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# KENINDIA ASSURANCE COMPANY LIMITED
# AND SUBSIDIARIES

## ANNUAL REPORT
## AND
## FINANCIAL STATEMENTS

## 31 DECEMBER 2015

## KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES
## YEAR ENDED 31 DECEMBER 2015

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## KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

### COMPANY INFORMATION
### FOR THE YEAR ENDED 31 DECEMBER 2015

| | | |
|---|---|---|
| **Registered Office** | Kenindia House<br>Loita Street<br>P O Box 44372<br>NAIROBI GPO 00100<br>KENYA | |
| **Website** | www.kenindia.com | |
| **Email** | kenindia@kenindia.com | |
| **Subsidiary Companies** | Kenya Pravack Limited<br>Kenindia Asset Management Company Limited<br>Tanzindia Assurance Company Limited | |
| **Board of Directors** | Mr M N Mehta | (Chairman) |
| | Dr M P Chandaria, OBE, EBS | (Vice-Chairman) |
| | Mr V Bharatan | Managing Director |
| | Hon Simeon Nyachae, EGH | |
| | Mr S K Roy | (Alternate Mr S B Mainak) |
| | Mr Sanath A Kumar | (Appointed on 8 September 2015) |
| | Mr A K Roy | (Alternate Mr Y R Sunkara) |
| | Mr M A Kharat | (Alternate Mrs Asha Nair, ceased on 30 September 2015) |
| | Mr A N Ngugi, OGW | Director |
| | Dr B M Sabana | Director |
| | Ms S M R M'mbijjewe | (Ceased on 1 July 2015) |
| **Company Secretary** | Mr N P Kothari FCPS (Kenya)<br>Mr. N. P. Kothari<br>Empress Plaza<br>P.O. Box 764 – 00606<br>Nairobi | |
| **Auditors** | Deloitte & Touché<br>Certified Public Accountants (Kenya)<br>Deloitte Place<br>Waiyaki Way, Muthangari<br>P O Box 40092 - 00100, GPO | |
| **Management Team** | Mr V Bharatan | Managing Director/Principal Officer |
| | Mr J K Macharia | Chief Operating Officer |
| | Mr S V Deshkulkarni | Financial Controller (Appointed 24 April 2015) |
| | Mr P V Saseendran | General Manager - Life (Appointed on 5 May 2015) |
| | Mr R Sudhakar | General Manger - Life (Resigned on 22 May 2015) |
| | Mr I Singh | General Manager, Operations |

**KENINDIA ASSURANCE COMPANY LIMITED**
**REPORT OF THE DIRECTORS**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December2015, which disclose the state of financial affairs of the Group comprising Kenindia Assurance Company Limited and its subsidiaries KenyaPravack Limited, Kenindia Asset Management Limited, and Tanzindia Assurance Company Limited.

## PRINCIPAL ACTIVITIES

The Group underwrites all classes of life and non-life insurance risksas defined by the Insurance Act. It also issues products to provide its customers with asset management solutions for their savings and retirement needs.

## RESULTS

| | KShs'000 |
|---|---|
| Group profit before tax | 856,715 |
| Taxation charge | (33,024) |
| Group profit after tax | 823,691 |
| Non-controlling interest | (11,159) |
| **Net profit for the year transferred to reserves** | **812,532** |

## DIVIDENDS

The directors recommend the payment of a dividend of KShs56.14 million representing KShs 10 per share (2014: Nil).

## DIRECTORS

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

## STAFF

The boards of directors wish to extend their appreciation to the management and all our staff for all their good work in the year.

## AUDITORS

The Auditors, Deloitte &Touche have expressed their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap 486) and subject to Section 56(4) of the Insurance Act (Cap 487).

By order of the Board

**N P Kothari**
Secretary

23rd March2016

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**
**ON FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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 group and of the company as at the end of the financial year and of their operating results for that year. It also requires the directors to ensure that the company and its subsidiaries keep proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the group and of the company. They are also responsible for safeguarding the assets of the group.

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of their operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

..............................................................
**Director**

..............................................................
**Director**

..............................................................
**Managing Director/Principal Officer**

23rd March 2016

**KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES**
**REPORT OF THE CONSULTING ACTUARY**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

I have conducted an actuarial valuation of the life assurance business and an insurance liability valuation of the short term business of Kenindia Assurance Company Limited as at 31 December 2015.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. Those principles require prudent provision for insurance liabilities, future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion:

(i) TheLife Assurance Business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of Life Insurance Business did not exceed the amount of funds of the Life Assurance Business at 31 December 2015.

(ii) The calculation of the short term insurance liabilities as at 31 December 2015 is appropriate and that the insurance liabilities as per the valuation are sufficiently prudent and appropriate given the nature of the business and existing liabilities.

Name of Actuary: **MR. SAKET SINGHAL**

SAKET SINGHAL
9987050647

Signed: 23rd March 2016

**Deloitte.**

Deloitte & Touche
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Kenya

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## REPORT OF THE INDEPENDENT AUDITORS
## TO THE MEMBERS OF KENINDIA ASSURANCE COMPANY LIMITED

### Report on the Financial Statements

We have audited the accompanying financial statements of Kenindia Assurance Company Limited (the "Company") and its subsidiaries (together "the Group"), set out on pages 7 to 109, which comprise the consolidated and the company statements of financial position as at 31 December 2015, the consolidated and company statements of profit or loss, the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Directors' Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the group and of the company as at 31 December 2015 and of the group's and company's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

**INDEPENDENT AUDITORS' REPORT**
**TO THE MEMBERS OF KENINDIA ASSURANCE COMPANY LIMITED (CONTINUED)**

**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 considered necessary for the purposes of our audit;

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

(iii) the company's statement of financial position (balance sheet) and statement of profit or loss (profit and loss account) is in agreement with the books of account.

*The engagement partner responsible for the audit resulting in this independent auditors' report is* ***FCPA J W Wangai (P/No 1118).***

Deloitte & Touche

**Certified Public Accountants (Kenya)**
**Nairobi, Kenya**

31 March **2016**

## KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS
### FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|---|
| **Premium income** | | | | | | | |
| Gross earned premium income | 2a | 1,045,022 | 3,500,257 | 4,545,279 | 738,512 | 3,479,865 | 4,218,377 |
| Premium ceded to reinsurers | 2b | (23,389) | (1,553,091) | (1,576,480) | (23,957) | (1,556,695) | (1,580,652) |
| **Net earned premium income** | | **1,021,633** | **1,947,166** | **2,968,799** | **714,555** | **1,923,170** | **2,637,725** |
| **Other income** | | | | | | | |
| Investment income | 3 | 2,733,047 | 1,284,063 | 4,017,110 | 2,183,649 | 287,850 | 2,471,499 |
| Commissions income | 4a | - | 513,202 | 513,202 | - | 436,967 | 436,967 |
| Other income | 4c | (168) | 61,936 | 61,768 | 3,839 | 22,924 | 26,763 |
| **Net other income** | | **2,732,879** | **1,859,201** | **4,592,080** | **2,187,488** | **747,741** | **2,935,229** |
| **Benefits and claims expense** | | | | | | | |
| Claims and policy holder benefits expense | 5a | (2,202,085) | (2,108,970) | (4,311,055) | (1,364,784) | (2,550,926) | (3,915,710) |
| Surrender and annuity incurred | 5a | (1,034,041) | - | (1,034,041) | (1,126,544) | - | (1,126,544) |
| Claims ceded to reinsurers | 5a | - | 818,431 | 818,431 | - | 916,584 | 916,584 |
| **Net benefits and claims expense** | | **(3,236,126)** | **(1,290,539)** | **(4,526,665)** | **(2,491,328)** | **(1,634,342)** | **(4,125,670)** |
| **Expenses** | | | | | | | |
| Operating expenses | 5b | (261,650) | (688,431) | (950,081) | (211,434) | (679,214) | (890,648) |
| Other expenses | 6a | (51,012) | (61,931) | (112,943) | (12,097) | (54,055) | 66,152) |
| Allowance for credit losses | 22 | - | (26,796) | (26,796) | - | (50,282) | 50,282) |
| Write off of rental debtors | | (1,015) | - | (1,015) | (4,722) | (594) | (5,316) |
| Bad debts written off | | - | (1,403) | (1,403) | - | - | - |
| Write off of old balances | | - | (326,036) | (326,036) | - | - | - |
| Commissions expense | 4b | (137,205) | (570,100) | (707,305) | (116,653) | (558,220) | (674,873) |
| Premium levy | | (6,616) | (37,193) | (43,809) | (5,018) | (23,898) | 28,916) |
| Contribution to policy holders compensation fund | | (888) | (7,223) | (8,111) | (791) | (6,519) | (7,310) |
| **Total expenses** | | **(458,386)** | **(1,719,113)** | **(2,177,499)** | **(350,715)** | **(1,372,782)** | **(1,723,497)** |
| **Profit/(loss) before taxation** | 8 | **60,000** | **796,715** | **856,715** | **60,000** | **(336,213)** | **(276,213)** |
| Income tax credit/(expense) | 7c | 2,544 | (35,568) | (33,024) | 55,656 | 101,085 | 56,741 |
| **Profit/(loss)for the year** | | **62,544** | **761,147** | **823,691** | **115,656** | **(235,128)** | **(119,472)** |
| **Basic earnings/(loss) per share (KShs)** | 8 | - | - | **144.74** | - | - | **22.43)** |
| **Diluted earnings/(loss) per share (KShs)** | 8 | - | - | **144.74** | - | - | **22.43)** |
| **Attributable to:** | | | | | | | |
| Equity holders of parent | | 62,544 | 749,988 | 812,532 | 115,656 | (241,548) | (125,892) |
| Non-controlling interest | | - | 11,159 | 11,159 | - | 6,420 | 6,420 |
| | | **62,544** | **761,147** | **823,691** | **115,656** | **(235,128)** | **(19,472)** |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|---|
| **Profit/(loss) for the year** | | **62,544** | **761,147** | **823,691** | **115,656** | **(235,128)** | **(119,472)** |
| **Other comprehensive income** | | | | | | | |
| Items *that may be reclassified to profit or loss in subsequent periods:* | | | | | | | |
| Net (gain)/loss on available-for-sale investments: | | | | | | | |
| - Government securities | 25 | - | (51,768) | (51,768) | - | 31,870 | 31,870 |
| Exchange differences on translation of foreign operations | 9 | - | (2,672) | (2,672) | - | (2,911) | (2,911) |
| | | - | (54,440) | (54,440) | - | 28,959 | 28,959 |
| *Items that will not be reclassified to profit or loss in subsequent periods:* | | | | | | | |
| Revaluation of buildings | | - | 57,033 | 57,033 | - | 25,404 | 25,404 |
| Deferred tax on revaluation | | - | (17,110) | (17,110) | - | (7,621) | (7,621) |
| Depreciation released on revaluation | | - | 14,300 | 14,300 | - | 13,661 | 13,661 |
| | 9 | - | 54,223 | 54,223 | - | 31,444 | 31,444 |
| **Total other comprehensive income for the year net of tax** | | **-** | **(217)** | **(217)** | **-** | **60,403** | **60,403** |
| **Total comprehensive income** | | **62,544** | **760,930** | **823,474** | **115,656** | **(174,725)** | **(59,069)** |
| **Attributable to:** | | | | | | | |
| Equity holders of the parent | | 62,544 | 749,771 | 812,315 | 115,656 | (181,145) | (65,489) |
| Non-controlling interest | | - | 11,159 | 11,159 | - | 6,420 | 6,420 |
| | | **62,544** | **760,930** | **823,474** | **115,656** | **(174,725)** | **(59,069)** |

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

## COMPANY STATEMENT OF PROFIT OR LOSS
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|---|
| **Premium income** | | | | | | | |
| Gross earned premium income | 2a | 1,045,022 | 2,768,805 | 3,813,827 | 738,512 | 2,703,496 | 3,442,008 |
| Premiums ceded to reinsurers | 2b | (23,389) | (1,102,137) | (1,125,526) | (23,957) | (1,075,764) | (1,099,721) |
| **Net earned premium income** | | **1,021,633** | **1,666,668** | **2,688,301** | **714,555** | **1,627,732** | **2,342,287** |
| **Other income** | | | | | | | |
| Investment income | 3 | 2,733,047 | 1,254,630 | 3,987,677 | 2,183,649 | 257,011 | 2,440,660 |
| Commissions income | 4a | - | 396,845 | 396,845 | - | 301,368 | 301,368 |
| Other income | 4c | (168) | 2,021 | 1,853 | 3,839 | 7,636 | 11,475 |
| **Net other income** | | **2,732,879** | **1,653,496** | **4,386,375** | **2,187,488** | **566,015** | **2,753,503** |
| **Benefits and claims expense** | | | | | | | |
| Claims and policyholders benefits expense | 5a | (2,202,085) | (1,658,661) | (3,860,746) | (1,364,784) | (1,974,235) | (3,339,019) |
| Surrender and annuity incurred | 5a | (1,034,041) | - | (1,034,041) | (1,126,544) | - | (1,126,544) |
| Claims ceded to reinsurers | 5a | - | 517,302 | 517,302 | - | 522,731 | 522,731 |
| **Net benefits and claims expense** | | **(3,236,126)** | **(1,141,359)** | **(4,377,485)** | **(2,491,328)** | **(1,451,504)** | **(3,942,832)** |
| **Expenses** | | | | | | | |
| Operating expenses | 5b | (261,650) | (538,899) | (800,549) | (211,434) | (556,278) | (767,712) |
| Other expenses | 6 | (51,012) | (52,750) | (103,762) | (12,097) | (45,635) | (57,732) |
| Allowance for credit losses | 22 | - | (24,018) | (24,018) | - | (48,841) | (48,841) |
| Write off of rental debtors | | (1,015) | - | (1,015) | (4,722) | (594) | (5,316) |
| Write off old balances | | - | (326,036) | (326,036) | - | - | - |
| Commissions expense | 4b | (137,205) | (459,062) | (596,267) | (116,653) | (423,095) | (539,748) |
| Premium levy | | (6,616) | (26,139) | (32,755) | (5,018) | (21,915) | (26,933) |
| Contribution to policy holders compensation fund | | (888) | (7,223) | (8,111) | (791) | (6,519) | (7,310) |
| **Total expenses** | | **(458,386)** | **(1,434,127)** | **(1,892,513)** | **(350,715)** | **(1,102,877)** | **(1,453,592)** |
| **Profit/ (loss) before taxation** | 8 | **60,000** | **744,678** | **804,678** | **60,000** | **(360,634)** | **(300,634)** |
| Income tax credit/(charge) | 7d | 2,544 | (16,314) | (13,770) | 55,656 | 107,940 | 163,596 |
| **Profit/ (loss) for the year** | | **62,544** | **728,364** | **790,908** | **115,656** | **(252,694)** | **(137,038)** |
| **Basic earnings/(loss) per share (KShs)** | 8 | **-** | **-** | **140.88** | **-** | **-** | **(24.41)** |
| **Diluted earnings/(loss) per share (KShs)** | 8 | **-** | **-** | **140.88** | **-** | **-** | **(24.41)** |

## KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES
## COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|---|
| **Profit/(loss) for the year** | | **62,544** | **728,364** | **790,908** | **115,656** | **(252,694)** | **(137,038)** |
| **Other comprehensive income** | | | | | | | |
| *Items that may be reclassified to profit or loss in subsequent periods:* | | | | | | | |
| Net gain/(loss)on available-for-sale investments: | | | | | | | |
| - Government securities | 25 | - | (50,724) | (50,724) | - | 31,298 | 31,298 |
| | | - | (50,724) | (50,724) | - | 31,298 | 31,298 |
| *Items that will not be reclassified to profit or loss in subsequent periods:* | | | | | | | |
| Revaluation of buildings | | - | 57,033 | 57,033 | - | 25,404 | 25,404 |
| Depreciation released on revaluation | | - | 14,300 | 14,300 | - | 13,661 | 13,661 |
| Deferred tax on revaluation | | - | (17,110) | (17,110) | - | (7,621) | (7,621) |
| | 9 | - | 54,223 | 54,223 | - | 31,444 | 31,444 |
| **Total other comprehensive income for the year net of tax** | | **-** | **3,499** | **3,499** | **-** | **62,742** | **62,742** |
| **Total comprehensive income** | | **62,544** | **731,863** | **794,407** | **115,656** | **(189,952)** | **(74,296)** |

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

| | Note | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total KShs'000 |
|---|---|---|---|---|
| **EQUITY** | | | | |
| Share capital | 8 | 161,388 | 400,000 | 561,388 |
| Share premium | | - | 1,198 | 1,198 |
| Available-for-sale reserve | 9 | - | (3,490) | (3,490) |
| Revaluation reserve | 9 | - | 289,427 | 289,427 |
| Retained earnings | 10 | 81,555 | 1,723,093 | 1,804,648 |
| Foreign currency translation reserve | 9 | - | (17,926) | (17,926) |
| **Equity attributable to shareholders of parent** | | **242,943** | **2,392,302** | **2,635,245** |
| Statutory reserve | 11 | 318,516 | - | 318,516 |
| Non-controlling interest | 9 | - | 65,331 | 65,331 |
| **Total equity** | | **561,459** | **2,457,633** | **3,019,092** |
| **REPRESENTED BY:** | | | | |
| **Assets** | | | | |
| Property and equipment | 12 | 18,933 | 783,205 | 802,138 |
| Intangible assets | 14 | 4,534 | 1,061 | 5,595 |
| Prepaid operating lease rentals | 15 | 1,200,106 | 6,916 | 1,207,022 |
| Deferred tax asset | 29 | - | 104,248 | 104,248 |
| Investment properties | 16 | 1,617,760 | 1,030,428 | 2,648,188 |
| Due from Kenya Motor Insurance Pool | 24 | - | 86,201 | 86,201 |
| Available-for-sale equity investments | 18 | 675 | 175,186 | 175,861 |
| Financial assets at fair value through profit or loss | 19 | 193,608 | 82,772 | 276,380 |
| Loans receivable | 20 | 95,976 | 680 | 96,656 |
| Receivables arising out of reinsurance arrangements | 21 | 32,593 | 1,338,918 | 1,371,511 |
| Receivables arising out of direct insurance arrangements | 22 | - | 744,045 | 744,045 |
| Reinsurers' share of insurance liabilities | 36 | - | 4,617,767 | 4,617,767 |
| Other receivables | 24 | 21,313 | 1,293,720 | 1,315,033 |
| Taxation recoverable | 7 | - | 56,147 | 56,147 |
| Government securities: | | | | |
| Held to maturity | 25 | 19,582,129 | 297,337 | 19,879,466 |
| Available-for-sale | 25 | - | 846,866 | 846,866 |
| Deposits with financial institutions | 33 | 603,394 | 2,791,328 | 3,394,722 |
| Commercial paper | 33 | 103,425 | - | 103,425 |
| Bank and cash balances | 32 | 165,282 | 136,945 | 302,227 |
| **Total assets** | | **23,639,728** | **14,393,770** | **38,033,498** |
| **Liabilities** | | | | |
| Insurance liabilities | 23 | 41,489 | 5,858,858 | 5,900,347 |
| Payable under deposit administration contracts | 26 | 16,990,526 | - | 16,990,526 |
| Actuarial value of policyholders' liabilities | 27 | 4,953,607 | - | 4,953,607 |
| Provision for unearned premium | 28 | - | 1,443,681 | 1,443,681 |
| Taxation payable | 7 | 48,005 | 4,864 | 52,869 |
| Deferred tax liability | 29 | 4,104 | 87,883 | 91,987 |
| Payables arising from reinsurance arrangements | 30 | 31,647 | 2,075,532 | 2,107,179 |
| Payables arising out of direct insurance arrangements | 30 | - | 230,125 | 230,125 |
| Other payables | 31 | 1,008,891 | 2,235,194 | 3,244,085 |
| **Total liabilities** | | **23,078,269** | **11,936,137** | **35,014,406** |
| **Total assets net of liabilities** | | **561,459** | **2,457,633** | **3,019,092** |

The financial statements on pages 7 to 109 were approved and authorised for issue by the Board of Directors on 23rd March 2016 and signed on its behalf by:

**Director** | **Director** | **Managing Director/Principal Officer**

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

| | Note | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total KShs'000 |
|---|---|---|---|---|
| **EQUITY** | | | | |
| Share capital | 8 | 161,388 | 400,000 | 561,388 |
| Available-for-sale reserve | 9 | - | 48,278 | 48,278 |
| Share premium | | - | 1,198 | 1,198 |
| Revaluation reserve | 9 | - | 236,119 | 236,119 |
| Retained earnings | 10 | 19,011 | 972,190 | 991,201 |
| Foreign currency translation reserve | 9 | - | (15,254) | (15,254) |
| **Equity attributable to shareholders of parent** | | **180,399** | **1,642,531** | **1,822,930** |
| Statutory reserve | 11 | 318,516 | - | 318,516 |
| Non-controlling interest | 9 | - | 54,172 | 54,172 |
| **Total equity** | | **498,915** | **1,696,703** | **2,195,618** |
| **REPRESENTED BY:** | | | | |
| **Assets** | | | | |
| Property and equipment | 12 | 20,932 | 650,132 | 671,064 |
| Intangible assets | 14 | 3,864 | 1,515 | 5,379 |
| Prepaid operating lease rentals | 15 | 13,828 | 16,988 | 30,816 |
| Deferred tax asset | 29 | - | 118,485 | 118,485 |
| Investment properties | 16 | 1,100,533 | 1,322,440 | 2,422,973 |
| Due from Kenya Motor Insurance Pool | 24 | - | 86,857 | 86,857 |
| Available-for-sale equity investments | 18 | 675 | 175,451 | 176,126 |
| Financial assets at fair value through profit and loss | 19 | 177,878 | 94,223 | 272,101 |
| Loans receivable | 20 | 85,379 | 1,169 | 86,548 |
| Receivables arising out of reinsurance arrangements | 21 | 36,179 | 1,112,974 | 1,149,153 |
| Receivables arising out of direct insurance arrangements | 22 | - | 718,074 | 718,074 |
| Reinsurers' share of insurance liabilities | 36 | - | 6,360,152 | 6,360,152 |
| Other receivables | 24 | 59,242 | 380,531 | 439,773 |
| Taxation recoverable | 7 | - | 59,761 | 59,761 |
| Government securities: | | | | |
| Held to maturity | 25 | 16,336,729 | - | 16,336,729 |
| Available-for-sale | 25 | - | 916,376 | 916,376 |
| Deposits with financial institutions | 33 | 1,002,051 | 835,814 | 1,837,865 |
| Commercial paper | 33 | 103,734 | - | 103,734 |
| Bank and cash balances | 32 | 31,326 | 112,776 | 144,102 |
| **Total assets** | | **18,972,350** | **12,963,718** | **31,936,068** |
| **Liabilities** | | | | |
| Insurance liabilities | 23 | 36,676 | 7,569,573 | 7,606,249 |
| Payable under deposit administration contracts | 26 | 13,963,555 | - | 13,963,555 |
| Actuarial value of policyholders' liabilities | 27 | 4,182,877 | - | 4,182,877 |
| Provision for unearned premium | 28 | - | 1,381,350 | 1,381,350 |
| Taxation payable | 7 | 30,005 | - | 30,005 |
| Deferred tax liability | 29 | 24,648 | 65,272 | 89,920 |
| Payables arising from reinsurance arrangements | 30 | 18,100 | 1,519,627 | 1,537,727 |
| Payables arising out of direct insurance arrangements | 30 | - | 272,423 | 272,423 |
| Other payables | 31 | 217,574 | 458,770 | 676,344 |
| **Total liabilities** | | **18,473,435** | **11,267,015** | **29,740,450** |
| **Total assets net of liabilities** | | **498,915** | **1,696,703** | **2,195,618** |

The financial statements on pages 7 to 109 were approved and authorised for issue by the Board of Directors on 23d March 2016 and signed on its behalf by:

**Director** **Director** **Managing Director/Principal Officer**

## COMPANY STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2015

| | Note | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total KShs'000 |
|---|---|---|---|---|
| **CAPITAL EMPLOYED** | | | | |
| Share capital | 8 | 161,388 | 400,000 | 561,388 |
| Share premium | | - | 1,198 | 1,198 |
| Available-for-sale reserve | 9 | - | (3,013) | (3,013) |
| Revaluation reserve | 9 | - | 289,427 | 289,427 |
| Retained earnings | 10 | 81,555 | 1,624,603 | 1,706,158 |
| **Total ordinary shareholders' equity** | | 242,943 | 2,312,215 | 2,555,158 |
| Statutory reserve | 11 | 318,516 | - | 318,516 |
| **Total equity** | | **561,459** | **2,312,215** | **2,873,674** |
| **REPRESENTED BY:** | | | | |
| **Assets** | | | | |
| Property and equipment | 13 | 18,933 | 755,927 | 774,860 |
| Intangible assets | 14 | 4,534 | 1,061 | 5,595 |
| Prepaid operating lease rentals | 15 | 1,200,106 | 6,781 | 1,206,887 |
| Deferred tax asset | 29 | - | 104,155 | 104,155 |
| Investment properties | 16 | 1,617,760 | 1,022,868 | 2,640,628 |
| Due from Kenya Motor Insurance Pool | 24 | - | 86,201 | 86,201 |
| Investment in subsidiaries | 17 | - | 81,905 | 81,905 |
| Available-for-sale equity investments | 18 | 675 | 122,779 | 123,454 |
| Financial assets at fair value through profit and loss | 19 | 193,608 | 72,003 | 265,611 |
| Loans receivable | 20 | 95,976 | 680 | 96,656 |
| Receivables arising out of reinsurance arrangements | 21 | 32,593 | 936,954 | 969,547 |
| Receivables arising out of direct insurance arrangements | 22 | - | 491,145 | 491,145 |
| Reinsurers' share of insurance liabilities | 36 | - | 3,898,730 | 3,898,730 |
| Other receivables | 24 | 21,313 | 1,289,741 | 1,311,054 |
| Taxation recoverable | 7b | - | 55,888 | 55,888 |
| Government securities: | | | | |
| Held to maturity investments | 25 | 19,582,129 | 245,888 | 19,828,017 |
| Available-for-sale | 25 | - | 834,094 | 834,094 |
| Deposits with financial institutions | 33 | 603,394 | 2,574,834 | 3,178,228 |
| Commercial paper | 33 | 103,425 | - | 103,425 |
| Bank and cash balances | 32 | 165,282 | 57,259 | 222,541 |
| **Total assets** | | **23,639,728** | **12,638,893** | **36,278,621** |
| **Liabilities** | | | | |
| Insurance liabilities | 23 | 41,489 | 5,159,721 | 5,201,21 |
| Payable under deposit administration contracts | 26 | 16,990,526 | - | 16,990,52 |
| Actuarial value of policyholders' liabilities | 27 | 4,953,607 | - | 4,953,60 |
| Provision for unearned premium | 28 | - | 1,067,429 | 1,067,42 |
| Payables arising from reinsurance arrangements | 30 | 31,647 | 1,610,164 | 1,641,81 |
| Payables arising out of direct insurance arrangements | 30 | - | 230,125 | 230,12 |
| Other payables | 31 | 1,008,891 | 2,177,988 | 3,186,87 |
| Deferred tax liability | 29 | 4,104 | 81,251 | 85,35 |
| Taxation payable | 7a | 48,005 | - | 48,00 |
| **Total liabilities** | | **23,078,269** | **10,326,678** | **32,404,94** |
| **Total assets net of liabilities** | | **561,459** | **2,312,215** | **2,873,67** |

