



**INSURANCE**  
COMPANY LIMITED

ANNUAL REPORT AND  
FINANCIAL STATEMENTS 2014

SECURING FORTUNES



#### CORPORATE VISION

To be the best insurance provider in Africa.

#### CORPORATE MISSION STATEMENT

We bring peace of mind and satisfaction to our clients through protection from financial risks.

#### CORE VALUES

Customer focus

Innovation in response to change in needs

Profitability

Fairness

Empowerment and growth for the workforce

## Contents

4	Company Information
5	Chairman's Statement
6	Financial Highlights
7	Report of the Directors
8	Statement of Directors' Responsibilities
9	Report of the Independent Auditors
	<b>Financial Statements:</b>
10	Statement of Comprehensive Income
11	Statement of Financial Position
12	Statement of Changes in Equity
13	Statement of Cash Flows
14 - 38	Accounting Policies and Notes forming part of the Financial Statements
	<b>Supplementary Information:</b>
39	General Insurance Business Revenue Account



# Company Information

## Board of Directors

Mansukhlal Premchand Shah - Chairman  
Asok Ghosh - Managing Director  
Jimnah Mbaru  
Maganlal Dodhia  
Rajan Premchand Shah (Resigned w.e.f 15<sup>th</sup> May, 2014)  
Tejal Ketul Dodhia  
Mayank Patel  
Karim Anjarwalla  
Archna Bulsara - (Alternate director w.e.f 8<sup>th</sup> December, 2014)  
Dipak Shah - (Alternate director w.e.f 8<sup>th</sup> December, 2014)

## Registered Office

Plot No. L.R. 1870/III/420, School Lane, Westlands  
P.O. Box 66249, 00800  
NAIROBI

## Principal Place of Business

Crescent Business Centre  
7th Floor, Parklands Road, Parklands  
P.O. Box 39459, 00623  
NAIROBI

## Independent Auditor

PKF Kenya  
Certified Public Accountants  
P. O. Box 14077, 00800  
NAIROBI

## Company Secretaries

Sabre Registrars  
Certified Public Secretaries  
P.O. Box 66249, 00800  
NAIROBI

## Principal Bankers

CFC Stanbic Bank Limited  
NAIROBI

Diamond Trust Bank Kenya Limited  
NAIROBI

Guaranty Trust Bank (Kenya) Limited  
NAIROBI

Kenya Commercial Bank Limited  
NAIROBI

Habib Bank A. G. Zurich  
NAIROBI

# Chairman's Statement

## Chairman's Report for the Year 2014

It is my pleasure to present to you the 27th Annual Report and Financial Statements for the year ended 31<sup>st</sup> December 2014.

The macroeconomic stability witnessed in 2013 continued into 2014. Private consumption improved owing to stable interest rates and low inflation regime. Investments in the construction industry grew against a backdrop of stable interest rates, coupled with the ongoing government infrastructural projects and the private sector's resilient participation especially in the real estate development. Global oil prices declined in late 2014, which reduced oil import costs but was likely to be offset by rising imports related to the construction of the New Standard Gauge Railway (SGR) project.

Kenyan economy is estimated to grow at an average rate of 5.7% in 2014 compared to 4.7% in 2013. This was recorded in the growth of all the sectors of the economy mainly construction, finance and insurance, information and communication, agriculture, among others. The same was affected by insecurity concerns and negative travel advisories issued by the western governments.

The Kenyan shilling weakened by 5% against the US dollar in 2014 due to lower hard currency inflow from the tourism sector and strong growth momentum in the US economy resulting in performance of the US dollar vis-à-vis most world currencies. The Central Bank of Kenya (CBK) ran a cautious monetary policy that resulted in Kenyan shilling stability for a prolonged period within the year.

The overall inflation rate for 2014 declined to 6.02% in December 2014 from 7.2% in December 2013. The downward trend was attributed to a slowdown in the increase of food prices and a decline in fuel prices.

The insurance industry recorded gross written premium of Shs. 130.65 Billion in 2013 compared to Shs 108.54 Billion in 2012. The industry recorded a profit of 18.18 Billion before tax in 2013 compared to Shs. 14.64 Billion in 2012. The overall insurance penetration in 2013 was 3.44% compared to 3.16% in 2013. The same trend is expected once the 2014 figures are ready.

During the year under review the company achieved an increase of 13.42% in gross premium of Shs. 1.842 Billion up from Shs 1.624 Billion in 2013 despite various challenges. The asset base of the company has grown from Shs. 2.2 Billion to Shs 2.5 Billion, say 13.63% increase. The company continues to post good results with an underwriting profit of Shs. 101 Million during the year against Shs. 64 Million in 2013, registering an increase of 57.81%. The overall profit before tax currently stands at Shs 288 Million as against Shs. 199 Million in the previous year an increase of 44.72%.

During the year, the board appointed an external consultancy firm to help develop the Risk Management Framework. I am happy to inform that the said framework is in place now which will be regularly monitored. This will go a long way to manage various risks and their exposure in the near future.

Training and development of human resource continues to be a priority in our activities. During the year, we did carry out various trainings at all levels of staff to enhance skill and professionalism. These training programs have covered all aspects of our business.

Our sports team, especially the ladies netball team, continued its success story during last year's AKI sports. There have been few notable individuals performance too. We congratulate all members who participated in the event and wish them success in future.

In regard to our corporate social responsibility, we have donated to various bodies including Her Excellency The First Lady's Beyond Zero Campaign for the early maternal childhood deaths. We have also sponsored green houses in Kitui, participated in AKI medical camp, donated text books, stationeries, food items, solar lamps, etc to various children's homes among them St Manaseh Children Care Centre in Kitale, Jaipur Foot Trust, Ikutha Children's Home and Rock Foundation in Kibera. May God bless them.

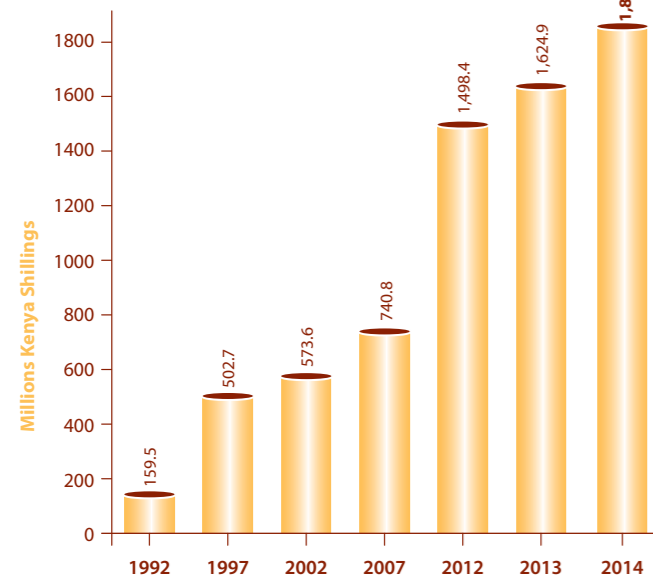
Finally, I wish to extend my sincere appreciation to the Board of Directors for their wise counsel, Employees for their dedication throughout the year, Intermediaries and Customers for their continued support. I also thank the Insurance Regulatory Authority for their support and guidance and expect the same in future while assuring them of our commitment to the industry's development in all respects.

