,101,111	(681,209)	-	31,208,322	42,628,224

NOTES (Continued)

For the year ended 31 December 2013

19. Deferred income tax (continued)

	At 1st January 2013 Shs	(Credited) to profit & loss Shs	(Credited) to equity Shs	Charged to other comprehensive income Shs	At 31st December 2012 Shs
Excess depreciation over capital allowances	(18,187)	39,124	-	-	20,937
Provision for liabilities and charges	(738,820)	(212,306)	-	-	(951,126)
Loss in value of available for sale financial assets	(2,726,106)	2,726,106	-	-	-
Revaluation surplus of property, plant and equipment	21,600,000	(8,154,700)	(414,000)	-	13,031,300
Net deferred tax liability	**18,116,887**	**(5,601,776)**	**(414,000)**	**-**	**12,101,111**

In addition, deferred tax of Shs. Nil (2012: Shs. 414,000) was transferred from the revaluation surplus to retained earnings. This relates to the difference between the actual depreciation of the revalued carrying amounts of buildings and the equivalent depreciation based on the historical cost of those assets (the excess depreciation).

20. Loans receivable

	2013 Shs	2012 Shs
Mortgage loans	120,934,421	123,121,143
Other loans	963,660	2,135,259
Total loans	**121,898,081**	**125,256,402**

21. Reinsurers' share of insurance liabilities

Reinsurers' share of:		
- Unearned premium (Note 26)	106,865,427	117,631,813
- Notified claims outstanding (Note 25)	300,863,260	245,718,662
- Claims incurred but not reported (Note 25)	8,447,312	7,363,540
	416,175,999	**370,714,015**

Amounts due from reinsurers in respect of claims paid by the company on contracts that are reinsured are included as receivables arising out of reinsurance arrangements.

22. Other receivables

	2013 Shs	2012 Shs
Deposits and prepayments	9,285,579	9,299,329
Sundry debtors	4,572,375	1,835,817
Deferred commission	56,295,808	55,567,676
Deposits with courts	10,787,596	5,283,861
	80,941,358	**71,986,683**

23. Cash and cash equivalents

Cash and bank balances	50,306,722	13,063,818
Deposits with financial institutions	393,142,130	365,774,023
	443,448,852	**378,837,841**

NOTES (Continued)

For the year ended 31 December 2013

23. Cash and cash equivalents (continued)

Fixed deposits amounting to Shs. 35 million (2012: Shs. 35 million) are held under lien with NIC Bank Ltd. These fixed deposits are not available for liquidation. Fixed deposits amounting to Shs 79,762,503 (2012: Shs. 64 million) relates to recoveries from reinsurer in respect of litigated claim. These funds are not available to finance the company's day to day operations.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	2013 Shs	2012 Shs
Cash and bank balances	50,306,722	13,063,818
Deposits with financial institutions	139,717,982	79,000,000
	190,024,704	**92,063,818**

24. Insurance contract liabilities

Short-term non-life insurance contracts:

- Claims reported and claims handling expenses	738,355,432	687,327,214
- Claims incurred but not reported	37,303,609	33,779,327
Total gross insurance liabilities (Note 25)	**775,659,041**	**721,106,541**

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 2013 are not material.

NOTES (Continued)

For the year ended 31 December 2013

25. Movement in insurance liabilities and reinsurance assets

	2013 Gross Shs	2013 Reinsurance Shs	2013 Net Shs	2012 Gross Shs	2012 Reinsurance Shs	2012 Net Shs
Short-term insurance business						
Notified claims	687,327,214	245,718,662	441,608,552	643,327,984	226,622,113	416,705,871
Incurred but not reported	33,779,327	7,363,540	26,415,787	29,358,711	6,247,789	23,110,922
At 1st January	**721,106,541**	**253,082,202**	**468,024,339**	**672,686,695**	**232,869,902**	**439,816,793**
Cash paid for claims settled in the year	(316,502,871)	(88,735,189)	(227,767,682)	(346,348,519)	(132,463,829)	(213,884,690)
Increase / (decrease) in liabilities						
- arising from current year claims	399,765,453	151,293,202	248,472,251	353,948,324	95,179,189	258,769,135
- arising from prior years' claims	(28,710,082)	(6,329,643)	(22,380,439)	40,820,041	57,496,940	(16,676,899)
At 31st December	**775,659,041**	**309,310,572**	**466,348,469**	**721,106,541**	**253,082,202**	**468,024,339**
Notified claims	738,355,432	300,863,260	437,492,172	687,327,214	245,718,662	441,608,552
Incurred but not reported	37,303,609	8,447,312	28,856,297	33,779,327	7,363,540	26,415,787
At 31st December	**775,659,041**	**309,310,572**	**466,348,469**	**721,106,541**	**253,082,202**	**468,024,339**