The financial statements on pages 7 to 109 were approved and authorised for issue by the Board of Directors on 2rd March 2016 and signed on its behalf by:

| Director | Director | Managing Director/Principal Officer |
|---|---|---|

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

## COMPANY STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2014

| | Note | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total KShs'000 |
|---|---|---|---|---|
| **CAPITAL EMPLOYED** | | | | |
| Share capital | 8 | 161,388 | 400,000 | 561,388 |
| Share premium | | - | 1,198 | 1,198 |
| Available-for-sale reserve | 9 | - | 47,711 | 47,711 |
| Revaluation reserve | 9 | - | 236,119 | 236,119 |
| Retained earnings | 10 | 19,011 | 895,324 | 914,335 |
| **Total ordinary shareholders' equity** | | 180,399 | 1,580,352 | 1,760,751 |
| Statutory reserve | 11 | 318,516 | - | 318,516 |
| **Total equity** | | **498,915** | **1,580,352** | **2,079,267** |
| **REPRESENTED BY:** | | | | |
| **Assets** | | | | |
| Property and equipment | 13 | 20,932 | 640,021 | 660,953 |
| Intangible assets | 14 | 3,864 | 1,515 | 5,379 |
| Prepaid operating lease rentals | 15 | 13,828 | 16,852 | 30,680 |
| Deferred tax asset | 29 | - | 117,878 | 117,878 |
| Investment properties | 16 | 1,100,533 | 1,314,880 | 2,415,413 |
| Due from Kenya Motor Insurance Pool | 24 | - | 86,857 | 86,857 |
| Investment in subsidiaries | 17 | - | 81,905 | 81,905 |
| Available-for-sale equity investments | 18 | 675 | 122,779 | 123,454 |
| Financial assets at fair value through profit and loss | 19 | 177,878 | 84,528 | 262,406 |
| Loans receivable | 20 | 85,379 | 1,169 | 86,548 |
| Receivables arising out of reinsurance arrangements | 21 | 36,179 | 876,328 | 912,507 |
| Receivables arising out of direct insurance arrangements | 22 | - | 495,363 | 495,363 |
| Reinsurers' share of insurance liabilities | 36 | - | 5,479,531 | 5,479,531 |
| Other receivables | 24 | 59,242 | 376,196 | 435,438 |
| Taxation recoverable | 7 | - | 58,479 | 58,479 |
| Government securities: | | | | |
| Held to maturity investments | 25 | 16,336,729 | - | 16,336,729 |
| Available-for-sale | 25 | - | 851,492 | 851,492 |
| Deposits with financial institutions | 33 | 1,002,051 | 647,975 | 1,650,026 |
| Commercial paper | 33 | 103,734 | - | 103,734 |
| Bank and cash balances | 32 | 31,326 | 55,865 | 87,191 |
| **Total assets** | | **18,972,350** | **11,309,613** | **30,281,963** |
| **Liabilities** | | | | |
| Insurance liabilities | 23 | 36,676 | 6,782,791 | 6,819,467 |
| Payable under deposit administration contracts | 26 | 13,963,555 | - | 13,963,555 |
| Actuarial value of policyholders' liabilities | 27 | 4,182,877 | - | 4,182,877 |
| Provision for unearned premium | 28 | - | 977,183 | 977,183 |
| Payables arising from reinsurance arrangements | 30 | 18,100 | 1,222,544 | 1,240,644 |
| Payables arising out of direct insurance arrangements | 30 | - | 272,423 | 272,423 |
| Other payables | 31 | 217,574 | 410,179 | 627,753 |
| Deferred tax liability | 29 | 24,648 | 64,141 | 88,789 |
| Taxation payable | 7 | 30,005 | - | 30,005 |
| **Total liabilities** | | **18,473,435** | **9,729,261** | **28,202,696** |
| **Total assets net of liabilities** | | **498,915** | **1,580,352** | **2,079,267** |

The financial statements on pages 7 to 109 were approved and authorised for issue by the Board of Directors on 3rd March 2016 and signed on its behalf by:

**Director** **Director** **Managing Director/Principal Officer**

**KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

| | Share capital (Note 8) KShs'000 | Share premium KShs'000 | Available-for-sale reserve (Note 9) KShs'000 | Revaluation reserve (Note 9) KShs'000 | Retained earnings (Note 10) KShs'000 | Proposed dividends (Note 8) KShs'000 | Foreign currency translation reserve (Note 9) KShs'000 | Total ordinary shareholders' equity KShs'000 | Statutory reserve (Note 11) KShs'000 | Non-controlling interest KShs'000 | Total equity and reserves KShs'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | **561,388** | **1,198** | **48,278** | **236,119** | **991,201** | - | **(15,254)** | **1,822,930** | **318,516** | **54,172** | **2,195,618** |
| Profit for the year | - | - | - | - | 749,988 | - | - | **749,988** | 62,544 | 11,159 | **823,691** |
| Other comprehensive income | - | - | (51,768) | 54,223 | - | - | (2,672) | **(217)** | - | - | **(217)** |
| **Total comprehensive income** | - | - | (51,768) | 54,223 | 749,988 | - | (2,672) | **749,771** | 62,544 | 11,159 | **823,474** |
| Excess of depreciation | - | - | - | (915) | 915 | - | - | - | - | - | - |
| *Transactions with owners:* | | | | | | | | | | | |
| Proposed dividends in 2014 | - | - | - | - | - | - | - | - | - | - | - |
| Proposed dividends in 2014 paid in 2015 | - | - | - | - | - | - | - | - | - | - | - |
| Transfer from statutory reserve | - | - | - | - | 62,544 | - | - | **62,544** | (62,544) | - | - |
| **At 31 December 2015** | **561,388** | **1,198** | **(3,490)** | **289,427** | **1,804,648** | - | **(17,926)** | **2,635,245** | **318,516** | **65,331** | **3,019,092** |

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

| | Share capital (Note 8) KShs'000 | Share premium KShs'000 | Available-for-sale reserve (Note 9) KShs'000 | Revaluation reserve (Note 9) KShs'000 | Retained earnings (Note 10) KShs'000 | Proposed dividends (Note 8) KShs'000 | Foreign currency translation reserve (Note 9) KShs'000 | Total ordinary shareholders' equity KShs'000 | Statutory reserve (Note 11) KShs'000 | Non-controlling interest KShs'000 | Total equity and reserves KShs'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2014-as previously reported** | **561,388** | **1,198** | **16,408** | **208,260** | **1,267,950** | - | **(12,343)** | **2,042,861** | **318,516** | **47,752** | **2,409,129** |
| Prior year adjustment (Note 42) | - | - | - | - | (98,304) | - | - | (98,304) | - | - | (98,304) |
| **At 1 January 2014 as restated** | **561,388** | **1,198** | **16,408** | **208,260** | **1,169,646** | - | **(12,343)** | **1,944,557** | **318,516** | **47,752** | **2,310,825** |
| Profit/loss for the year | - | - | - | - | (241,548) | - | - | **(241,548)** | 115,656 | 6,420 | **(119,472)** |
| Other comprehensive income | - | - | 31,870 | 31,444 | - | - | (2,911) | **60,403** | - | - | **60,403** |
| **Total comprehensive income** | - | - | 31,870 | 31,444 | (241,548) | - | (2,911) | **(181,145)** | 115,656 | 6,420 | **(59,069)** |
| Excess depreciation | - | - | - | (3,585) | 3,585 | - | - | - | - | - | - |
| *Transactions with owners:* | | | | | | | | | | | |
| Proposed dividends in 2013 | - | - | - | - | (56,138) | 56,138 | - | - | - | - | - |
| Proposed dividends in 2013 paid in 2014 | - | - | - | - | - | (56,138) | - | **(56,138)** | - | - | **(56,138)** |
| Transfer from statutory reserve | - | - | - | - | 115,656 | - | - | **115,656** | (115,656) | - | - |
| **At 31 December 2014** | **561,388** | **1,198** | **48,278** | **236,119** | **991,201** | - | **(15,254)** | **1,822,930** | **318,516** | **54,172** | **2,195,618** |

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Share capital (Note 8) KShs'000 | Share premium KShs'000 | Available-for sale reserve (Note 9) KShs'000 | Revaluation reserve (Note 9) KShs'000 | Retained earnings (Note 10) KShs'000 | Proposed dividend (Note 8) KShs'000 | Total ordinary shareholders' equity KShs'000 | Statutory reserve (Note 11) KShs'000 | Total equity and reserves KShs'000 |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | **561,388** | **1,198** | **47,711** | **236,119** | **914,335** | **-** | **1,760,751** | **318,516** | **2,079,267** |
| Profit for the year | - | - | - | - | 728,364 | - | **728,364** | 62,544 | **790,908** |
| Other comprehensive income | - | - | (50,724) | 54,223 | - | - | **3,499** | - | **3,499** |
| **Total comprehensive income** | - | - | (50,724) | 54,223 | 728,364 | - | **731,863** | **62,544** | **794,407** |
| Transfer of excess depreciation | - | - | - | (915) | 915 | - | - | - | - |
| *Transactions with owners:* | | | | | | | | | |
| Proposed dividend in 2014 | - | - | - | - | - | - | - | - | - |
| Proposed dividend in 2014 paid in 2015 | - | - | - | - | - | | - | - | - |
| Transfer from statutory reserve | - | - | - | - | 62,544 | - | **62,544** | (62,544) | - |
| **At 31 December 2015** | **561,388** | **1,198** | **(3,013)** | **289,427** | **1,706,158** | - | **2,555,158** | **318,516** | **2,873,674** |

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2014

| | Share capital (Note 8) KShs'000 | Share premium (Note 8) KShs'000 | Available-for-sale reserve (Note 9) KShs'000 | Revaluation reserve (Note 9) KShs'000 | Retained earnings (Note 10) KShs'000 | Proposed dividend (Note 8) KShs'000 | Total ordinary shareholders' equity KShs'000 | Statutory reserve (Note 11) KShs'000 | Total equity and reserves KShs'000 |
|---|---|---|---|---|---|---|---|---|---|
| **At 1January 2014-as previously reported** | **561,388** | **1,198** | **16,413** | **208,260** | **1,202,230** | - | **1,989,489** | **318,516** | **2,308,005** |
| Prior year adjustment (Note 42) | - | - | - | - | **(98,304)** | - | **(98,304)** | - | **(98,304)** |
| **At 1 January 2014-as restated** | **561,388** | **1,198** | **16,413** | **208,260** | **1,103,926** | - | **1,891,185** | **318,516** | **2,209,701** |
| Profit/(loss) for the year | - | - | - | - | (252,694) | - | **(252,694)** | 115,656 | **(137,038)** |
| Other comprehensive income | - | - | 31,298 | 31,444 | - | - | **62,742** | - | **62,742** |
| **Total comprehensive income** | - | - | 31,298 | 31,444 | (252,694) | - | **(189,952)** | **115,656** | **(74,296)** |
| Transfer of excess depreciation | - | - | - | (3,585) | 3,585 | - | - | - | - |
| *Transactions with owners:* | | | | | | | | | |
| Proposed dividend in 2013 | - | - | - | - | (56,138) | 56,138 | - | - | - |
| Proposed dividend in 2013 paid in 2014 | - | - | - | - | - | (56,138) | **(56,138)** | - | **(56,138)** |
| Transfer from statutory reserve | - | - | - | - | 115,656 | - | **115,656** | (115,656) | - |
| **At 31 December 2014** | **561,388** | **1,198** | **47,711** | **236,119** | **914,335** | - | **1,760,751** | **318,516** | **2,079,267** |

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | 2015<br>KShs'000 | 2014<br>KShs'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Profit/(loss) before tax** | **856,715** | **(276,213)** |
| Adjustments for: | | |
| Depreciation on property and equipment | 44,886 | 37,478 |
| Amortisation of intangible assets | 2,396 | 2,306 |
| Amortisation of prepaid lease | 39,132 | 838 |
| Exchange adjustment on property and equipment | 1,349 | 365 |
| Fair value gains on investment properties | (463,473) | (218,876) |
| Interest from government securities (Held to maturity) | (2,273,829) | (1,876,141) |
| Interest from government securities (Available-for-sale) | (102,300) | (106,213) |
| Bank deposit interest | (175,962) | (175,256) |
| Loan interest | (6,820) | (7,412) |
| Commercial paper interest | (11,068) | (14,290) |
| Dividends received from equity investments | (22,835) | (13,044) |
| Fair value loss/(gain) on quoted investments | 48,729 | (23,522) |
| (Gain)/loss on sale of quoted shares | (553) | 31 |
| Gain on transfer of Kenindia Business Park | (976,837) | - |
| Gains on sale of property and equipment | (1,009) | (738) |
| **working capital changes;** | | |
| Increase/(decrease) in insurance liabilities | (1,705,902) | (1,154,426) |
| Increase in payable under deposit administration contracts | 3,026,971 | 1,894,444 |
| Increase in actuarial value of policyholders' liabilities | 770,730 | 530,652 |
| Decrease in unearned premium reserve | 62,331 | (8,577) |
| Increase/(decrease) in reinsurance arrangements payables | 569,452 | (182,064) |
| (Decrease)/increase in direct insurance arrangements payables | (42,298) | 94,315 |
| Increase in other payables | 2,567,741 | 161,644 |
| Decrease/(increase) in due from motor pool | 656 | (1,368) |
| (Increase)/decrease in reinsurance arrangements receivables | (222,358) | 335,099 |
| Decrease/(increase) in direct insurance arrangements receivables | (25,971) | (131,255) |
| Increase in reinsurers' share of insurance liabilities | 1,742,385 | 1,521,895 |
| Increase in other receivables | (875,260) | (11,072) |
| **Cash generated from operations** | **2,826,998** | **368,600** |
| Income tax paid | (8,613) | (33,948) |
| **Net cash flows generated from operating activities** | **2,818,385** | **334,652** |