**M.P. SHAH**  
**CHAIRMAN**

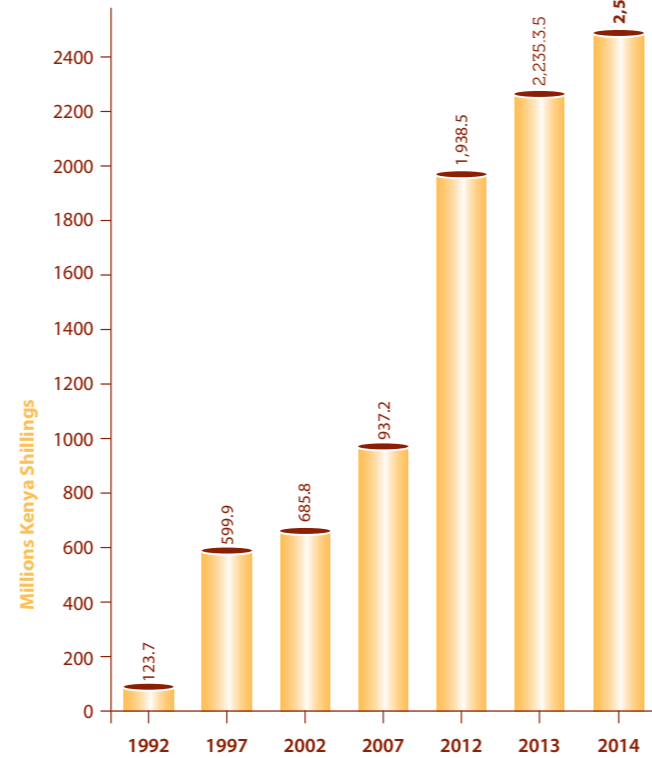
# Financial Highlights

## Gross Premium Written

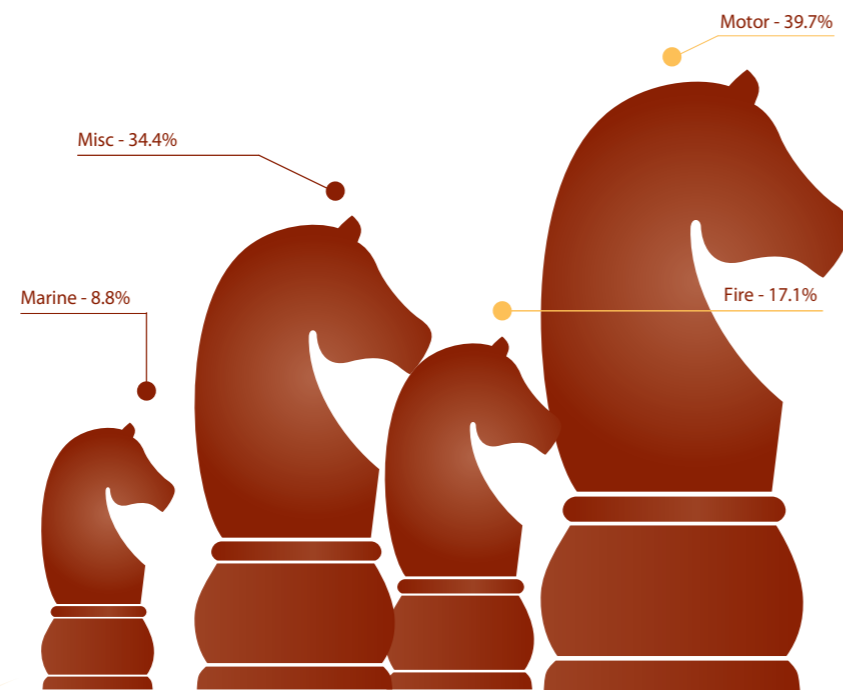
Gross Premium Written



## Total Assets



## Classwise Premium 2014



# Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31<sup>st</sup> December 2014 which disclose the state of affairs of the company.

### Principal activities

The company conducts all classes of general insurance business as defined by the Insurance Act, with the exception of aviation, bond investments and industrial life.

### Results and Dividend

Profit for the year of Shs. 243,695,156 (2013: Shs. 199,950,872) has been added to retained earnings. The directors propose a final dividend of Shs. 45,045,000 (2013: Shs. 51,975,000) for the year.

### Directors

The directors who held office during the year and to the date of this report are shown on page 4.

In accordance with the company's Articles of Association, no directors are due for retirement by rotation.

### Independent Auditor

The company's auditor, PKF Kenya, has indicated willingness to continue in office in accordance with the Kenyan Companies Act.

### BY ORDER OF THE BOARD

S. C. HANDA

### SECRETARY

NAIROBI.

Date: 26<sup>th</sup> February, 2015

## Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that 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 financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. Selecting and applying appropriate accounting policies; and
- iii. Making accounting estimates and judgements that are reasonable in the circumstances.

Approved by the board of directors on 26<sup>th</sup> February, 2015 and signed on its behalf by:

.....  
Director

.....  
Director

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31<sup>st</sup> December 2014 and of the company's 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.

## Report of the Independent Auditors



### REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OCCIDENTAL INSURANCE COMPANY LIMITED

We have audited the accompanying financial statements of Occidental Insurance Company Limited set out on pages 10 to 38, which comprise the statement of financial position as at 31<sup>st</sup> December 2014, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of 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 Kenyan Companies Act and for such internal control as management determines 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 independent 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management,

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 financial position of Occidental Insurance Company Limited as at 31<sup>st</sup> December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

#### Report on other legal requirements

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- iii) the company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Certified Public Accountants  
PIN NO. P051130467R

Nairobi  
Date: 25<sup>th</sup> March, 2015

*PKF Kenya*

The engagement partner responsible for the audit resulting in this independent auditor's report is

FCPA Rajan Shah - P/No. 1366.

# Statement of Profit or Loss and other Comprehensive Income

For The Year Ended 31<sup>st</sup> December 2014

Notes	2014 Shs	2013 Shs
Gross written premium	1,842,523,440	1,624,956,539
Gross earned premiums	1,792,678,938	1,565,929,687
Less: reinsurance premium ceded	(616,386,980)	(563,189,848)
<b>Net earned premiums</b>	<b>1,176,291,958</b>	<b>1,002,739,839</b>
Investment and other income	222,446,113	138,590,146
Commissions earned	175,061,125	157,131,779
<b>Net income</b>	<b>1,573,799,196</b>	<b>1,298,461,764</b>
Claims payable	1,252,455,232	939,067,946
Less: amounts recoverable from reinsurers	(499,827,289)	(291,272,690)
<b>Net claims payable</b>	<b>752,627,943</b>	<b>647,795,256</b>
Expenses	(244,671,416)	(217,582,969)
Commissions payable	(286,900,043)	(259,252,806)
<b>Profit before tax</b>	<b>289,599,794</b>	<b>173,830,733</b>
Gain on revaluation of investment properties	22,000,000	30,000,000
Share of profit of associate	-	30,793,266
Tax	(67,904,638)	(34,673,127)
<b>Profit for the year</b>	<b>243,695,156</b>	<b>199,950,872</b>
<b>Other comprehensive income:</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Change in fair value of quoted shares	1,339,823	12,216,592
Deferred income tax relating to components of other comprehensive income	(401,947)	(3,664,978)
<b>Total other comprehensive income</b>	<b>937,876</b>	<b>8,551,614</b>
<b>Total comprehensive income for the year attributable to shareholders of the company</b>	<b>244,633,032</b>	<b>208,502,486</b>
<b>Earnings per share</b>	<b>703.30</b>	<b>577.06</b>
<b>Final dividend proposed for the year</b>	<b>45,045,000</b>	<b>51,975,000</b>

The notes on pages 14 to 38 form an integral part of these financial statements.  
Report of the independent auditor - page 9.