26. Provision for unearned premium

	2013 Gross Shs	2013 Reinsurance Shs	2013 Net Shs	2012 Gross Shs	2012 Reinsurance Shs	2012 Net Shs
At 1st January	320,159,927	117,631,813	202,528,114	257,698,628	83,631,587	174,067,041
Net increase in the year	8,836,753	(10,766,386)	19,603,139	62,461,299	34,000,226	28,461,073
At 31st December	**328,996,680**	**106,865,427**	**222,131,253**	**320,159,927**	**117,631,813**	**202,528,114**

NOTES (Continued)
For the year ended 31 December 2013

27. Other payables

	2013 Shs	2012 Shs
Accrued expenses	5,984,819	8,743,586
Withholding tax on commission	428,611	295,488
Other liabilities	6,661,879	4,384,801
Deferred commission	16,481,987	22,186,511
	29,557,296	**35,610,386**

28. Contingent liabilities

i) In common with the insurance industry in general, the company is subject to litigation arising in the normal course of insurance business.

ii) One shareholder has applied to the court for an injunction restraining the company from offering additional shares to two of the shareholders, and also against one of the current directors from offering himself for re-election.

iii) Subsequent to the rights issue approved at the Annual General Meeting of the company held on 22nd July 2009, two shareholders have separately filed a suit against the company and have applied to the court to determine the allocation of shares which were unsubscribed during the rights issue. At the hearing of 1st July 2010 of one of the cases, the plaintiff's advocate acknowledged that the injunction had been overtaken by events. The matter was therefore stood over generally.

The directors are of the opinion that the above litigations will not have a material effect on the company over and above the liability already provided in the financial statements or on any actions taken by the directors subject to the suit during his tenure at the company.

29. Related party transactions

The company is related to other companies which are related through common shareholding or common directorships.

The following transactions were carried out with related parties.

i) **Transactions with related parties**	2013 Shs	2012 Shs
Gross premiums written	318,655,870	254,743,256
Net claims incurred	190,532,761	33,437,992
Commission paid	50,843,707	30,833,002
ii) **Outstanding balances with related parties**		
Outstanding premium	38,735,726	19,423,076
Claims payable	206,685,247	4,112,545
Deposits with financial institutions	4,000,000	70,000,000
Current account balances	48,177,819	20,101,634

NOTES (Continued)

For the year ended 31 December 2013

29. Related party transactions (continued)

ii) Outstanding balances with related parties (continued)

	2013 Shs	2012 Shs
Mortgage loans receivable:		
- Staff	6,832,545	7,200,000
Other related parties	23,672,210	27,976,529
Other loans receivable:		
- Staff	955,990	2,134,807

The loans to related parties bear market rates of interest and are secured by pledge of security documents.
All related party transactions are at arm's length on terms and conditions as offered to other clients. There are no impairment provisions held against any related party balances.

iii) Directors' remuneration

	2013 Shs	2012 Shs
Directors' remuneration		
- As non-executives (included in Note 29(iv))	2,500,000	1,650,000
- Fees	2,270,000	3,120,000
	4,770,000	4,770,000

iv) Key management compensation

	2013 Shs	2012 Shs
Salaries and other employment benefits	42,183,684	37,395,165

30. Financial assets categorisation

The categorisation of assets carried at fair value by the levels defined below is as follows:

Level 1	2013 Shs	2012 Shs
Available for sale financial assets (treasury bonds)	36,455,799	41,650,119
Financial assets at fair value through profit or loss (equity shares)	104,515,325	80,171,734
	140,971,124	**121,821,853**
Level 2		
Leasehold land	65,000,000	-
Buildings	160,000,000	116,620,000
	225,000,000	**116,620,000**

31. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date were Shs. 1,225,562.