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

| | 2015<br>KShs'000 | 2014<br>KShs'000 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (111,122) | (91,584) |
| Purchase of intangible assets | (2,612) | (1,187) |
| Proceeds from disposal of property and equipment | 6,155 | 2,366 |
| Purchase of leasehold land/(prepaid operating rentals) | (1,225,000) | (2,802) |
| Purchase of investment properties | (146,742) | (21,826) |
| Proceeds on transfer of Kenindia Business Park | 1,371,500 | - |
| Net decrease/(increase) in available-for-sale equity investments | 265 | 339 |
| Sale of financial assets at fair value through profit and loss (Quoted shares) | 2,015 | 10,595 |
| Purchase of financial assets at fair value through profit and loss (Quoted shares) | (55,180) | (100,143) |
| Repayment of mortgage loans | - | - |
| Policy loans advanced | (31,135) | (27,435) |
| Repayment of policy loans | 20,538 | 19,809 |
| Motor vehicle loans advanced | - | (1,500) |
| Repayment of motor vehicle loans | 489 | 1,723 |
| Net investment in government securities (Held to maturity) | (3,542,737) | (2,408,190) |
| Net investment in government securities (Available-for-sale) | 17,742 | (8,516) |
| (Increase)/decrease in deposits with financial institutions (maturing after 90 days of date of acquisition) | (103,285) | (123,026) |
| Net investment in commercial paper | 103,734 | (3,241) |
| Interest from government securities (Held to maturity) | 2,273,829 | 1,876,141 |
| Interest from government securities (Available-for-sale) | 102,300 | 106,213 |
| Bank deposit interest | 175,962 | 175,256 |
| Loan interest | 6,820 | 7,412 |
| Commercial paper interest | 11,068 | 14,290 |
| Dividends received from equity investments | 22,835 | 13,044 |
| **Net cash flows generated from/(used in) investing activities** | **(1,102,561)** | **(562,252)** |
| **Cash flows from financing activities** | | |
| Dividends paid | - | (56,138) |
| **Net cash flows used in financing activities** | **-** | **(56,138)** |
| **Increase/(decrease) in cash and cash equivalents** | **1,715,824** | **(283,718)** |
| **Movement in cash and cash equivalents** | | |
| Cash and cash equivalents at the beginning of the year | 1,368,178 | 1,658,436 |
| Increase/(decrease) in cash and cash equivalents | 1,715,824 | (283,718) |
| Exchange differences on translation of foreign operations | (702) | (6,540) |
| **Cash and cash equivalents at the end of the year (Note 32)** | **3,083,300** | **1,368,178** |

KENINDIA ASSURANCE COMPANY LIMITED

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

| | 2015 | 2014 |
|---|---|---|
| | KShs'000 | KShs'000 |
| **Cash flows from operating activities** | | |
| **Profit/(loss) before tax** | **804,678** | **(300,634)** |
| Adjustments for: | | |
| Depreciation on property and equipment | 40,468 | 34,959 |
| Amortisation of intangible assets | 2,396 | 2,306 |
| Amortisation of prepaid lease | 39,130 | 836 |
| Fair value gains on investment properties | (463,473) | (218,876) |
| Interest from government securities (Held to maturity) | (2,267,364) | (1,876,141) |
| Interest from government securities (Available-for-sale) | (102,300) | (99,481) |
| Bank deposit interest | (155,778) | (153,569) |
| Loan interest | (6,717) | (7,300) |
| Commercial paper interest | (11,068) | (14,290) |
| Dividends received from equity investments | (21,938) | (12,749) |
| Fair value (gains)/loss on quoted investments | 50,513 | (21,780) |
| Loss/(gains) on sale of quoted shares | (553) | 31 |
| Gain on transfer of Kenindia Business Park | (976,837) | - |
| (Gains)/loss on sale of property and equipment | (1,307) | (1,081) |
| **working capital changes;** | | |
| Decrease in insurance liabilities | (1,618,257) | (1,005,591) |
| Increase in payable under deposit administration contracts | 3,026,971 | 1,894,444 |
| Increase in actuarial value of policyholders' liabilities | 770,730 | 530,652 |
| Increase/(decrease) in unearned premium reserve | 90,246 | (57,543) |
| Increase/(decrease) in reinsurance arrangements payables | 401,167 | (167,241) |
| (Decrease)/increase in direct insurance arrangements payables | (42,298) | 94,315 |
| Increase in other payables | 2,559,126 | 122,635 |
| Increase in motor pool | 656 | (8,368) |
| (Increase)/decrease in reinsurance arrangements receivables | (57,040) | 372,221 |
| Decrease/(increase) in direct insurance arrangements receivables | 4,218 | (97,912) |
| Increase in reinsurers' share of insurance liabilities | 1,580,801 | 1,383,978 |
| Increase in other receivables | (875,616) | (11,486) |
| **Cash generated from operations** | **2,770,554** | **382,335** |
| Income tax paid | - | (35,906) |
| **Net cash flows generated from operating activities** | **2,770,554** | **346,429** |

## COMPANY STATEMENT OF CASH FLOWS (continued)
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | 2015<br>KShs'000 | 2014<br>KShs'000 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (87,456) | (87,262) |
| Purchase of intangible assets | (2,612) | (1,187) |
| Proceeds from disposal of property and equipment | 5,721 | 2,418 |
| Purchase of prepaid operating lease rentals | (1,225,000) | (2,802) |
| Proceeds on transfer of Kenindia Business Park | 1,371,500 | - |
| Additions to investment properties | (146,742) | (21,826) |
| Net increase in available-for-sale equity investments | - | (3,630) |
| Sale of financial assets at fair value through profit and loss (Quoted shares) | 2,015 | 10,595 |
| Net movement in investment in commercial paper | 103,734 | (3,241) |
| Purchase of financial assets at fair value through profit and loss (Quoted shares) | (55,180) | (100,143) |
| Policy loans advanced | (31,135) | (27,435) |
| Repayment of policy loans | 20,538 | 19,809 |
| Motor vehicle loans advanced | - | (1,500) |
| Repayment of motor vehicle loans | 489 | 1,723 |
| Net movement in investment in government securities (Held to maturity) | (3,491,288) | (2,408,190) |
| Net increase in investment in government securities (Available-for-sale) | (33,326) | (273) |
| (Increase)/decrease in deposits with financial institutions (maturing after 90 days of date of acquisition) | (76,383) | (143,780) |
| Interest from government securities (Held to maturity) | 2,267,364 | 1,876,141 |
| Interest from government securities (Available-for-sale) | 102,300 | 99,481 |
| Bank deposit interest | 155,778 | 153,569 |
| Loan interest | 6,717 | 7,300 |
| Commercial paper interest | 11,068 | 14,290 |
| Dividends received from equity investments | 21,938 | 12,749 |
| Investment in subsidiary | - | (10,900) |
| **Net cash flows (used in)/generated from investing activities** | **(1,079,960)** | **(614,094)** |
| **Cash flows from financing activities** | | |
| Dividends paid | - | (56,138) |
| **Net cash flows used in financing activities** | **-** | **(56,138)** |
| **Increase/(decrease) in cash and cash equivalents** | **1,690,594** | **(323,803)** |
| **Movement in cash and cash equivalents** | | |
| Cash and cash equivalents at the beginning of the year | 1,306,063 | 1,629,866 |
| Increase/(decrease) in cash and cash equivalents | 1,690,594 | (323,803) |
| **Cash and cash equivalents at the end of the year (Note 32)** | **2,996,657** | **1,306,063** |

## 1. 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 are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in compliance with the requirements of the Kenyan Companies Act. The financial statements are prepared on the historical cost basis, except for investment properties and certain investments which are carried at fair value, impaired assets at their recoverable amounts and actuarially determined liabilities at their present value. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, which is also the functional Group's currency.

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

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after reporting date (current) and more than twelve months after reporting date (non-current), is presented in the notes (note 41(iii)).

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires directors to exercise judgement in the process of applying the accounting policies adopted by the Group. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in Note 1 (w) below.

For the purposes of reporting under the Kenyan Companies Act, the balance sheet in these financial statements is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit and loss.

### (b) Adoption of new and revised International Financial Reporting Standards (IFRS)

*i) New standards and amendments to published standards effective for the year ended 31 December 2015*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

*i) New standards and amendments to published standards effective for the year ended 31 December 2015 (Continued)*

**IAS 19 Defined Benefit Plans: Employee Contributions**

The amendments to IAS 19 clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan.
According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they affect the remeasurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the entity is permitted to either reduce service cost in the period in which the related service is rendered, or reduce service cost by attributing the contributions to the employees' periods of service in accordance with IAS 19 paragraph 70The amendment requires retrospective application

The directors of the Group do not anticipate that the application of the standard will have a significant impact on the Group's financial statements since the Group doesn't have a defined benefit plan.

**Annual Improvements 2010-2012 Cycle**

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendment to IFRS 2 is to clarify the definition of vesting condition and market condition to ensure the consistent classification of conditions attached to a share-based payment. It also adds definitions for 'performance condition' and 'service condition' which were previously included as part of the definition of 'vesting condition'. The amendment requires prospective application.

The amendment to IFRS 3 clarifies that contingent consideration should be measured at fair value at each reporting date, irrespective of whether or not the contingent consideration falls within the scope of IFRS 9 or IAS 39. Changes in fair value (other than measurement period adjustments as defined in IFRS 3) should be recognised in profit and loss. The amendment to IFRS 3 requires prospective application

The amendment to IFRS 8(i) requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a brief description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments share similar economic characteristics; and (ii) clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if information about the amount of segment assets are regularly provided to the chief operating decision-maker.

The amendment to IFRS 13clarifies that the issuance of IFRS 13 and consequential amendments to IAS39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions.

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)**

*i) New standards and amendments to published standards effective for the year ended 31 December 2015 (Continued)*

**Annual Improvements 2010-2012 Cycle *(Continued)***

The amendment to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendment to IAS 24 clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.

**Annual Improvements 2011-2013 Cycle**

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and
(b) the transaction meets the definition of a business combination under IFRS 3

The directors of the Group do not anticipate that the application of these amendments will have a significant impact on the Group's financial statements.

*ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015*

| *New and Amendments to standards* | Effective for annual periods beginning on or after |
|---|---|
| IFRS 9 | 1 January 2018 |
| IFRS 15 | 1 January 2017 |
| IFRS 16 | 1 January 2019 |
| Amendments to IFRS 11 | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 | 1 January 2016 |

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)**

*iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods*

**IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition
Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- The directors of the Group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

**IFRS 15 Revenue from Contracts with Customers**

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors do not expect the adoption ofIFRS 15 to have an impact of the Company's financial statements.

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)**

*iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (continued)*

**IFRS 16 Lease**

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the Group do not anticipate that the application of the standard will have a significant impact on the Group's financial statements.

**Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the Group do not anticipate that the application of the standard will have a significant impact on the Group's financial statements.

***Annual Improvements 2012-2014 Cycle***

The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accouning is discontinued.
The amendments to IFRS 7 adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference
The directors of the Group do not anticipate that the application of these amendments will have a significant impact on the Group's financial statements.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

*iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (continued)*

**IFRS 11 Accounting for Acquisitions of Interests in Joint Operations**

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Entities should apply the amendments prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016.

The directors of the Group do not anticipate that the application of the standard will have a significant impact on the Group's financial statements.

### c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group (Company and its subsidiaries) as at 31 December each year. Subsidiary companies are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. The Group companies are as set out in note 17.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c) Basis of Consolidation (continued)

*iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (continued)*

All intra-group balances, transactions, income and expenses and profits and losses, resulting from intra-group transactions and dividends, are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if this results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it;

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss

Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

### d) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of services, excluding discounts, rebates, and value added taxes or other taxes. Sale of services is recognised upon performance of the service and customer acceptance based on the proportion of actual service rendered to the total services to be provided.

The following specific criteria must also be met before revenue is recognised:

***Gross premiums***
Gross recurring premiums on life are recognised as revenue when payable by the policyholder. For single premium, business revenue is recognised on the date on which the policy is effective. Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

Net 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 1/24 method and the $365^{th}$ method in general business and group life policies respectively.

***Reinsurance premiums***
Gross reinsurance premiums on life are recognised as an expense when payable or on the date on which the policy is effective. Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Revenue Recognition**

***Commission income and fees***

Insurance contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. Commission income is recognized in the period in which they are earned.

***Investment income***

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established. For listed securities, this is the date the security is listed as ex dividend.

***Rental income***

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

***Realised gains and losses***

Realised gains and losses recorded in the statement of profit or loss on investments include gains and losses on the financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

***Gross benefits and claims***

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims as well as changes in the gross valuation of insurance contract liabilities. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

General insurance and health claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

***Claims incurred***

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during the year, whether arising from events during that or earlier years. Outstanding claims represent claims arising from incidents occurring prior to the accounting date and not settled, and are computed on the basis of the best information available at the time the records for the period are closed and include provisions for claims incurred but not reported (IBNR). IBNR is computed based on certain minimum percentages of gross premium written on each class of business, as stipulated by the insurance industry regulator. This amount is included in the outstanding claims as at year end.

Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

Outstanding claims in short term business are not discounted.

***Reinsurance claims***

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

***Policyholder benefits***

Policyholder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all payments made during the year, whether arising from events during that or earlier years. Insurance contract liabilities represent the estimated ultimate cost of settling all benefits accruing to policyholders and are discounted to the present value.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### f) Product Classification

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

Investment contracts are further classified as being either with or without Discretionary Participation Feature (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

i) Likely to be a significant portion of the total contractual benefits
ii) The amount or timing of which is contractually at the discretion of the issuer
iii) That are contractually based on:
   - The performance of a specified pool of contracts or a specified type of contract
   - Realised and or unrealised investment returns on a specified pool of assets held by the issuer
   - The profit or loss of the company, fund or other entity that issues the contract

### g) Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Reinsurance assets consist of the amount due from reinsurers for claims submitted as well as the portion of the current long term insurance that is ceded to the reinsurers on the basis of the reinsurance agreement (treaty proportional or facultative).

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss. Gains or losses on buying reinsurance are recognised in the statement of profit or loss immediately at the date of purchase and are not amortised.

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

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest rate method when accrued.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### h) Insurance Receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are recognised when the recognition criteria for financial assets, as described in note (u), has been met.

### i) Policyholder Benefits

Policy holder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all payments made during the year, whether arising from events during that or earlier years. Insurance contract liabilities represent the estimated ultimate cost of settling all benefits accruing to policy holders and are discounted to the present value.

### j) Deposit Administration Contracts

The Group administers the funds of a number of retirement benefit schemes. The liability of the Group to the schemes is measured at fair value and is included within the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the liability in the statement of financial position and are not recognised as gross premium and investments income in the consolidated statement of profit or loss.