# Statement of Financial Position

As at 31<sup>st</sup> December 2014

Notes	2014 Shs	2013 Shs
<b>CAPITAL EMPLOYED</b>		
Share capital	346,500,000	346,500,000
Retained earnings	487,723,934	323,723,778
Revaluation reserve	18,213,680	17,275,804
Proposed dividend	45,045,000	51,975,000
<b>Shareholders' funds</b>	<b>897,482,614</b>	<b>739,474,582</b>
<b>REPRESENTED BY:</b>		
<b>Assets</b>		
Property and equipment	27,175,287	31,448,838
Investment properties	440,000,000	400,000,000
Investment in associate	-	136,325,756
Kenya Motor Insurance Pool	11,702,369	10,816,909
Reinsurers' share of insurance contract liabilities	124,159,703	171,682,370
Other receivables and prepayments	46,106,876	40,997,105
Government securities - 'Held to maturity'	640,758,475	642,257,299
Commercial paper	18,573,673	22,288,408
Equity investments 'Available-for-sale':-		
- quoted investments	128,307,202	27,005,638
- unquoted investments	100,824,875	100,824,875
Receivables arising out of reinsurance arrangements	179,926,393	185,752,003
Receivables arising out of direct insurance arrangements	351,217,757	276,488,801
Deferred tax	6,155,418	10,803,566
Deposits with financial institutions	394,706,745	147,667,992
Cash and cash equivalents	76,573,259	30,913,594
<b>Total assets</b>	<b>2,546,188,032</b>	<b>2,235,273,154</b>
<b>Liabilities</b>		
Current tax	9,340,615	3,896,318
Insurance contract liabilities	850,681,507	777,585,452
Unearned premium reserve	510,131,875	460,287,373
Creditors arising from reinsurance arrangements	192,688,820	175,614,322
Other payables	85,862,601	78,415,107
<b>Total liabilities</b>	<b>1,648,705,418</b>	<b>1,495,798,572</b>
<b>Net assets</b>	<b>897,482,614</b>	<b>739,474,582</b>

The financial statements on pages 10 to 38 were authorised and approved for issue by the Board of Directors

on 26<sup>th</sup> February, 2015 and were signed on its behalf by:

.....  
Director

.....  
Director

.....  
Principal Officer

The notes on pages 14 to 38 form an integral part of these financial statements.

Report of the independent auditor - page 9.

## Statement of Changes in Equity

For The Year Ended 31<sup>st</sup> December 2014

	Notes	Share capital Shs	Retained earnings Shs	Revaluation Surplus Shs	Proposed dividends Shs	Total Shs
<b>Year ended 31<sup>st</sup> December 2013</b>						
At start of year		346,500,000	175,747,906	8,724,190	27,720,000	558,692,096
<b>Comprehensive income:</b>						
Profit for the year		-	199,950,872	-	-	199,950,872
<b>Other comprehensive income:</b>						
Change in fair value of 'Available-for-sale' investments	20(a)	-	-	12,216,592	-	12,216,592
Deferred income tax relating to components of other comprehensive income	21	-	-	(3,664,978)	-	(3,664,978)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>199,950,872</b>	<b>8,551,614</b>	<b>-</b>	<b>208,502,486</b>
<b>Transaction with owners</b>						
Dividends:						
- final for 2012 paid	30	-	-	-	(27,720,000)	(27,720,000)
- proposed final for 2013	30	-	(51,975,000)	-	51,975,000	-
<b>Total transaction with owners</b>		<b>-</b>	<b>51,975,000</b>	<b>-</b>	<b>24,255,000</b>	<b>(27,720,000)</b>
At end of year		346,500,000	323,723,778	17,275,804	51,975,000	739,474,582
<b>Year ended 31<sup>st</sup> December 2014</b>						
At start of year		346,500,000	323,723,778	17,275,804	51,975,000	739,474,582
<b>Comprehensive income:</b>						
Profit for the year		-	243,695,156	-	-	244,097,103
<b>Other comprehensive income:</b>						
Change in fair value of 'Available-for-sale' investments	20(a)	-	-	1,339,823	-	1,339,823
Deferred income tax relating to components of other comprehensive income	21	-	-	(401,947)	-	(401,947)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>243,695,156</b>	<b>937,876</b>	<b>-</b>	<b>244,633,032</b>
<b>Transaction with owners</b>						
Dividends:						
- interim 2014 and Final for 2013 paid	30	-	-	-	(86,625,000)	(86,625,000)
- proposed and paid Interim for 2014	30	-	(34,650,000)	-	-	-
Proposed final dividend for 2014	30	-	(45,045,000)	-	45,045,000	-
<b>Total transaction with owners</b>		<b>-</b>	<b>(79,695,000)</b>	<b>-</b>	<b>(6,930,000)</b>	<b>(86,625,000)</b>
At end of year		346,500,000	487,723,934	18,213,680	45,045,000	897,482,614

The notes on pages 14 to 38 form an integral part of these financial statements.

Report of the independent auditor - page 9.

## Statement of Cash Flows

As at 31<sup>st</sup> December 2014

	Notes	2014 Shs	2013 Shs
<b>Operating activities</b>			
Cash from operations	26	250,794,840	141,255,658
Tax paid		(58,214,140)	(60,902,144)
<b>Net cash from operations</b>		<b>192,580,700</b>	<b>80,353,514</b>
<b>Investing activities</b>			
Net movement in government securities		1,498,824	(19,265,834)
Interest received from current bank accounts	6	1,492,605	717,085
Interest income from fixed deposits	6	27,675,704	8,514,770
Interest income from Held-to-Maturity investments	6	74,140,674	75,036,955
Share of profit from Kenya Motor Insurance Pool	6	885,460	1,408,588
Proceeds from disposal of vehicles and equipment		404,235	491,381
Proceeds from disposal of quoted shares	20(b)	1,130	-
Proceeds from disposal of shares in associates		200,000,000	-
Purchase of vehicles and equipment	13	(5,107,778)	(27,965,769)
Purchase of investment property	14	(18,000,000)	-
Redemption of commercial papers	19(b)	3,714,735	3,706,014
Purchase of quoted shares	20(a)	(99,962,871)	-
<b>Net cash from/(used in) investing activities</b>		<b>186,742,718</b>	<b>42,643,190</b>
<b>Financing activities</b>			
Dividend paid	30	(86,625,000)	(27,720,000)
<b>Net cash (used in) financing activities</b>		<b>(86,625,000)</b>	<b>(27,720,000)</b>
<b>Increase in cash and cash equivalents</b>		<b>292,698,418</b>	<b>95,276,704</b>
<b>Movement in cash and cash equivalents</b>			
At start of year		178,581,586	83,304,882
Increase		292,698,418	95,276,704
At end of year	22	471,280,004	178,581,586

The notes on pages 14 to 38 form an integral part of these financial statements.