NOTES (Continued)

For the year ended 31 December 2013

32. Insurance contract liability (chain ladder)

	2009 claims + prior years	2010	2011	2012	2013	Total
Estimate ultimate claims cost at year	1,024,100,095	296,530,905	330,826,747	349,532,570	396,242,301	2,397,232,618
After 1 Year	18,060,089	(3,416,618)	(20,207,962)	(7,543,088)	-	(13,107,579)
After 2 Years	4,034,934	(553,533)	(6,689,677)	-	-	(3,208,276)
After 3 Years	61,913,799	(11,647,839)	-	-	-	50,265,960
After 4 Years	(2,829,478)	-	-	-	-	(2,829,478)
Current estimate of cumulative claims	1,105,279,439	280,912,915	303,929,108	341,989,482	396,242,301	2,428,353,245
Less cumulative payments to date	769,912,771	252,620,770	246,610,116	252,074,949	168,779,206	1,689,997,812
Liability in the balance sheet	335,366,668	28,292,145	57,318,992	89,914,533	227,463,095	738,355,432

SUPPLEMENTARY INFORMATION

For the year ended 31 December 2013

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Class of insurance business	Engineering Shs	Fire Domestic Shs	Fire Industrial Shs	Public Liability Shs	Marine Shs	Motor Private Shs	Motor Commercial Shs	Personal Accident Shs	Theft Shs	Workmens' Compensation Shs	Miscellaneous Shs	2013 Total Shs	2012 Total Shs
Gross premiums written	28,445,125	32,609,485	151,341,480	7,503,541	114,868,552	117,854,213	86,239,356	17,537,270	102,315,460	121,787,999	22,698,819	803,201,300	727,201,945
Change in net unearned premiums	496,687	(528,287)	443,744	(685,513)	(1,463,924)	(5,375,314)	(8,482,770)	(805,422)	717,976	(4,471,472)	551,156	(19,603,139)	(28,461,073)
Gross earned premiums	28,941,812	32,081,198	151,785,224	6,818,028	113,404,628	112,478,899	77,756,586	16,731,848	103,033,436	117,316,527	23,249,975	783,598,161	698,740,872
Less: premiums ceded to reinsurers	(22,473,890)	(13,016,738)	(127,061,492)	(2,043,593)	(44,450,444)	(4,212,991)	(1,923,849)	(9,431,266)	(46,136,428)	(2,825,976)	(6,267,234)	(279,843,901)	(257,262,111)
Net earned premiums	**6,467,922**	**19,064,460**	**24,723,732**	**4,774,435**	**68,954,184**	**108,265,908**	**75,832,737**	**7,300,582**	**56,897,008**	**114,490,551**	**16,982,741**	**503,754,260**	**441,478,761**
Gross claims paid	(9,588,062)	(17,146,398)	(21,528,497)	(1,020,135)	(40,541,413)	(53,363,021)	(48,693,319)	(25,221)	(88,961,217)	(30,876,298)	(4,759,290)	(316,502,871)	(346,348,519)
Changes in net outstanding claims	(1,615,173)	1,747,955	(4,639,015)	268,167	23,373,782	5,370,706	(928,183)	(438,683)	4,871,360	(25,000,103)	(1,334,944)	1,675,869	(28,207,546)
Less: reinsurance recoverable	6,041,709	3,117,473	15,748,912	51,756	10,971,818	3,617,089	1,280,446	7,524	49,320,629	(1,422,167)	-	88,735,189	132,463,829
Net claims incurred	**(5,161,526)**	**(12,280,970)**	**(10,418,600)**	**(700,212)**	**(6,195,813)**	**(44,375,226)**	**(48,341,056)**	**(456,380)**	**(34,769,228)**	**(57,298,568)**	**(6,094,234)**	**(226,091,813)**	**(242,092,236)**
Commissions receivable	11,477,077	3,522,989	41,980,730	598,130	15,395,266	(563,208)	(450,283)	3,303,417	17,185,416	(972,049)	7,749,351	99,226,836	84,618,294
Commissions payable	(6,893,266)	(6,461,182)	(38,116,111)	(1,470,413)	(19,634,916)	(11,119,483)	(8,170,569)	(2,544,895)	(19,268,828)	(23,463,880)	(2,328,381)	(139,471,924)	(116,476,965)
Expenses of management	(4,767,558)	(5,465,528)	(25,365,659)	(1,257,634)	(19,252,597)	(19,753,010)	(14,454,188)	(2,939,342)	(17,148,630)	(20,412,334)	(3,804,446)	(134,620,929)	(112,792,870)
Total expenses and commissions	**(183,747)**	**(8,403,721)**	**(21,501,040)**	**(2,129,917)**	**(23,492,247)**	**(31,435,701)**	**(23,075,040)**	**(2,180,820)**	**(19,232,042)**	**(44,848,263)**	**1,616,524**	**(174,866,014)**	**(144,651,541)**
Underwriting profit / (loss)	**1,122,649**	**(1,620,231)**	**(7,195,908)**	**1,944,306**	**39,266,124**	**32,454,981**	**4,416,641**	**4,663,382**	**2,895,738**	**12,343,720**	**12,505,031**	**102,796,433**	**54,734,984**

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