### k) Expenses

Expenses are recognised in the statement of profit or loss when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognised in the statement of profit or loss on the basis of systematic and rational allocation procedures.
This is often necessary in recognising the equipment associated with the using up of assets such as property, plant and equipment. In such cases the expense is referred to as a depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

An expense is recognised immediately in the statement of profit or loss when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

### l) Property and Equipment

All categories of property and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Subsequent costs (including replacement costs) are included in the asset's carrying amount or recognised as a separate asset, as appropriate, when incurred and only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the statement of profit or loss in the year in which they are incurred.All items of property and equipment are subsequently carried at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Depreciation of an asset begins when it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the reducing balance basis to write down carrying values of the assets over their useful lives at the following annual rates:

| | |
|---|---|
| Furniture, fixtures and office equipment | 12.5% |
| Computer equipment, duplicators and copies | 30% |
| Motor vehicles | 25% |

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**l) Property and Equipment (continued)**

The assets' residual values, and useful lives and method of depreciation are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indicators that the carrying amount may not be recoverable. Impairment losses are recognised in the statement of profit or loss as an expense. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss in the year the item is derecognised.

**m) Investment Properties**

Investment properties comprise buildings and parts of buildings held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost, including the transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as typical financing, sale and lease back arrangements, special consideration or concessions granted by anyone associated with the sale.

The Group determines fair value without any deductions for transactional costs it may incur on sale or other disposal. Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Fair values are evaluated annually by an accredited external independent valuer. Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal or retirement of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to the statement of profit or loss in the year of disposal or retirement.

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner- occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

**n) Intangible Assets**

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use, the specific software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life at 30 percent per annum, using the reducing balance method. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised.

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n) Intangible Assets (continued)**

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use or disposal.

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

**o) Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

*Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the statement of profit or loss on a straight line basis over the lease term.

*Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

**p) Foreign Currency Transactions**

The Group's consolidated financial statements are presented in KShs which is also the Company's functional currency. That is the currency of the primary economic environment in which Kenindia Assurance Company Limited operates. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the statement of profit or loss. Tax changes and credits attributable to exchange differences on these items are also recorded in other comprehensive income.

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**p) Foreign Currency Transactions (continued)**

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into Kenya Shillings at the rate of exchange prevailing at the reporting date and their statement of profit or loss are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

**q) Taxation**

**Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date in the countries where the Group operates and generates taxable income. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the statement of profit or loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The income tax charge is analysed between tax in respect of policyholders' returns and the balance which represents the tax on equity holders' returns. The income tax charge in respect of policyholders' returns reflects the movement in current and deferred income tax recognised in respect of those items of income, gains and expenses, which inure to the benefit of policyholders.

**Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### q) Taxation (continued)

**Deferred tax (continued)**

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Sales taxes and premium taxes**

Revenues, expenses and assets and liabilities are recognised net of the amount of sales taxes and premium taxes except when:

- the sales or premium tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable,
- receivables and payables that are stated with the amount of sales or premium tax included.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### r) Employee Entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the liability for annual leave as a result of services rendered by employees up to the statement of financial position.

### s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions mainly relate to leave accrual. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### t) Retirement Benefits Obligations

The company operates a defined contribution pension scheme for all its employees, the assets of which are held in trustee administered funds. The retirement plan is funded by payments from both employees and the company.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### t) Retirement Benefits Obligations (continued)

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute and currently limited to KShs 200 per employee per month.

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

### u) Financial Instruments

***Initial recognition and measurement***

Financial instruments within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities. The Group determines the classification of its financial assets and financial liabilities at initial recognition.

Financial assets and financial liabilities are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group initially recognises a financial asset or financial liability in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Purchases and sales of investments are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. When the Group uses settlement date accounting for an asset that is subsequently measured at cost or amortised cost, the asset is recognised initially at its fair value on the trade date.

Management determines the appropriate classification of its financial instruments at initial recognition and designation at every reporting date. The classification depends on the purpose for which the investments were acquired or originated.

Financial assets are classified as at fair value through profit or loss where the Group's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' equity) is passively managed and/or carried at fair value on initial recognition.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables and quoted and unquoted financial instruments.

Financial liabilities within the scope of IAS 39 are classified as other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. The financial liabilities are recognised initially at fair value. The Group's financial liabilities include insurance payables and other payables (see note 30 and 31).

***Subsequent measurement***

The subsequent measurement of financial assets and liabilities depends on their classification as follows;

*Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Information regarding these instruments is reported to the key management personnel on a fair value basis.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the statement of profit or loss.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### u) Financial Instruments (continued)

***Subsequent measurement (continued)***

Financial assets at fair value through profit or loss (financial assets held for trading) comprise quoted shares.

Financial assets at fair value through profit or loss (those designated upon initial recognition at fair value through profit or loss) comprise deposits with financial institutions and commercial paper.

*Held to maturity financial assets*
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold until maturity. They include government securities (long term business). These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, held-to-maturity financial assets are measured at amortised cost, using the effective interest rate method, less impairment. Gains and losses are recognised in the statement of profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

*Loans and other receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include mortgage and policy loans, receivables arising from direct insurance arrangements and other receivables. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available-for-sale financial assets include equity investments. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. They include government securities (short term business) and investments in unquoted shares. These investments are initially recorded at fair value.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised and reported as a separate component in other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income or the investment is determined to be impaired or the cumulative loss is recognised in the statement of profit or loss in finance cost and removed from available-for-sale reserve. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the statement of profit or loss.

The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Group is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the statement of profit or loss.

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**u) Financial Instruments (continued)**

*Financial liabilities*

Financial liabilities are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

**Fair value of financial instruments**

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs.

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 33.

**Impairment of financial assets**

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**u) Financial Instruments (continued)**

**Impairment of financial assets (continued)**

*Financial assets carried at amortised cost (continued)*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of profit or loss, to the extent that the carrying value of the asset does not exceed what the amortised cost would have been (at the reversal date) had the particular impairment loss not been recognised in the past.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

***Derecognition of financial assets***

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group retains the right to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either
  a) The Group has transferred substantially all the risks and rewards of the asset, or
  b) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**u) Financial Instruments (continued)**

***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

**v) Impairment of Non-Financial Assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.
Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.
For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

**w) Significant Accounting Judgements and Estimates**

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. These factors could include:

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognised in the financial statements.

*Operating lease commitments – Group as a lessor*
The Group has entered into commercial property leases on its investment property portfolio. The Group, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

*Product classification between Insurance and Investment contracts*
The Group uses judgement to distinguish between insurance and investment contracts for its life products.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### w) Significant Accounting Judgements and Estimates (continued)

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(a) Valuation of insurance contract liabilities*

*Life insurance contract liabilities*
The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group bases mortality and morbidity on standard industry mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity prudent allowance is made for expected future mortality improvements as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation if appropriate. Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

The carrying value at the reporting date of life insurance liabilities is as follows: KShs 41,489,000 (2014: KShs 36,676,321) for insurance liabilities and KShs 4,953,607,000 (2014: KShs 4,182,876,927) for actuarial value of policy holders' liabilities.

*Non-life insurance (which comprises general insurance and healthcare) contract liabilities*
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The key variables include frequency of claims, average claim costs, inflation and average handling costs and are covered in detail under note 40.

Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types.

Large claims are usually separately addressed, by being reserved at the face value of loss adjuster estimates.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

The carrying value at the reporting date of non-life insurance liabilities is as follows: For Group KShs 5,858,858,000 (2014: KShs 7,569,573,000) and for Company KShs 5,159,721,000 (2014: KShs 6,782,791,000).

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**w) Significant Accounting Judgements and Estimates (continued)**

**Estimates and assumptions (continued)**

*(b) Fair value of financial assets determined using valuation techniques*

Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flows model and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

*(c) Deferred tax assets and liabilities*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.
Details on deferred taxes are disclosed in Note 29.

*(d) Property and equipment and intangible assets*

Critical estimates are made by the directors in determining depreciation and amortisation rates for property and equipment and intangible assets. The rates used are set out in the accounting policy (l) and (n) above.

**x) Dividends**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends (if any) are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

**y) Insurance Payables**

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) Insurance Payables (continued)

*Derecognition of insurance payables*

Insurance payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

### z) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the statement of financial position.

For the purpose of the consolidated and company's statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts (if any).

### aa) Share Capital

The Group has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

### ab) Events After Reporting Date

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

### ac) Insurance Contract Liabilities

***Life insurance contract liabilities***

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group.

Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss. Profits originated from margins of adverse deviations on run-off contracts, are recognised in the statement of profit or loss over the life of the contract, whereas losses are fully recognised in the statement of profit or loss during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using an existing liability adequacy test. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows. Aggregation levels and the level of prudence applied in the test are consistent with IFRS 4 (Insurance Contracts) requirements. To the extent that the test involves discounting of cash flows, the interest rate applied may be based on management's prudent expectation of current market interest rates. Any inadequacy is recorded in the statement of profit or loss, by establishing a technical reserve for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists.

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**ac) Insurance Contract Liabilities (continued)**

***Non-life insurance (which comprises general insurance and healthcare) contract liabilities***

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using actual claims data. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each reporting date the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for liability adequacy. There was no deficiency noted at the reporting date.

**ad) Off-setting**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses will not be offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

**ae) Statutory reserve**

The statutory reserve represents a reserve maintained within the long term assurance business and represents amounts recommended for transfer by the actuary from actuarial valuation as required by the Kenyan Insurance Act.

Transfers into the statutory reserve are processed through the statement of changes in equity. Transfers from the statutory reserve relates to amounts on the life assurance business which is distributable as dividends upon the recommendation of the actuary.

**2. Gross earned premium income**

**(a) Gross earned premium income**

The company's insurance business is organised into two main divisions, short term insurance business and long term assurance business. Long term assurance business comprises life assurance business and deposit administration business. Life assurance business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person. Short term insurance business relates to all other categories of general insurance business written by the company, analysed into several sub-classes of business based on the nature of the assumed risks. Approximately 82% of the Group's business is generated in Kenya.

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

## 2. Gross earned premium income

### (a) Gross earned premium income

The company's insurance business is organised into two main divisions, short term insurance business and long term assurance business. Long term assurance business comprises life assurance business and deposit administration business. Life assurance business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person. Short term insurance business relates to all other categories of general insurance business written by the company, analysed into several sub-classes of business based on the nature of the assumed risks. Approximately 82% of the Group's business is generated in Kenya.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **Short term insurance business:** | | | | |
| Motor | 1,007,632 | 972,259 | 754,462 | 693,881 |
| Fire | 1,002,394 | 919,342 | 757,682 | 688,311 |
| Personal accident and medical | 156,470 | 146,278 | 156,470 | 146,278 |
| Marine | 272,017 | 289,180 | 242,910 | 251,757 |
| Theft | 286,064 | 311,813 | 286,064 | 311,813 |
| Workmen compensation | 352,060 | 406,688 | 352,060 | 406,688 |
| Engineering | 174,248 | 203,370 | 166,063 | 150,268 |
| Liability | 33,904 | 32,498 | 33,904 | 32,498 |
| Aviation | 54,209 | 20,417 | - | - |
| Other miscellaneous | 161,259 | 178,020 | 19,190 | 22,002 |
| | **3,500,257** | **3,479,865** | **2,768,805** | **2,703,496** |
| **Long term assurance business:** | | | | |
| Ordinary life | 1,001,162 | 698,544 | 1,001,162 | 698,544 |
| Group life | 43,860 | 39,968 | 43,860 | 39,968 |
| | **1,045,022** | **738,512** | **1,045,022** | **738,512** |
| | **4,545,279** | **4,218,377** | **3,813,827** | **3,442,008** |

### (b) Premium ceded to re-insurers on re-insurance contracts

| | | | | |
|---|---|---|---|---|
| **Long term business** | **(23,389)** | **(23,957)** | **(23,389)** | **(23,957)** |
| **Short term business** | (1,555,627) | (1,628,057) | (1,125,405) | (1,093,833) |
| Change in unearned premiums provision (Note 28) | 2,536 | 71,362 | 23,268 | 18,069 |
| | **(1,553,091)** | **(1,556,695)** | **(1,102,137)** | **(1,075,764)** |
| **Net earned premium income** | **2,968,799** | **2,637,725** | **2,688,301** | **2,342,287** |

### 3. Investment income

#### (a)Group 2015

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total KShs'000 |
|---|---|---|---|
| Interest from government securities (Held to maturity) | 2,267,013 | 6,816 | 2,273,829 |
| Interest from government securities (Available-for-sale) | - | 102,300 | 102,300 |
| Bank deposit interest | 85,214 | 90,748 | 175,962 |
| Loan interest | 6,695 | 125 | 6,820 |
| Operating lease income/rent from investment properties | 60,387 | 52,851 | 113,238 |
| Gains on valuation of investment properties (Note 16) | 370,715 | 92,758 | 463,473 |
| Dividends receivable from equity investments | 7,041 | 15,794 | 22,835 |
| Commercial paper interest | 9,198 | 1,870 | 11,068 |
| Loss/(gains) on valuation of quoted investments | (38,475) | (10,254) | (48,729) |
| Other investment charges/Operating expenses on investment properties | (35,100) | (45,976) | (81,076) |
| Gains/(loss) on sale of quoted investments | 359 | 194 | 553 |
| Gain on disposal of Kenindia Business Park | - | 976,837 | 976,837 |
| | **2,733,047** | **1,284,063** | **4,017,110** |

#### (b)Group 2014

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total KShs'000 |
|---|---|---|---|
| Interest from government securities (Held to maturity) | 1,876,141 | - | 1,876,141 |
| Interest from government securities (Available-for-sale) | - | 106,213 | 106,213 |
| Bank deposit interest | 82,454 | 92,802 | 175,256 |
| Loan interest | 7,150 | 262 | 7,412 |
| Operating lease income/rent from investment properties | 62,859 | 50,553 | 113,412 |
| Gains on valuation of investment properties (Note 16) | 140,336 | 78,540 | 218,876 |
| Dividends receivable from equity investments | 1,882 | 11,162 | 13,044 |
| Commercial paper interest | 14,290 | - | 14,290 |
| Gains on valuation of quoted investments | 16,198 | 7,595 | 23,793 |
| Other investment charges | (17,630) | (59,277) | (76,907) |
| Loss on sale of quoted investments | (31) | - | (31) |
| | **2,183,649** | **287,850** | **2,471,499** |