Report of the independent auditor - page 9.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES

### 1. GENERAL INFORMATION

The Company is incorporated in Kenya under the Companies Act (Cap. 486) as a private limited liability Company and is domiciled in Kenya. The address of its registered office is:

Plot No. L.R. 1870/III/420, School Lane, P.O. Box 66249, 00800 NAIROBI

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Basis of Preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### Going Concern

The financial performance of the company is set out in the Director's report and in the statement of profit or loss and the other comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk and capital management are set out in note 35 and 36.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

These financial statements comply with the requirements of the Companies Act (Cap. 486). The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New and amended standards adopted by the company

The following new and revised Standards and Interpretations have been adopted in the current year. Unless otherwise disclosed, their adoption has had no material impact on the amounts reported in these financial statements:

- Amendments to IFRS 2 in respect of definitions.
- Amendments to IFRS 3 in respect of accounting for contingent consideration.
- Amendments to IFRS 10,12 and IAS 27 in respect of definition of Investment Entity and the requirements for an entity that meets this definition not to consolidate its subsidiaries but instead measure them at fair value through profit or loss.
- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities clarifying the meaning of current legal enforceable right of set off and simultaneous realisation and settlement.
- Amendments to IAS 36 in respect of recoverable amount disclosures for non financial assets.
- Amendments to IAS 39 in respect of Novation of Derivatives and Continuation of Hedge Accounting.
- IFRIC Interpretation 21 - Levies which deals with recognition of liability to pay imposed by a Government.

#### New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- IFRS 5 in respect of guidance on reclassifications which will be effective for the accounting periods beginning on or after 1 July 2016.
- IFRS 7 in respect of guidance on service contracts representing continuing involvement in a transferred asset which will be effective for the accounting periods beginning on or after 1 July 2016.
- IFRS 9 in respect of Financial Instruments which will be effective for the accounting periods beginning on or after 1 January 2018.
- Amendments to IFRS 11 in respect of Accounting for Acquisitions of Interest in Joint Operations which will be effective for accounting periods beginning on or after 1 January 2016.
- IFRS 14 in respect of Regulatory Deferral Accounts which will be effective for accounting periods beginning on or after 1 January 2016.
- IFRS 15 in respect of Revenue from Contracts with Customers which will be effective for accounting periods beginning on or after 1 January 2017.
- Amendments to IAS 16 and IAS 38 in respect of Clarification of Acceptable Methods of Depreciation and Amortisation which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 41 in respect of Bearer Plants which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 19 in respect of Defined Benefit Plans: Employee Contributions which will be effective for accounting periods beginning on or after 1 July 2014.
- Annual improvements to IFRS's which will be effective for accounting periods beginning on or after 1 July 2014 as follows:

- IFRS 2 - Definition of vesting conditions
- IFRS 3 - accounting for contingent consideration in a business combination
- IFRS 8 - Aggregation of operating segments and reconciliation of total reportable segment assets to entity's assets
- IFRS 13 - Carrying of short term receivables and payables at invoiced amounts
- IAS 16 and IAS 38 - Proportionate restatement of depreciation/amortisation accumulated on revaluation
- IAS 24 - Management fee paid to a management entity
- IFRS 3 - Scope exclusions for joint ventures
- IAS 40 - Application of IAS 40 vs IFRS 3 on acquisition of investment property

The directors expect that the future adoption of IFRS 9, IFRS 15 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.



# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) Insurance Contracts (continued)

##### Recognition and measurement

##### Premium Income

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the reporting date, and is computed using the 1/24th method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

##### Claims Payable

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

##### Liability Adequacy Test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the 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.

##### Commissions

Commissions payable are recognised in the period in which the related premiums are written. Commissions receivable are recognised in income in the period in which the related premiums are ceded.

##### Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the 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 income statement. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. (Note 2 (g)).

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) Insurance Contracts (continued)

##### Recognition and measurement (continued)

##### Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivables are impaired, the company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in the income statement. The company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. (Note 2 (g)).

##### Salvage and subrogation reimbursements

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

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

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

#### c) Other Income

- Investment income is stated net of investment expenses.
- Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.
- Rental income is recognised as income in the period in which it is earned.
- Dividend income is recognised when the shareholders right to receive payment has been established.

#### d) Vehicle and Equipment

All vehicles and equipment are initially recorded at cost. All vehicles and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life. The vehicles and equipment are depreciated over a period of between 3 and 8 years.

Vehicles and equipment are reviewed at each reporting date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Asset residual values and their estimated useful lives are reviewed at each reporting date and adjusted if appropriate. Gains and losses on disposal of vehicles and equipment are determined immediately by reference to their carrying amounts.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### e) Investment Properties

Investment properties are long-term investments in land and buildings that are not occupied substantially for own use. Investment properties are initially recognised at cost and subsequently measured at fair value representing open market value at the reporting date and is determined annually by independent external registered valuers. Changes in fair value are recorded in profit or loss.

Gains and losses on disposal of investment property are determined by reference to their carrying amount and are taken into account in determining profit before tax.

#### f) Financial assets

##### a) Classification

The company classifies its financial assets in the following categories: loans and receivables, held-to-maturity financial assets, and 'Available-for-sale' financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than (a) those that the company upon initial recognition designates as available-for-sale; or (b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The company's loans and receivables comprise receivables arising out of reinsurance arrangements, receivables arising out of direct insurance arrangements, other receivables and prepayments and 'cash and cash equivalents' in the statement of financial position.

##### ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Were the Company to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available-for-sale.

##### iii) Available-for-sale' financial assets

'Available-for-sale' investments are those non-derivative financial assets that are not classified under any of categories (i) – (ii) above and are neither classified as fair value through profit or loss.

##### b) Recognition and derecognition

Regular way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and 'Available-for-sale' are recognised on trade-date, the date on which the company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets except those carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

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

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

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

Dividends on 'Available-for-sale' equity instruments are recognised in profit or loss when the company's right to receive payments is established. Both are included in the investment income line.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### g) Impairment of financial assets

##### i) Financial assets carried at amortised cost

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

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

- significant financial difficulty of the issuer;
- a breach of contract, such as default or delinquency in interest or principal repayments;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group.

##### ii) Assets carried at fair value

In the case of equity investments classified as 'Available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for 'Available-for-sale' financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income – is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as 'Available-for-sale' increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

#### h) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

#### i) Investments in associates

Associates are all entities over which the company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates or jointly controlled entities are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The company's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The company's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### i) Investments in associates (continued)

When the company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the company and its associates are eliminated to the extent of the company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the company.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

#### j) Accounting for 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 under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

#### k) Employee benefits

##### i) Retirement benefit obligations

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the company and employees. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The employees of the company are also members of the National Social Security Fund ("NSSF").

The company's contributions to the defined contribution scheme and NSSF are charged to the profit or loss in the year to which they relate.

##### ii) Other entitlements

The estimated monetary liability for employees accrued gratuity entitlement at the reporting date is recognised as an expense accrual.

#### l) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income, in which case, the tax is also recognised in the statement of other comprehensive income.

##### Current tax

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

##### Deferred tax

Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

#### m) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### n) Share capital

Ordinary shares are classified as equity.

#### o) Comparatives

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

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The estimation of future benefit payments from general insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims.

The determination of the liabilities under general insurance contracts is dependent on estimates made by the company. Estimates are made as to the expected amounts of claims of claims to be paid in future.

Judgment is also applied in the estimation of future contractual cash flows in relation to reported losses and losses incurred but not reported. There are several sources of uncertainty that need to be considered in the estimate of the ability that the company will ultimately pay for such claims. Case estimates are computed on the basis of the best information available at the time the records for the year are closed.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- **Impairment of receivables** - the company reviews their portfolio of receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cashflows expected.
- **Fair value measurement and valuation process** - In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available.
- **Useful lives of vehicles and equipment** - Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.
- **Held to maturity financial assets** - The directors have reviewed the company's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity.
- **Associates** - The directors assess whether or not the company has significant influence over any entity based on whether or not the company has the practical ability to participate in the financial and operating policy decisions of the investee but is not in control or joint control of those policies. In making their judgement, the directors considered the company's absolute size of holding in the entity and the relative size of dispersion of the shareholdings owned by the other shareholders.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The company's activities expose it to a variety of risks, including insurance risk and financial risk (credit risk, and the effect changes in debt and equity market prices and interest rates). The company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

This section summarises the way the company manages key risks:

#### Insurance risk

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

#### Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important types of risk are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate risk and price risks. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the company primarily faces due to the nature of its investments and liabilities are interest rate risk and credit risk.