## 3. Investment income

| (a)Company 2015 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total KShs'000 |
|---|---|---|---|
| Interest from government securities (Held to maturity) | 2,267,013 | 351 | 2,267,364 |
| Interest from government securities (Available-for-sale) | - | 102,300 | 102,300 |
| Bank deposit interest | 85,214 | 70,564 | 155,778 |
| Loan interest | 6,695 | 22 | 6,717 |
| Operating lease income/rent from investment properties | 60,387 | 52,851 | 113,238 |
| Gains on valuation of investment properties (Note 16) | 370,715 | 92,758 | 463,473 |
| Dividends receivable from equity investments | 7,041 | 14,897 | 21,938 |
| Commercial paper interest | 9,198 | 1,870 | 11,068 |
| Loss on valuation of quoted investments | (38,475) | (12,038) | (50,513) |
| Other investment charges/Operating expenses on investment properties | (35,100) | (45,976) | (81,076) |
| Gains on sale of quoted investments | 359 | 194 | 553 |
| Gain on disposal of Kenindia Business Park | - | 976,837 | 976,837 |
| | **2,733,047** | **1,254,630** | **3,987,677** |

| (a) Company 2014 | | | |
|---|---|---|---|
| Interest from government securities (Held to maturity) | 1,876,141 | - | 1,876,141 |
| Interest from government securities (Available-for-sale) | - | 99,481 | 99,481 |
| Bank deposit interest | 82,454 | 71,115 | 153,569 |
| Loan interest | 7,150 | 150 | 7,300 |
| Operating lease income/rent from investment properties | 62,859 | 50,553 | 113,412 |
| Gains on valuation of investment properties (Note 16) | 140,336 | 78,540 | 218,876 |
| Dividends receivable from equity investments | 1,882 | 10,867 | 12,749 |
| Commercial paper interest | 14,290 | - | 14,290 |
| Gains on valuation of quoted investments | 16,198 | 5,582 | 21,780 |
| Other investment charges | (17,630) | (59,277) | (76,907) |
| Loss on sale of quoted investments | (31) | - | (31) |
| | **2,183,649** | **257,011** | **2,440,660** |

## 4.(a) Commission income

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 KShs '000 | 2014 KShs '000 | 2015 KShs '000 | 2014 KShs'000 |
| Re-insurance commission income | **513,202** | **436,967** | **396,845** | **301,368** |

## (b) Commission expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 KShs'000 | 2014 KShs'000 | 2015 KShs'000 | 2014 KShs'000 |
| Commissions on direct insurance arrangements | 684,265 | 664,214 | 573,227 | 529,089 |
| Commissions on inward re-insurance arrangements | 23,040 | 10,659 | 23,040 | 10,659 |
| | **707,305** | **674,873** | **596,267** | **539,748** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

### 4.(c) Other income

| (a) Group | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Gain on disposal of property and equipment | 170 | 839 | 1,009 | 146 | 592 | 738 |
| Exchange gain | - | 54,139 | 54,139 | - | 15,794 | 15,794 |
| Administration fees | - | 1,215 | 1,215 | - | 2,199 | 2,199 |
| Miscellaneous income | (338) | 5,743 | 5,405 | 3,693 | 4,339 | 8,032 |
| | **(168)** | **61,936** | **61,768** | **3,839** | **22,924** | **26,763** |
| **(b) Company** | | | | | | |
| Gain on disposal of property and equipment | 170 | 1,137 | 1,307 | 146 | 935 | 1,081 |
| Exchange loss | - | (1,196) | (1,196) | - | (49) | (49) |
| Administration fees | - | 1,215 | 1,215 | - | 2,199 | 2,199 |
| Miscellaneous income | (338) | 865 | 527 | 3,693 | 4,551 | 8,244 |
| | **(168)** | **2,021** | **1,853** | **3,839** | **7,636** | **11,475** |

### 5.(a) Claims expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 KShs '000 | 2014 KShs '000 | 2015 KShs '000 | 2014 KShs '000 |
| Paid claims long term business | 358,728 | 327,271 | 358,728 | 327,271 |
| Paid claims short term business | 1,239,966 | 1,756,275 | 1,160,360 | 1,058,182 |
| Change in outstanding claims and other movements | 2,712,361 | 1,832,164 | 2,341,658 | 1,953,566 |
| Gross claims | 4,311,055 | 3,915,710 | 3,860,746 | 3,339,019 |
| Surrender and annuity payments | 1,034,041 | 1,126,544 | 1,034,041 | 1,126,544 |
| Less: amounts recoverable from re-insurers | (818,431) | (916,584) | (517,302) | (522,731) |
| **Net claims payable** | **4,526,665** | **4,125,670** | **4,377,485** | **3,942,832** |

### 5 (b) Operating expenses

| Group | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Staff costs | 129,156 | 439,449 | 568,605 | 114,307 | 459,443 | 573,750 |
| Rent | 8,853 | 30,898 | 39,751 | 7,232 | 35,085 | 42,317 |
| Printing and stationery | 5,172 | 15,414 | 20,586 | 3,753 | 15,742 | 19,495 |
| Telephone expenses | 3,669 | 10,348 | 14,017 | 2,780 | 10,351 | 13,131 |
| Travelling expenses | 8,379 | 19,266 | 27,645 | 9,069 | 18,404 | 27,473 |
| Repairs and maintenance expenditure | 8,759 | 18,580 | 27,339 | 5,129 | 15,580 | 20,709 |
| Advertisement expenses | 17,845 | 28,351 | 46,196 | 16,963 | 30,937 | 47,900 |
| Entertainment expenses | 5,656 | 5,298 | 10,954 | 2,234 | 4,233 | 6,467 |
| Bank charges | 1,947 | 2,029 | 3,976 | 2,366 | 2,986 | 5,352 |
| Interest on car loans | - | 835 | 835 | - | - | - |
| Training expenses | 4,517 | 4,899 | 9,416 | 2,646 | 7,278 | 9,924 |
| General office expenses | 67,697 | 113,064 | 180,762 | 44,955 | 79,175 | 124,130 |
| | **261,650** | **688,431** | **950,081** | **211,434** | **679,214** | **890,648** |
| Staff costs include the following: | | | | | | |
| - Salaries and wages | 116,336 | 376,434 | 492,770 | 99,697 | 400,228 | 499,925 |
| - Social security benefit costs | 313 | 13,866 | 14,179 | 2,203 | 11,471 | 13,674 |
| - Retirement benefit costs | 12,507 | 49,149 | 61,656 | 12,407 | 47,744 | 60,151 |
| | **129,156** | **439,449** | **568,605** | **114,307** | **459,443** | **573,750** |

| Company | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Staff costs | 129,156 | 357,209 | 486,365 | 114,307 | 394,504 | 508,811 |
| Rent | 8,853 | 13,100 | 21,953 | 7,232 | 19,095 | 26,327 |
| Printing and stationery | 5,172 | 13,840 | 19,012 | 3,753 | 13,691 | 17,444 |
| Telephone expenses | 3,669 | 7,003 | 10,672 | 2,780 | 7,572 | 10,352 |
| Travelling expenses | 8,379 | 12,051 | 20,430 | 9,069 | 12,375 | 21,444 |
| Repairs and maintenance expenditure | 8,759 | 13,494 | 22,253 | 5,129 | 12,662 | 17,791 |
| Advertisement expenses | 17,845 | 23,920 | 41,765 | 16,963 | 27,576 | 44539 |
| Entertainment expenses | 5,656 | 5,298 | 10,954 | 2,234 | 4,233 | 6467 |
| Bank charges | 1,947 | 1,539 | 3,486 | 2,366 | 1,984 | 4350 |
| Interest on car loans | - | 835 | 835 | - | - | - |
| Training expenses | 4,517 | 4,454 | 8,971 | 2,646 | 7,171 | 9817 |
| General office expenses | 67,697 | 86,156 | 153,853 | 44,955 | 55,415 | 100370 |
| | **261,650** | **538,899** | **800,549** | **211,434** | **556,278** | **767712** |
| Staff costs include the following: | | | | | | |
| - Salaries and wages | 116,336 | 307,039 | 423,375 | 99,697 | 345,779 | 445,176 |
| - Social security benefit costs | 313 | 1,021 | 1,334 | 2,203 | 981 | 3,184 |
| - Retirement benefit costs | 12,507 | 49,149 | 61,656 | 12,407 | 47,744 | 60,151 |
| | **129,156** | **357,209** | **486,365** | **114,307** | **394,504** | **508,811** |

The number of persons employed by the Group at year end was 297 (2014: 299). At company level, the employees as at year were 261 (2014: 266).

## 6. Other expenses

### (a) Group

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Depreciation and amortisation | 6,396 | 40,886 | 47,282 | 6,765 | 33,019 | 39,784 |
| Amortisation of prepaid lease | 38,722 | 410 | 39,132 | 441 | 397 | 838 |
| Audit fee | 1,552 | 7,196 | 8,748 | 1,239 | 7,000 | 8,239 |
| Donations | 665 | 1,245 | 1,910 | 164 | 503 | 667 |
| Directors' remuneration (Note 39) | 506 | 1,519 | 2,025 | 506 | 1,519 | 2,025 |
| Other directors' expenses | 3,171 | 10,675 | 13,846 | 2,982 | 11,617 | 14,599 |
| | **51,012** | **61,931** | **112,943** | **12,097** | **54,055** | **66,152** |

### (a) Company

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Depreciation and amortisation | 6,396 | 36,468 | 42,864 | 6,765 | 30,499 | 37,264 |
| Amortisation of prepaid lease | 38,722 | 408 | 39,130 | 441 | 395 | 836 |
| Audit fee | 1,552 | 4,398 | 5,950 | 1,239 | 3,718 | 4,957 |
| Donations | 665 | 1,245 | 1,910 | 164 | 431 | 595 |
| Directors' remuneration (Note 39) | 506 | 1,519 | 2,025 | 506 | 1,519 | 2,025 |
| Other directors' expenses | 3,171 | 8,712 | 11,883 | 2,982 | 9,073 | 12,055 |
| | **51,012** | **52,750** | **103,762** | **12,097** | **45,635** | **57,732** |

## 7. Income tax

**Statement of financial position**

| **Taxation payable/(recoverable)**<br>**(a) Group (Taxation recoverable)** | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Balance brought forward | - | (59,761) | (59,761) | - | (33,868) | (33,868) |
| Charge for the year | - | 2,621 | 2,621 | - | 7,951 | 7,951 |
| Under provision in previous year | - | (17) | (17) | - | 104 | 104 |
| Reclassification | - | 1,010 | 1,010 | - | - | - |
| Paid during the year | - | - | - | - | (33,948) | (33,948) |
| **Balance carried forward** | **-** | **(56,147)** | **(56,147)** | **-** | **(59,761)** | **(59,761)** |
| **(b) Group (Taxation payable)** | | | | | | |
| Balance brought forward | 30,005 | - | 30,005 | 12,005 | - | 12,005 |
| Reclassification | - | (1,010) | (1,010) | - | - | - |
| Charge for the year | 18,000 | 13,209 | 31,209 | 18,000 | - | 18,000 |
| Paid during the year | - | (8,613) | (8,613) | - | - | - |
| Exchange differences | - | 1,278 | 1,278 | - | - | - |
| **Balance carried forward** | **48,005** | **4,864** | **52,869** | **30,005** | **-** | **30,005** |

**7. Income tax (continued)**

**Statement of financial position (continued)**

**Taxation payable/(recoverable) (continued)**

| **(b) Company** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total 2015 KShs'000** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total 2014 KShs'000** |
|---|---|---|---|---|---|---|
| Balance brought forward | 30,005 | (58,479) | (28,474) | 12,005 | (23,574) | (11,569) |
| Charge for the year | 18,000 | 2,591 | 20,591 | 18,000 | 897 | 18,897 |
| Under provision in previous year | - | - | - | - | 104 | 104 |
| Paid during the year | - | - | - | - | (35,906) | (35,906) |
| **Balance carried forward** | **48,005** | **(55,888)** | **(7,883)** | **30,005** | **(58,479)** | **(28,474)** |

**Statement of profit or loss**

**Current income tax**

| **(c) Group** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total 2015 KShs'000** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total 2014 KShs'000** |
|---|---|---|---|---|---|---|
| Current income tax charge | 18,000 | 15,830 | 33,830 | 18,000 | 7,951 | 25,951 |
| Under provision in previous year | - | - | - | - | 104 | 104 |
| Deferred tax charge/(credit) | (20,544) | 19,738 | (806) | (73,656) | (109,140) | (182,796) |
| | **(2,544)** | **35,568** | **33,024** | **(55,656)** | **(101,085)** | **(156,741)** |

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

| **Group** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total 2015 KShs'000** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total 2014 KShs'000** |
|---|---|---|---|---|---|---|
| Profit /(loss) before taxation | 60,000 | 796,715 | 856,715 | 60,000 | (336,213) | (276,213) |
| Tax calculated at a statutory tax rate of 30% | 18,000 | 239,015 | 257,015 | 18,000 | (100,864) | (82,864) |
| Tax effect of income not subject to tax | - | (351,280) | (351,280) | - | (90,190) | (90,190) |
| Tax effect of expenses not deductible for tax purposes | - | 128,095 | 128,095 | - | 199,005 | 199,005 |
| **Current income tax charge** | **18,000** | **15,830** | **33,830** | **18,000** | **7,951** | **25,951** |

**7. Income tax (continued)**

**Statement of profit or loss (continued)**

| **Current income tax**<br>**(d) Company** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total 2015 KShs'000** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total 2014 KShs'000** |
|---|---|---|---|---|---|---|
| Current income tax charge | 18,000 | 2,591 | 20,591 | 18,000 | 897 | 18,897 |
| Under provision in previous year | - | - | - | - | 104 | 104 |
| Deferred tax charge/(credit) | (20,544) | 13,723 | (6,821) | (73,656) | (108,941) | (182,597) |
| | **(2,544)** | **16,314** | **13,770** | **(55,656)** | **(107,940)** | **(163,596)** |

| **Company** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
|---|---|---|---|---|---|---|
| Profit/(loss) before taxation | 60,000 | 744,678 | 804,678 | 60,000 | (300,634) | (240,634) |
| Tax calculated at a statutory tax rate of 30% | 18,000 | 223,403 | 241,403 | 18,000 | (90,190) | (72,190) |
| Tax effect of income not subject to tax | - | (348,905) | (348,905) | - | (90,190) | (90,190) |
| Tax effect of expenses not deductible for tax purposes | - | 128,093 | 128,093 | - | 181,277 | 181,277 |
| **Current income tax charge** | **18,000** | **2,591** | **20,591** | **18,000** | **897** | **18,897** |

**8. Share capital**

| | **Number of shares 2015** | **Number of shares 2014** | **Share capital 2015 KShs'000** | **Share capital 2014 KShs'000** |
|---|---|---|---|---|
| Authorised (Short-term business) | | | | |
| Ordinary shares of KShs 100 each | 5,500,000 | 5,500,000 | 550,000 | 550,000 |
| Authorised (Long-term business) | | | | |
| Ordinary shares of KShs 100 each | 500,000 | 500,000 | 50,000 | 50,000 |
| **Total** | **6,000,000** | **6,000,000** | **600,000** | **600,000** |
| **Ordinary shares: Issued and fully paid** | | | | |
| At start and end of year (Short-term business) | 4,000,002 | 4,000,002 | 400,000 | 400,000 |
| Increase in share capital | - | - | - | - |
| At end year (Short term business) | 4,000,002 | 4,000,002 | 400,000 | 400,000 |
| At start of year (Long-term business) | 1,613,880 | 1,613,880 | 161,388 | 161,388 |
| Increase in share capital | - | - | - | - |
| At end of year (Long-term business) | 1,613,880 | 1,613,880 | 161,388 | 161,388 |
| **Total** | **5,613,882** | **5,613,882** | **561,388** | **561,388** |

All ordinary shares issued are fully paid.