#### a) Market risk

##### i) Price risk

The company is exposed to equity securities price risk because of investments in quoted securities classified as 'Available-for-sale'. The company is not exposed to commodity price risk. To manage its price risk arising from investments in equity the company diversifies its portfolio on several counters. Diversification of the portfolio is done in accordance with limits set by the company and guidelines per the Insurance Act. All quoted shares held by the company are traded on the Nairobi Securities Exchange (NSE). The table below summarises the impact of increases/decreases of the NSE on the company's post-tax profit for the year. The analysis is based on the assumption that the equity indexes had increased by 5% with all other variables held constant and all the company's equity instruments moved according to the historical correlation with the index:

Index	Impact on other comprehensive	
	2014 Shs	2013 Shs
Increase	4,490,752	945,197

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

#### (ii) Cash flow and fair value interest rate risk

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

The Company's fixed interest rate financial instruments are government securities and deposits with financial institutions. The Company has no variable interest rate instruments.

No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The government securities, cash and equivalents and deposits with financial institutions at year end totalled Shs 1,112,038,479 (2013: Shs. 820,838,885) representing a significant portion of total assets. At 31<sup>st</sup> December 2014, if the interest rates had been 5 basis points higher/lower with all other variables held constant, the effect on the post tax profit for the year would have been an increase/decrease by Shs. 32,808,438 (2013: Shs. 28,162,147).

#### b) Credit risk

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

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

Other areas where credit risk arises are deposits with banks and other receivables. The company has no significant concentrations of credit risk. The company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

#### Maximum exposure to credit risk before collateral held

	2014 Shs	2013 Shs
Receivables arising out of direct insurance arrangements	351,217,757	276,488,801
Receivables arising out of reinsurance arrangements	179,926,393	185,752,003
Reinsurers' share of insurance liabilities	124,159,703	171,682,370
Government securities	640,758,475	642,257,299
Commercial paper	18,573,673	22,288,408
Deposits with financial institutions	394,706,745	147,667,992
Cash and cash equivalents	76,573,259	30,913,594
Kenya Motor Insurance Pool	11,702,369	10,816,909
Other receivables and prepayments	46,106,876	40,997,105
	1,843,725,250	1,528,864,481

All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

No collateral is held for the remaining assets. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are past due or impaired except for the following amounts in receivables arising out of direct insurance arrangements.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

#### b) Credit risk

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

	2014 Shs	2013 Shs
Past due but not impaired	351,217,757	276,488,801
Impaired	-	1,000,000
Gross	351,217,757	277,488,801
Less: allowance for impairment	-	(1,000,000)
Net	351,217,757	276,488,801

Receivables arising out of direct insurance arrangements past due but not impaired:

	2014 Shs	2013 Shs
Past due but not impaired		
- by up to 30 days	83,201,266	254,952,198
- by 31 to 60 days	199,135,679	16,025,766
- over 60 days	68,880,812	5,510,837
Total past due but not impaired	351,217,757	276,488,801

The company does not hold any collateral for receivables arising out of direct insurance arrangements.

Receivables arising out of direct insurance arrangements individually impaired relates to brokers.

Receivables arising out of reinsurance arrangements are summarised as follows:

	2014 Shs	2013 Shs
Past due but not impaired (over 61 days)	179,926,393	185,752,003

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

#### c) Liquidity risk

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

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

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

#### Short term insurance business maturing between 1 to 5 years

##### As at 31<sup>st</sup> December

#### Liabilities

Insurance contract liabilities	850,681,507	777,585,452
Unearned premium	510,131,875	460,287,373
Creditors arising from reinsurance arrangements	192,688,820	175,614,322
Other payables	85,862,601	78,415,107

#### Total financial liabilities

**1,639,364,803**      **1,491,902,254**

#### d) Fair value estimation

Effective 1 January 2011, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1- Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value instruments are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the Company's assets and liabilities that are measured at fair value at 31<sup>st</sup> December 2014 and 31<sup>st</sup> December 2013.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

NOTES (continued)

## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

### d) Fair value estimation (continued)

31<sup>st</sup> December 2014

Assets - Financial assets	Level 1 Shs	Carried at cost Shs	Total Shs
Equity instruments at fair value through profit or loss			
- unquoted	-	100,824,875	100,824,875
- quoted	128,307,202	-	128,307,202
	128,307,202	100,824,875	229,132,077

31<sup>st</sup> December 2013

Assets - Financial assets	Level 1 Shs	Carried at cost Shs	Total Shs
Equity instruments at fair value through profit or loss			
- unquoted	-	100,824,875	100,824,875
- quoted	27,005,638	-	27,005,638
	27,005,638	100,824,875	127,830,513

### e) Financial assets by category

Financial assets	Receivables Shs	Financial assets at fair value through profit or loss upon initial recognition Shs	Held to maturity Shs	Total Shs
<b>As at 31<sup>st</sup> December 2014</b>				
Reinsurers' share of insurance contract liabilities	124,159,703	-	-	124,159,703
Investments at fair value through profit or loss				
- unquoted investments	-	100,824,875	-	100,824,875
- quoted investments	-	128,307,202	-	128,307,202
Government securities	-	-	640,758,475	640,758,475
Commercial paper	18,573,673	-	-	18,573,673
Receivables arising out of reinsurance arrangements	179,926,393	-	-	179,926,393
Receivables arising out of direct insurance arrangements	351,217,757	-	-	351,217,757
Deposits with financial institutions	394,706,745	-	-	394,706,745
Cash and cash equivalents	76,573,259	-	-	76,573,259
Other receivables and prepayments	46,106,876	-	-	46,106,876
Kenya Motor Insurance Pool	11,702,369	-	-	11,702,369
	1,202,966,775	229,132,077	640,758,475	2,072,857,327

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

NOTES (continued)

## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

### e) Financial assets by category (continued)

Financial assets	Receivables Shs	Financial assets at fair value through profit or loss upon initial recognition Shs	Held to maturity Shs	Total Shs
<b>As at 31<sup>st</sup> December 2014</b>				
As at 31 <sup>st</sup> December 2013				
Reinsurers' share of insurance contract liabilities	171,682,370	-	-	171,682,370
Investments at fair value through profit or loss				
- unquoted investments	-	100,824,875	-	100,824,875
- quoted investments	-	27,005,638	-	27,005,638
Government securities	-	-	642,257,299	642,257,299
Commercial paper	22,288,408	-	-	22,288,408
Receivables arising out of reinsurance arrangements	185,752,003	-	-	185,752,003
Receivables arising out of direct insurance arrangements	276,488,801	-	-	276,488,801
Deposits with financial institutions	147,667,992	-	-	147,667,992
Cash and cash equivalents	30,913,594	-	-	30,913,594
Other receivables and prepayments	40,997,105	-	-	40,997,105
Kenya Motor Insurance Pool	10,816,909	-	-	10,816,909
	886,607,182	127,830,513	642,257,299	1,656,694,994

### Financial liabilities

Financial liabilities	2014 Financial liabilities at amortised cost Shs	2013 Financial liabilities at amortised cost Shs
Insurance contract liabilities	850,681,507	777,585,452
Creditors arising from reinsurance arrangements	192,688,820	175,614,322
Other payables	85,862,601	78,415,107
	1,129,232,928	1,031,614,881

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

#### f) Capital management

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

#### Internally imposed capital requirements

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

- to comply with the capital requirements as set out in the Insurance Act;
- to comply with regulatory solvency requirements as set out in the Insurance Act;
- to safeguard the company's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business;
- to maintain an optimal capital structure to reduce the cost of capital; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

#### Externally imposed capital requirements

The Insurance Act requires each insurance company to hold the minimum level of paid up capital as follows:

- general insurance business companies Shs 300 million.

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

During the year the company met requirements for the minimum paid up capital for an insurance business as well as the solvency margin as prescribed by section 41 (1) of the Insurance Act.

### 5. Gross earned premiums

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

	2014 Shs	2013 Shs
<b>General insurance business:</b>		
Motor	651,981,725	544,842,847
Fire and engineering	407,366,851	400,648,911
Personal accident	49,612,282	47,656,926
Marine	171,485,697	146,232,274
Theft	144,408,372	133,974,009
Workmens compensation	299,749,904	216,260,501
Public liability	7,703,943	7,290,549
Miscellaneous	60,370,164	69,023,670
<b>Gross earned premiums</b>	<b>1,792,678,938</b>	<b>1,565,929,687</b>

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

### 6. Investment and other income

#### General insurance business:

	2014 Shs	2013 Shs
Interest from government securities	74,140,674	75,036,955
Interest from bank deposits	27,675,704	8,514,770
Interest on current bank accounts	1,492,605	717,085
Net rental income from investment properties (Note 14)	37,876,324	36,841,135
Dividends received from equity investments	4,304,831	4,999,598
Gain on sale of associates	63,674,244	-
Gain/(loss) on disposal of vehicles and equipment	334,273	(1,058,769)
Share of profit from Kenya Motor Insurance Pool (Note 16)	885,460	1,408,588
Other income	12,061,998	12,130,783
	<b>222,446,113</b>	<b>138,590,146</b>

### 7. Claims payable

#### Net claims payable by principal class of business:

	2014	2013
Motor	443,897,756	353,731,332
Fire and engineering	355,331,570	179,828,973
Personal accident	30,539,557	39,058,474
Marine	110,996,830	103,379,502
Theft	104,954,684	113,040,300
Workmen's compensation	188,562,868	131,245,356
Public liability	9,455,026	403,764
Miscellaneous	8,716,941	18,380,245
<b>Total claims and policyholder benefits payable</b>	<b>1,252,455,232</b>	<b>939,067,946</b>

### 8. Expenses

#### Administrative expenses

#### Employment:

Salaries and wages	100,121,581	82,912,337
Other staff expenses	6,832,901	4,106,234
<b>Total employment expenses</b>	<b>106,954,482</b>	<b>87,018,571</b>

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 8. Expenses (continued)

#### Administrative expenses

##### Other administrative expenses

	2014 Shs	2013 Shs
Directors remuneration	24,922,000	33,212,143
Legal and professional fees	7,366,224	2,494,922
Audit fees		
- Current year	2,389,300	2,022,834
Association charges	576,459	781,677
Premium tax	17,360,271	15,413,512
Policy holder compensation	4,570,640	4,012,994
Impaired amounts	246,547	-
Other administrative expenses	43,032,483	31,438,570
<b>Total other administrative expenses</b>	<b>100,463,923</b>	<b>89,376,652</b>
<b>Total administrative expenses</b>	<b>207,418,405</b>	<b>176,395,223</b>

#### Establishment:

Rent	19,633,969	22,331,064
Repairs and maintenance	1,814,508	3,028,083
Insurance and Licenses	4,393,490	4,082,270
Depreciation on vehicles and equipment	9,311,367	8,929,454
Other establishment expenses	2,063,588	2,437,107
<b>Total other operating expenses</b>	<b>37,216,922</b>	<b>40,807,978</b>

#### Finance costs

Bank overdraft interest	36,089	379,768
<b>Total expenses</b>	<b>244,671,416</b>	<b>217,582,969</b>

### 9. Employee benefits expense

The following items are included within employee benefits expense:

	2014 Shs	2013 Shs
Salaries and wages	93,959,981	78,279,137
Defined benefit scheme and National Social Security Fund	6,161,600	4,633,200
Staff redundancy costs	4,658,609	2,695,592
	<b>104,780,190</b>	<b>85,607,929</b>

### 10. Tax

Current tax	63,658,436	49,379,834
Deferred tax (credit) (Note 21)	4,246,201	(14,706,707)
<b>Tax charge</b>	<b>67,904,638</b>	<b>34,673,127</b>

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

The company's current income tax charge is computed in accordance with income tax rules applicable to composite insurance companies. A reconciliation of the tax charge is shown below:

	2014 Shs	2013 Shs
Profit before tax	289,599,794	173,830,733
Tax calculated at a tax rate of 30% (2013: 30%)	86,879,938	52,149,220
Tax effect of:		
- expenses not allowable for tax purposes	7,303,135	4,367,033
- (over) provision of deferred tax in prior years	6,084,526	(9,000,000)
- income not subject to tax	(32,362,960)	(12,843,126)
<b>Tax charge</b>	<b>67,904,638</b>	<b>34,673,127</b>

### 11. Share capital

#### Authorised

500,000 (2013: 500,000) ordinary shares of Shs. 1,000 each

**500,000,000**      **500,000,000**

#### Issued and fully paid:

346,500 Ordinary shares (2013: 346,500) of Shs. 1,000 each

**346,500,000**      **346,500,000**

### 12. Retained earnings

Included within retained earnings of 2014 are surpluses arising from the revaluation of investment properties whose distribution is subject to restrictions imposed by legislation. The Commissioner of Insurance has placed restrictions on distribution of gains arising from the revaluation of investment properties. As at 31<sup>st</sup> December 2014, the cumulative fair value gains on the investment properties amounted to Shs. 168,251,515 (2013: Shs. 231,748,515).



# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

NOTES (continued)

## 13. Vehicles and equipment

Year ended 31<sup>st</sup> December 2014

	Motor vehicles Shs	Computers Shs	Fittings and equipment Shs	Total Shs
<b>Cost</b>				
At start of year	6,960,613	26,683,749	40,264,309	73,908,671
Additions	500,000	2,145,657	2,462,121	5,107,778
Disposals	(700,000)	(1,861,505)	(62,408)	(2,623,913)
At end of year	6,760,613	26,967,901	42,664,022	76,392,536
<b>Depreciation</b>				
At start of year	5,047,645	22,574,760	14,837,428	42,459,833
On disposal	(700,000)	(1,835,275)	(18,676)	(2,553,951)
Charge for the year	1,013,168	4,164,906	4,133,293	9,311,367
At end of year	5,360,813	24,904,391	18,952,045	49,217,249
<b>Net book value</b>	<b>1,399,800</b>	<b>2,063,510</b>	<b>23,711,977</b>	<b>27,175,287</b>

Year ended 31<sup>st</sup> December 2013

	Motor vehicles Shs	Computers Shs	Fittings and equipment Shs	Total Shs
<b>Cost</b>				
At start of year	6,960,613	25,712,192	30,440,636	63,113,441
Additions	-	6,282,673	21,683,096	27,965,769
Disposals	-	(5,311,116)	(11,859,423)	(17,170,539)
At end of year	6,960,613	26,683,749	40,264,309	73,908,671
<b>Depreciation</b>				
At start of year	3,932,492	23,924,644	21,293,633	49,150,769
On disposal	-	(5,222,416)	(10,397,974)	(15,620,390)
Charge for the year	1,115,153	3,872,532	3,941,769	8,929,454
At end of year	5,047,645	22,574,760	14,837,428	42,459,833
<b>Net book value</b>	<b>1,912,968</b>	<b>4,108,989</b>	<b>25,426,881</b>	<b>31,448,838</b>

## 14. Investment properties

	2014 Shs	2013 Shs
At start of year	400,000,000	370,000,000
Additions	18,000,000	-
Fair value gain	22,000,000	30,000,000
<b>At end of year</b>	<b>440,000,000</b>	<b>400,000,000</b>

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

NOTES (continued)

## 14. Investment properties (continued)

Investment properties include property held under finance leases which are classified and accounted for as investment properties.