**8. Share capital (continued)**

**Profit/(loss) before taxation**

Profit before tax in the year to 31 December 2015 was KShs 856.715 million (2014: loss of KShs 276.213). The loss in year in 2014 was arrived at after recognition of an additional provision of KShs 501 million in respect of IBNR as a resu adopting the technical guidelines issued by IRA on valuation of technical liabilities.

**Earnings/(loss) per share**

Basic earnings/ (loss) per share is calculated by dividing the net profit or loss for the year attributable to ordinary shareholders of the parent by the number of shares outstanding at the reporting date.
Diluted earnings/(loss)per share is calculated by dividing the net profit or loss for the year attributable to ordinary equity holders of the parent by the number of ordinary shares outstanding during the year plus the number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Basic and diluted earnings/(loss) per share are the same. Group earnings/(loss) reported for 2015 and 2014 were KShs 812,532,000 and KShs 125,892,000 respectively. Company earnings/(loss) reported for 2015 and 2014 were KShs 790,908,000 and KShs 137,038,000 respectively.

The following reflects the income and share data used in the basic and diluted earnings/(loss) per share computations:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| Net profit/(loss) attributable to ordinary shareholders for basic and diluted earnings | 812,532 | (125,892) | 790,908 | (137,038) |
| | **2015** | **2014** | **2015** | **2014** |
| | **KShs** | **KShs** | **KShs** | **KShs** |
| Number of ordinary shares for basic and diluted (loss)/earnings per share | 5,613,882 | 5,613,882 | 5,613,882 | 5,613,882 |
| **Basic earnings/(loss) per share (KShs)** | **144.74** | **(22.43)** | **140.88** | **(24.41)** |
| **Diluted earnings/(loss) per share (KShs)** | **144.74** | **(22.43)** | **140.88** | **(24.41)** |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements

**Dividend per share**

Dividend per share is calculated by dividing dividends for the year by the weighted average number of ordinary shares outstanding during the year.

| | 2015 | 2014 |
|---|---|---|
| | **KShs' 000** | **KShs' 000** |
| **Dividend proposed** | **KShs 56,140** | **KShs Nil** |
| **Dividend per share** | **KShs 10** | **KShs Nil** |

In respect of the current year, the Directors propose the payment of a dividend of KShs 10 (2014: KShs Nil) per share equivalent to total sum of KShs 56.14million (2014: KShs Nil) be paid to the shareholders.

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-residents For resident shareholders, withholding tax is only deductible where the shareholding is below 12.5%.

## 9. Reserves

### (a) Available-for-sale reserve

The fair value reserve relate to valuation of available-for-sale financial instruments. The movement in the fair value reserve for the Group and Company is shown below and in note 25 and in the statement of other comprehensive income on pages 8 and 10 respectively.

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 KShs'000 | 2014 KShs'000 | 2015 KShs'000 | 2014 KShs'000 |
| At 1 January | 48,278 | 16,408 | 47,711 | 16,413 |
| Net gain/(loss) on available-for-sale investments: | | | | |
| Government securities | (52,319) | 31,870 | (51,275) | 31,298 |
| Adjustment for losses included in income statement on disposal of investments | 551 | - | 551 | - |
| Net gain/(loss) | (51,768) | 31,870 | (50,724) | 31,298 |
| **At 31 December** | **(3,490)** | **48,278** | **(3,013)** | **47,711** |

### (b) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign operations.

| | 2015 KShs'000 | 2014 KShs'000 | 2015 KShs'000 | 2014 KShs'000 |
|---|---|---|---|---|
| At 1 January | (15,254) | (12,343) | - | - |
| Exchange difference on translation | (2,672) | (2,911) | - | - |
| Income tax effect | - | - | - | - |
| **At 31 December** | **(17,926)** | **(15,254)** | **-** | **-** |

### c) Revaluation reserve (Group and Company)

| | 2015 KShs'000 | 2014 KShs'000 |
|---|---|---|
| **At 1 January** | 236,119 | 208,260 |
| Revaluation of buildings | 57,033 | 25,404 |
| Deferred tax on revaluation | (17,110) | (7,621) |
| Depreciation released on revaluation | 14,300 | 13,661 |
| | 54,223 | 31,444 |
| Transfer of excess depreciation | (915) | (3,585) |
| **At 31 December** | **289,427** | **236,119** |

### (d) Non-controlling interests-Group

| | | 2015 KShs'000 | 2014 KShs'000 |
|---|---|---|---|
| At 1 January | | 54,172 | 47,752 |
| Share of profit for the year | | 11,159 | 6,420 |
| **At 31 December** | | **65,331** | **54,172** |
| The non-controlling interests consist of: | | | |
| Equity interests held by individual shareholders | 35% | **65,331** | **54,172** |

## 10. Retained earnings

Included within retained earnings are gains 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 of KShs 2,520.063 million (KShs 2,056.59 million for 2014).

The movement for the year is shown below.

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Retained earnings** | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **At 1 January-as previously reported** | 991,201 | 1,267,950 | 914,335 | 1,202,230 |
| Prior year adjustment (Note 42) | - | (98,304) | - | (98,304) |
| **At 1 January –as restated** | 991,201 | 1,169,646 | 914,335 | 1,103,926 |
| Profit/(loss) for the year | 749,988 | (241,548) | 728,364 | (252,694) |
| Transfer of excess depreciation | 915 | 3,585 | 915 | 3,585 |
| Dividends paid | - | (56,138) | - | (56,138) |
| Transfer from statutory reserve to retained earnings | 62,544 | 115,656 | 62,544 | 115,656 |
| **At 31 December** | **1,804,648** | **991,201** | **1,706,158** | **914,335** |

Included in the retained earnings is gain on transfer of one part of the properties (Kenindia Business Park) from General Business to Life Business. The gain amounting to KShs 976,837,000 is not distributable to shareholders.

## 11. Statutory reserves

The statutory reserve represents profits from the long term business whose distribution is subject to restrictions imposed by the Kenyan Insurance Act. The Act restricts the amounts of surpluses of the long term business available for distribution to shareholders to 30% of the accumulated profits of the life business.

Movement in the statutory reserve for the Group and Company is shown below and in the statement of changes in equity on pages 17, 18, 19 and 20 respectively.

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2014 | 2014 |
| **Statutory reserve** | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| At 1 January | 318,516 | 318,516 | 318,516 | 318,516 |
| Surplus for the year | 62,544 | 115,656 | 62,544 | 115,656 |
| Transfer to retained earnings | (62,544) | (115,656) | (62,544) | (115,656) |
| **At 31 December** | **318,516** | **318,516** | **318,516** | **318,516** |

## 12. Property and equipment (Group)

### (a) 31 December 2015

| | Buildings KShs'000 | Motor vehicles KShs'000 | Computer equipment KShs'000 | Fittings and equipment KShs'000 | Work-in-progress kShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2015 | 571,860 | 53,222 | 152,754 | 181,564 | - | 959,400 |
| Additions | 153 | 25,850 | 32,228 | 8,928 | 43,963 | 111,122 |
| Revaluation surplus | 57,033 | - | - | - | - | 57,033 |
| Disposals | - | (4,881) | (204) | (4,436) | - | (9,521) |
| Exchange differences | - | (977) | (1,231) | (1,453) | - | (3,661) |
| **At 31 December 2015** | **629,046** | **73,214** | **183,547** | **184,603** | **43,963** | **1,114,373** |
| **Depreciation** | | | | | | |
| At 01 January 2015 | - | 18,980 | 140,549 | 128,807 | - | 288,336 |
| Charge for the year | 14,300 | 14,201 | 8,897 | 7,488 | - | 44,886 |
| Eliminated on revaluation | (14,300) | - | - | - | - | (14,300) |
| Eliminated on disposal | - | (2,265) | (151) | (1,959) | - | (4,375) |
| Exchange differences | - | (614) | (666) | (1,032) | - | (2,312) |
| **At 31 December 2015** | **-** | **30,302** | **148,629** | **133,304** | **-** | **312,235** |
| **Net book value** | | | | | | |
| **At 31 December 2015** | **629,046** | **42,912** | **34,918** | **51,299** | **43,963** | **802,138** |

## 12. Property and equipment (Group)

**(b) 31 December 2014**

| | Buildings KShs'000 | Motor vehicles KShs'000 | Computer equipment KShs'000 | Fittings and equipment KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2014 | 510,000 | 31,702 | 148,066 | 167,283 | 857,051 |
| Additions | 36,456 | 32,448 | 4,986 | 17,694 | 91,584 |
| Revaluation surplus | 25,404 | - | - | - | 25,404 |
| Disposals | - | (10,928) | (298) | (3,413) | (14,639) |
| **At 31 December 2014** | **571,860** | **53,222** | **152,754** | **181,564** | **959,400** |
| **Depreciation** | | | | | |
| At 1 January 2014 | - | 18,853 | 135,412 | 122,900 | 277,165 |
| Charge for the year | 13,661 | 10,571 | 5,200 | 8,046 | 37,478 |
| Eliminated on revaluation | (13,661) | - | - | - | (13,661) |
| Eliminated on disposal | - | (10,492) | (134) | (2,385) | (13,011) |
| Exchange differences | - | 48 | 71 | 246 | 365 |
| **At 31 December 2014** | **-** | **18,980** | **140,549** | **128,807** | **288,336** |
| **Net book value** | | | | | |
| **At 31 December 2014** | **571,860** | **34,242** | **12,205** | **52,757** | **671,064** |

Work in progress relates to the new computer software.

No property and equipment are held as security against any liabilities.

In the opinion of the directors, there is no impairment of property and equipment as at 31 December 2014 and 2015.

## 13. Property and equipment (Company)

| (a) 31 December 2015 | Buildings KShs'000 | Motor vehicles KShs'000 | Computer equipment KShs'000 | Fittings and equipment KShs'000 | Work-in-progress KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2015 | 571,860 | 44,378 | 146,532 | 169,297 | - | 932,067 |
| Additions | 153 | 25,850 | 9,960 | 7,530 | 43,963 | 87,456 |
| Revaluation surplus | 57,033 | - | - | - | - | 57,033 |
| Disposals | - | (4,788) | (89) | (3,298) | - | (8,175) |
| **At 31 December 2015** | **629,046** | **65,440** | **156,403** | **173,529** | **43,963** | **1,068,381** |
| **Depreciation** | | | | | | |
| At 1 January 2015 | - | 14,190 | 135,565 | 121,359 | - | 271,114 |
| Charge for the year | 14,300 | 13,250 | 6,275 | 6,643 | - | 40,468 |
| Eliminated on revaluation | (14,300) | - | - | - | - | (14,300) |
| Eliminated on disposal | - | (2,205) | (79) | (1,477) | - | (3,761) |
| **At 31 December 2015** | **-** | **25,235** | **141,761** | **126,525** | **-** | **293,521** |
| **Net book value** | | | | | | |
| **At 31 December 2015** | **629,046** | **40,205** | **14,642** | **47,004** | **43,963** | **774,860** |

**13. Property and equipment (Company)**

| (b) 31 December 2014 | Buildings KShs'000 | Motor vehicles KShs'000 | Computer equipment KShs'000 | Fittings and equipment KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2014 | 510,000 | 25,701 | 141,864 | 155,049 | 832,614 |
| Revaluation surplus | 25,404 | - | - | - | 25,404 |
| Additions | 36,456 | 29,605 | 4,727 | 16,474 | 87,262 |
| Disposals | - | (10,928) | (59) | (2,226) | (13,213) |
| **At 31 December 2014** | **571,860** | **44,378** | **146,532** | **169,297** | **932,067** |
| **Depreciation** | | | | | |
| At 1 January 2014 | - | 15,019 | 130,914 | 115,759 | 261,692 |
| Charge for the year | 13,661 | 9,663 | 4,700 | 6,935 | 34,959 |
| Eliminated on revaluation | (13,661) | - | - | - | (13,661) |
| Eliminated on disposal | - | (10,492) | (49) | (1,335) | (11,876) |
| **At 31 December 2014** | **-** | **14,190** | **135,565** | **121,359** | **271,114** |
| **Net book value** | | | | | |
| **At 31 December 2014** | **571,860** | **30,188** | **10,967** | **47,938** | **660,953** |

**14. Intangible assets (Group and Company)**

| **Cost** | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At 1 January | 13,905 | 8,079 | 21,984 | 12,718 | 8,079 | 20,797 |
| Additions | 2,612 | - | 2,612 | 1,187 | - | 1,187 |
| **At 31 December** | **16,517** | **8,079** | **24,596** | **13,905** | **8,079** | **21,984** |
| **Amortisation** | | | | | | |
| At 1 January | 10,041 | 6,564 | 16,605 | 8,385 | 5,914 | 14,299 |
| Charge for the year | 1,942 | 454 | 2,396 | 1,656 | 650 | 2,306 |
| **At 31 December** | **11,983** | **7,018** | **19,001** | **10,041** | **6,564** | **16,605** |
| **Net book value** | | | | | | |
| **At 31 December** | **4,534** | **1,061** | **5,595** | **3,864** | **1,515** | **5,379** |

Intangible assets relate to the cost of purchase and installation of computer software (PREMIA). As at 31 December 2015, these intangible assets were tested for impairment, and management has determined no impairment provision is required in respect of these intangibles.