The fair value of investment property was determined by reference to the market prices of similar properties of the type and in the area in which the property is situated. The valuation was carried out on 31<sup>st</sup> December 2014 by Milligan Limited, an independent professional valuer with recent experience in the location and category of the investment property being valued.

The book values of properties was adjusted and the resultant surplus was credited to the statement of profit or loss. Direct operating expenses arising on the investment property amounted to Shs. 5,953,573 (2013: Shs. 5,771,932).

## 15. Investment in associates

At start of year	136,325,756	126,000,000
Share of profit of associate	-	30,793,266
Dividend income received from associate	-	(20,467,510)
Disposal of associate	(136,325,756)	-
<b>At end of year</b>	<b>-</b>	<b>136,325,756</b>

1,260,000 Ordinary shares of Shs. 100 each in Dhaman Limited

Dhaman Limited is registered in Kenya as a private Limited liability company and its principal activity is that of investments. The year end of Dhaman Limited is 31<sup>st</sup> December.

## 16. Kenya motor insurance pool (KMIP)

At start of year	10,816,909	11,128,297
Claims paid during the year	-	4,460
Amount received	-	(1,724,436)
Share of profit (Note 6)	885,460	1,408,588
<b>At end of year</b>	<b>11,702,369</b>	<b>10,816,909</b>

This represents the company's share of the net assets of the pool. This investment is recoverable from the pool through a share of investment income generated by the pool's investments annually.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 17. Reinsurers' share of insurance contract liabilities

	2014 Shs	2013 Shs
Short term insurance business		
Reinsurer's share of claims outstanding	124,159,703	171,682,370

### 18. Other receivables and prepayments

Prepayments	3,746,900	2,672,420
Staff loans and advances	2,350,795	1,460,632
Rent receivable	7,395,035	6,046,211
Deposits	29,024,470	26,976,445
Other receivables	3,589,676	3,841,397
	46,106,876	40,997,105

### 19. a) Government securities - 'Held to maturity'

	2014 Shs	2013 Shs
Between 1 and 5 years of the reporting date	31,857,336	45,776,355
After 5 years of the reporting date	608,901,139	596,480,944
	640,758,475	642,257,299

Treasury bonds amounting to Shs. 90,000,000 as at 31<sup>st</sup> December 2014 (2013: Shs. 90,000,000) are held under lien in favour of the Commissioner of Insurance in accordance with Section 32 of the Insurance Act.

### b) Commercial paper

	2014 Shs	2013 Shs
Infrastructure bond	18,573,673	22,288,408

### c) Weighted average effective interest rates

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

	2014 %	2013 %
Government securities	12	12
Deposits with financial institutions	10	10.89
Commercial paper	12.50	12.50

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 20. a) Quoted investments

	2014 Shs	2013 Shs
'Available-for-sale'		
At start of year	27,005,638	14,789,046
Additions	99,962,871	-
Disposal	(1,130)	-
Fair value gain (Note 6)	1,339,823	12,216,592
At end of year	128,307,202	27,005,638

### b) Unquoted investments

	2014 Shs	2013 Shs
At start and end of year	100,824,875	100,824,875
The investment in unquoted investments can be summarised as:		
22,347 (2013: 22,347) Ordinary shares in Equatorial Commercial Bank Limited	824,875	824,875
100,000 (2013: 100,000) Ordinary shares of in Victoria Commercial Bank Limited	100,000,000	100,000,000
	100,824,875	100,824,875

### 21. Deferred tax

Deferred income tax is calculated in full, on all temporary differences under the liability method using a principal tax rate of 30% (2013: 30%). The movement on the deferred income tax account is as follows:

	2014 Shs	2013 Shs
At start of year	(10,803,566)	238,163
(Credit)/charge to profit or loss (Note 10)	4,246,201	(14,706,707)
Charge/(credit) to other comprehensive income	401,947	3,664,978
At end of year	(6,155,418)	(10,803,566)

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

	At start of year Shs	Charge/ (credit) to profit or loss Shs	At end of year Shs
Deferred income tax (assets)			
Excess depreciation over capital allowances	(9,140,040)	5,643,784	(3,496,256)
Available for sale financial assets	3,573,357	-	3,573,357
Gratuity provisions	(5,236,883)	(1,397,583)	(6,634,466)
	(10,803,566)	4,246,201	(6,557,365)

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 22. Cash and cash equivalents

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

	2014 Shs	2013 Shs
Cash and bank balances	76,573,259	30,913,594
Fixed deposits maturing within 90 days	394,706,745	147,667,992
	<u>471,280,004</u>	<u>178,581,586</u>

### 23. Insurance contract liabilities

Short term non-life insurance contracts:

- claims reported and claims handling expenses
- claims incurred but not reported (IBNR)

	2014 Shs	2013 Shs
	685,342,561	701,740,061
	164,157,406	74,663,851
	<u>849,499,967</u>	<u>776,403,912</u>

Long term insurance contracts:

- claims reported and claims handling expenses

	2014 Shs	2013 Shs
	1,181,540	1,181,540
<b>Total gross insurance liabilities</b>	<u>850,681,507</u>	<u>777,585,452</u>

### 24. Unearned premium

- At start of year
- Net increase during the year
- At end of year

	2014 Shs	2013 Shs
	460,287,373	401,260,521
	49,844,502	59,026,852
	<u>510,131,875</u>	<u>460,287,373</u>

### 25. Other payables

- Rental deposits
- Other accrued expenses
- Accrued gratuity
- Other liabilities

	2014 Shs	2013 Shs
	6,271,739	6,224,809
	5,616,460	2,959,721
	27,506,068	22,847,459
	46,468,334	46,383,118
	<u>85,862,601</u>	<u>78,415,107</u>

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 26. Cash from operations

Reconciliation of profit before tax to cash from operations:

	2014 Shs	2013 Shs
Profit before tax	289,599,794	173,830,733
<b>Adjustments for:</b>		
Investment income (Note 6)	(104,194,443)	(85,677,398)
(Gain)/loss on disposal of vehicles and equipment	(334,273)	1,058,769
Depreciation on vehicles and equipment (Note 13)	9,311,367	8,929,454
Dividend received from associate (Note 15)	-	20,467,510
Gain on sale of shares in associate	(63,674,244)	-
Changes in:		
- insurance contract liabilities (Note 23)	73,096,055	39,610,201
- provisions for unearned premium (Note 24)	49,844,502	59,026,852
- receivables arising out of direct insurance arrangements	(74,728,956)	(122,917,705)
- other receivables and prepayments	(5,109,771)	727,372
- other payables	7,447,494	(1,294,588)
- increase in creditors arising out of reinsurance arrangements	17,074,498	30,387,454
- movement in reinsurance debtors	47,522,667	16,795,617
- net movement in Kenya Motor Insurance Pool	(885,460)	311,388
- receivables arising out of reinsurance arrangements	5,825,610	-
<b>Cash from operations</b>	<u>250,794,840</u>	<u>141,255,658</u>

### 27. Related party transactions

#### Key management personnel compensation

The remuneration of directors and other key management during the year were as follows:

	2014 Shs	2013 Shs
Fees for services as a directors	575,000	700,000
Other remuneration	24,347,000	32,512,143
	<u>24,922,000</u>	<u>33,212,143</u>

### 28. Earnings per share

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of the bonus shares issued if any.

	2014 Shs. '000	2013 Shs. '000
Net profit for the year attributable to shareholders (Shs. '000)	243,695,156	199,950,872
Adjusted weighted average number of ordinary shares in issue ('000s)	346,500	346,500
Earnings per share - basic and diluted (Shs.)	<u>703.30</u>	<u>577.06</u>

There were no potentially dilutive shares outstanding as at 31<sup>st</sup> December 2014 and 2013.

# Financial Statements

For The Year Ended 31<sup>st</sup> December 2014

## NOTES (continued)

### 29. (a) Capital commitments

Capital expenditure commitments as at the year end were as follows:

#### Authorised but not contracted for:

Software

	2014 Shs	2013 Shs
Software	2,223,000	2,223,000

#### (b) Operating lease commitments

Company as a lessee

Rental expenses incurred during the year was Shs. 19,633,969 (2013: Shs 22,331,064).

At the end of the reporting period the company had outstanding commitments under operating leases which fall due as follows:

	2014 Shs	2013 Shs
Not later than 1 year	10,700,084	10,700,084
Later than 1 year and not later than 5 years	43,140,044	43,140,044
	53,840,128	53,840,128

Company as a lessor

Rental income earned during the year was Shs. 43,829,897 (2013: Shs 42,613,067).

At the end of the reporting period the company had contracted with tenants for the following future lease receivables:

	2014 Shs	2013 Shs
Within 1 year	45,662,206	49,001,472
In the second to fifth year inclusive	101,736,411	108,400,000
	147,398,617	157,401,472

### 30. Dividends

The Directors propose a final dividend of Shs. 45,045,000 (2013: Shs. 51,975,000) for the year.

In accordance with the Kenyan Companies Act (Cap. 486), these financial statements reflect this dividend payable, which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 31<sup>st</sup> December 2014.

Payment of dividend is subject to withholding tax at a rate of 0%, 5% or 10% depending on the tax status or residency of the shareholder.

### 31. Contingent liabilities

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

The company has issued various custom bonds. No material loss is anticipated from these.

### 32. Country of incorporation

Occidental Insurance Company Limited is incorporated in Kenya under the Companies Act (Cap. 486) as a private limited liability company and is domiciled in Kenya.

### 33. Presentation currency

The financial statements are presented in Kenya Shillings ('Shs').

## General Insurance Business Revenue Account

### Class of insurance business

For The Year Ended 31<sup>st</sup> December 2014

Class of insurance business	Engineering		Fire Domestic		Fire Industrial		Public Liability		Marine		Motor Private		Motor Commercial		Personal Accident		Theft		Workmen's Compensation		Misc		2013 Total	
	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	
Gross premium written	91,494,241	41,443,549	272,680,504	7,637,644	162,040,981	277,689,552	453,296,083	50,827,814	136,667,355	290,291,682	58,454,035	1,842,523,440	1,624,956,539											
Change in gross UPR	(1,339,392)	9,400,281	(6,312,332)	66,299	9,444,716	(5,260,686)	(73,743,224)	(1,215,532)	7,741,017	9,458,222	1,916,129	(49,844,502)	(59,026,852)											
Gross earned premiums	90,154,849	50,843,830	266,368,172	7,703,943	171,485,697	272,428,866	379,552,859	49,612,282	144,408,372	299,749,904	60,370,164	1,792,678,938	1,565,929,687											
Less: reinsurance payable	76,059,611	15,023,519	234,256,282	6,145,338	90,322,584	14,672,806	16,365,908	35,178,388	84,160,462	5,911,453	38,290,629	616,386,980	563,189,848											
Net earned premiums	14,095,238	35,820,311	32,111,890	1,558,605	81,163,113	257,756,060	363,186,951	14,433,894	60,247,910	293,838,451	22,079,535	1,176,291,958	1,002,739,839											
Gross claims paid	53,341,356	52,757,638	257,778,711	8,598,734	113,799,257	172,352,846	197,372,512	31,336,121	109,364,984	126,807,073	8,327,279	1,131,836,511	904,971,520											
Change in gross o/s claims	(629,168)	(2,768,406)	(5,148,561)	856,292	(2,802,427)	11,898,212	62,274,186	(796,564)	(4,410,300)	61,755,795	389,662	120,618,721	34,096,426											
Less: Reinsurance	39,903,258	19,793,698	224,298,744	8,201,842	76,245,579	2,021,106	19,669,331	24,667,361	73,133,008	6,235,690	5,657,672	499,827,289	291,272,690											
Net claims incurred	12,808,930	30,195,534	28,331,406	1,253,184	34,751,251	182,229,952	239,977,367	5,872,196	31,821,676	182,327,178	3,059,269	752,627,943	647,795,256											
Commissions receivable	(22,848,920)	(4,153,300)	(79,670,773)	(1,572,839)	(21,156,597)	(2,088,443)	(2,698,953)	(8,937,921)	(21,195,226)	-	(10,738,153)	(175,061,125)	(157,131,779)											
Commissions payable	18,473,542	8,150,306	66,428,335	1,492,631	28,285,839	27,448,115	45,094,190	9,283,529	19,839,685	56,646,572	5,757,299	286,900,043	259,252,806											
Expenses of management	2,519,960	6,403,989	5,740,994	278,649	14,510,419	46,081,873	64,930,908	2,580,505	10,771,179	52,532,718	3,947,401	210,298,595	187,978,340											
Total expenses and commissions	(1,855,418)	10,400,995	(7,501,444)	198,441	21,639,661	71,441,545	107,326,145	2,926,113	9,415,638	109,179,290	(1,033,453)	322,137,513	290,099,367											
Underwriting profit (loss)	3,141,726	(4,776,218)	11,281,928	106,980	24,772,201	4,084,563	15,883,439	5,635,585	19,010,596	2,331,983	20,053,719	101,526,502	64,845,216											



INSURANCE COMPANY LTD

**NAIROBI**

Crescent Business Centre 7th Floor, Parklands Road - Parklands | P.O. Box 39459 - 00623 Nairobi, Kenya

Tel; +254 (20) 232602, 8155965/6, 80244149 | Cell; 0722 202 926, 0734 600 485 | Fax; +254 (20) 3750193

Email; [enquiries@occidental-ins.com](mailto:enquiries@occidental-ins.com)

Website: [www.occidental-ins.com](http://www.occidental-ins.com)

**MOMBASA OFFICE (BRANCH OFFICE)**

1st Floor, City House, Nyerere Avenue | P. O. Box 82788 80100, Mombasa, Kenya | Tel: 041 229392/2 | Fax: 041 227252

Email: [occidentalmsa@alfakenya.com](mailto:occidentalmsa@alfakenya.com)

**[www.alfakenya.com](http://www.alfakenya.com)**