## 15. Prepaid operating lease rentals

### (a) Group

| Cost | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At 1 January | 23,081 | 27,189 | 50,270 | 23,081 | 24,387 | 47,468 |
| Additions | 1,225,000 | - | 1,225,000 | - | 2,802 | 2,820 |
| Transfers | - | (17,735) | (17,735) | - | - | - |
| Reclassification | 350 | (140) | 210 | - | - | - |
| **At 31 December** | **1,248,431** | **9,314** | **1,257,745** | **23,081** | **27,189** | **50,270** |
| **Amortisation** | | | | | | |
| At 1 January | 9,253 | 10,201 | 19,454 | 8,812 | 9,804 | 18,616 |
| Charge for the year | 38,722 | 410 | 39,132 | 441 | 397 | 838 |
| Eliminated on transfer | - | (8,072) | (8,072) | - | - | - |
| Reclassification | 350 | (141) | 209 | - | - | - |
| **At 31 December** | **48,325** | **2,398** | **50,723** | **9,253** | **10,201** | **19,454** |
| **Net book value** | | | | | | |
| **At 31 December** | **1,200,106** | **6,916** | **1,207,022** | **13,828** | **16,988** | **30,816** |

### (b) Company

| Cost | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At 1 January | 23,081 | 26,903 | 49,984 | 23,081 | 24,101 | 47,182 |
| Additions | 1,225,000 | - | 1,225,000 | - | - | - |
| Transfers | - | (17,735) | (17,735) | - | 2,802 | 2,802 |
| **At 31 December** | **1,248,081** | **9,168** | **1,257,249** | **23,081** | **26,903** | **49,984** |
| At 1 January | 9,253 | 10,051 | 19,304 | 8,812 | 9,656 | 18,468 |
| Eliminated on transfers | - | (8,072) | (8,072) | - | - | - |
| Charge for the year | 38,722 | 408 | 39,130 | 441 | 395 | 836 |
| **At 31 December** | **47,975** | **2,387** | **50,362** | **9,253** | **10,051** | **19,304** |
| **Net book value** | | | | | | |
| **At 31 December** | **1,200,106** | **6,781** | **1,206,887** | **13,828** | **16,852** | **30,680** |

## 16. Investment properties

### (a) Group

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At start of year | 1,100,533 | 1,322,440 | 2,422,973 | 953,711 | 1,228,560 | 2,182,271 |
| Additions | 146,512 | 230 | 146,742 | 6,486 | 15,340 | 21,826 |
| Transfers | - | (385,000) | (385,000) | - | - | - |
| Fair value gains | 370,715 | 92,758 | 463,473 | 140,336 | 78,540 | 218,876 |
| **At end of year** | **1,617,760** | **1,030,428** | **2,648,188** | **1,100,533** | **1,322,440** | **2,422,973** |

**16. Investment properties (continued)**

**(b) Company**

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At start of year | 1,100,533 | 1,314,880 | 2,415,413 | 953,711 | 1,221,000 | 2,174,211 |
| Additions | 146,512 | 230 | 146,742 | 6,486 | 15,340 | 21,826 |
| Transfers | - | (385,000) | (385,000) | - | - | - |
| Fair value gains | 370,715 | 92,758 | 463,473 | 140,336 | 78,540 | 218,876 |
| **At end of year** | **1,617,760** | **1,022,868** | **2,640,628** | **1,100,533** | **1,314,880** | **2,415,413** |

Investment properties are stated at fair value, which has been determined based on valuation (open market value for existing use) performed by City Valuers Limited as at 31 December 2015. City Valuers Limited are industry specialists in valuing these types of investment properties. The fair value is supported by market evidence and represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation in accordance with the standards issued by the International Valuation Standards Committee. In estimating the fair value of the properties, the highest and best use of the properties is their current use. Valuations are performed on an annual basis using recent transaction prices for similar use assets and the fair value gains and losses are dealt with in the statement of profit or loss.

The Group enters into operating leases for all its investment properties. The rental income arising during the year amounted to KShs 113,238,000 (2014: KShs 113,412,000), which is included in investment income - (see note 3).

Direct operating expenses (included in note 3) attributable to the rental of these properties during the year were KShs 81,076,000 (2014: KShs 76,907,000).

Disclosures regarding minimum lease payments have been provided in Note 38(b).

**The following table shows an analysis of investment properties recorded at fair value by level of the fair value hierarchy**

| | 2015 | 2014 |
|---|---|---|
| **Group** | | |
| Level 1 | - | - |
| Level 2 | 2,648,188 | 2,422,973 |
| Level 3 | - | - |
| **Fair value as at 31 December** | **2,648,188** | **2,422,973** |
| **Company** | | |
| Level 1 | - | - |
| Level 2 | 2,640,628 | 2,415,413 |
| Level 3 | - | - |
| **Fair value as at 31 December** | **2,640,628** | **2,415,413** |

**17. Investment in subsidiaries (Company)**

| | Percentage (%) of shareholding | 2015 KShs'000 | 2014 KShs'000 |
|---|---|---|---|
| **At cost :** | | | |
| Kenya Pravack Limited | 100 | 3,640 | 3,640 |
| Kenindia Asset Management Company Limited | 100 | 10,000 | 10,000 |
| Tanzindia Assurance Company Limited | 65 | 68,265 | 68,265 |
| **At 31 December** | | **81,905** | **81,905** |

Investment in subsidiaries is stated at cost.

**17. Investment in subsidiaries (Company) (continued)**

**Kenya Pravack Limited**

The principal activity of Kenya Pravack Limited is to carry out investments for Kenindia Assurance Company Limited. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

**Kenindia Asset Management Company Limited**

The principle activity of Kenindia Asset Management Company Limited is that the company manages and administers retirement benefit schemes. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

**Tanzindia Assurance Company limited**

The principal activity of Tanzindia Assurance Company Limited is the transaction of general insurance business. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.
The total non-controlling interest for the period is KShs 65,331,000 (2014: KShs 54,172,000) which is wholly attributed to Tanzindia Assurance Company Limited.

Set out below are the summarised financial information for the subsidiary whose non-controlling interest are material to the group;

| **Summarised statement of financial position** | **2015 KShs'000** | **2014 KShs'000** |
|---|---|---|
| Total assets | 1,792,178 | 1,693,374 |
| Total liabilities | (1,609,630) | (1,526,122) |
| **Net assets** | **182,548** | **167,252** |
| **Summarised statement of profit or loss** | | |
| Gross earned premiums | 731,452 | 776,369 |
| Underwriting loss | (10,617) | (5,607) |
| Profit before income tax | 50,591 | 22,151 |
| Income tax expense/income | (18,709) | (3,807) |
| Other comprehensive income | - | - |
| **Total comprehensive income** | **31,882** | **18,344** |
| **Total comprehensive income allocated to non-controlling interest** | **11,159** | **4,015** |

| **Summarised statement of cash flows** | **2015 KShs'000** | **2014 KShs'000** |
|---|---|---|
| Net cash generated from operating activities | 36,104 | (5,526) |
| Net cash generated from investing activities | (63,904) | 45 |
| Net cash generated from financing activities | 155 | 16,953 |
| **Net increase in cash and cash equivalents** | **(27,645)** | **11,472** |
| **Cash and cash equivalents at beginning of year** | **54,238** | **27,727** |
| Exchange gains/(losses) on cash and cash equivalents | 48,827 | 15,039 |
| **Cash and cash equivalents at the end of the year** | **75,420** | **54,238** |

## 18. Available-for-sale equity investments

### (a) Group

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At start of year | 675 | 175,451 | 176,126 | 675 | 175,790 | 176,465 |
| Exchange loss | - | (4,980) | (4,980) | - | (3,969) | (3,969) |
| Additions | - | 4,715 | 4,715 | - | 3,630 | 3,630 |
| **At end of year** | **675** | **175,186** | **175,861** | **675** | **175,451** | **176,126** |

### (b) Company

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At start of year | 675 | 122,779 | 123,454 | 675 | 119,149 | 119,824 |
| Additions | - | - | - | - | 3,630 | 3,630 |
| **At end of year** | **675** | **122,779** | **123,454** | **675** | **122,779** | **123,454** |

Available-for-sale equity investments comprise investments in shares of unquoted companies, and are carried at cost, since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

## 19. Financial assets at fair value through profit and loss

### (a) Group

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Tota 2014 KShs'00 |
|---|---|---|---|---|---|---|
| At start of year | 177,878 | 94,223 | 272,101 | 84,635 | 74,164 | 158,79 |
| Additions | 55,180 | - | 55,180 | 87,671 | 12,472 | 100,14 |
| Exchange gain/(losses) | - | (290) | (290) | - | 263 | 26 |
| Disposals | (975) | (487) | (1,462) | (10,626) | - | (10,626 |
| Fair value losses/(gains) | (38,475) | (10,254) | (48,729) | 16,198 | 7,324 | 23,52 |
| **At end of year** | **193,608** | **82,772** | **276,380** | **177,878** | **94,223** | **272,10** |

## 19. Financial assets at fair value through profit and loss (continued)

### (b) Company

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At start of year | 177,878 | 84,528 | 262,406 | 84,635 | 66,474 | 151,109 |
| Additions | 55,180 | - | 55,180 | 87,671 | 12,472 | 100,143 |
| Disposals | (975) | (487) | (1,462) | (10,626) | - | (10,626) |
| Fair value losses/(gains) | (38,475) | (12,038) | (50,513) | 16,198 | 5,582 | 21,780 |
| **At end of year** | **193,608** | **72,003** | **265,611** | **177,878** | **84,528** | **262,406** |

## 20. Loans and receivables (Group and Company)

| **Mortgage loans** | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At start of year | 4,813 | - | 4,813 | 4,813 | - | 4,813 |
| Loan repayments | - | - | - | - | - | - |
| **At end of year** | **4,813** | **-** | **4,813** | **4,813** | **-** | **4,813** |
| **Maturity profile of mortgage Loans maturing** | | | | | | |
| At start of year | 3,546 | - | 3,546 | 3,546 | - | 3,546 |
| Loan repayments | 1,267 | - | 1,267 | 1,267 | - | 1,267 |
| **At end of year** | **4,813** | **-** | **4,813** | **4,813** | **-** | **4,813** |
| **Policy loans** | | | | | | |
| At start of year | 80,413 | | 80,413 | 72,787 | - | 72,787 |
| Loan advanced | 31,135 | - | 31,135 | 27,435 | - | 27,43 |
| Loan repayments | (20,538) | - | (20,538) | (19,809) | - | (19,809) |
| **At end of year** | **91,010** | **-** | **91,010** | **80,413** | **-** | **80,413** |
| **Motor vehicle loans (Maturing between 1-5 years)** | | | | | | |
| At start of year | 153 | 1,169 | 1,322 | 153 | 1,392 | 1,54 |
| Loan advanced | - | - | - | - | 1,500 | 1,50 |
| Loan repayments | - | (489) | (489) | - | (1,723) | (1,72) |
| **At end of year** | **153** | **680** | **833** | **153** | **1,169** | **1,32** |

**20. Loans and receivables (Group and Company) (continued)**

| Maturity profile of policy loans | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| **Loans Maturing** | | | | | | |
| Within 1 year | 7,757 | - | 7,757 | 11,237 | - | 11,237 |
| In 1-5 years | 44,240 | - | 44,240 | 46,762 | - | 46,762 |
| In over 5 years | 39,013 | - | 39,013 | 22,414 | - | 22,414 |
| **At end of year** | **91,010** | **-** | **91,010** | **80,413** | **-** | **80,413** |
| **Book amount** | | | | | | |
| Mortgage loans | 4,813 | - | 4,813 | 4,813 | - | 4,813 |
| Policy loans | 91,010 | - | 91,010 | 80,413 | - | 80,413 |
| Motor vehicles | 153 | 680 | 833 | 153 | 1,169 | 1,322 |
| **At end of year** | **95,976** | **680** | **96,656** | **85,379** | **1,169** | **86,548** |

Mortgage loans, policy loans and staff motor vehicle loans are carried at amortised cost. The weighted average effective interest rates for these loans are disclosed in Note 5. There is no concentration of credit risk in respect of these loans.

**Collateral**

The group holds collateral against loans to loanees (staff and non-staff) in the form of mortgage interests over property and motor vehicle. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. The Group can liquidate the collateral in case of default. The Group holds in its custody the title deeds and log books for the assets attributable to the mortgage loans and motor vehicle loans respectively on behalf of the loanees. The title documents are released to the loanees upon full settlement of the respective loans. The collateral for the policy loans is the cash surrender value of the underlying policy. In the opinion of the directors, the collateral in place is adequate to cover the debt amount. In case of default, the policy loan is written off against the cash surrender value. None of these loans have had their terms renegotiated.

**21. Receivables arising out of reinsurance arrangements**

| Group | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Amount due from re-insurers | 32,593 | 1,338,918 | 1,371,511 | 36,179 | 1,112,974 | 1,149,153 |
| **Company** | | | | | | |
| Amount due from re-insurers | 32,593 | 936,954 | 969,547 | 36,179 | 876,328 | 912,507 |

Receivables arising out of reinsurance arrangements are non-interest bearing. Those past due and non-interest bearing are not considered impaired as these relate to active accounts and recovery is still being pursued by management. For an analysis of the past due not impaired receivables arising from reinsurance arrangements, refer to Note 41 (Credit Risk).

## 22. Receivables arising out of direct insurance arrangements (Outstanding premium)

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Outstanding premium | 1,020,376 | 970,574 | 763,366 | 743,566 |
| Allowance for credit losses | (276,331) | (252,500) | (272,221) | (248,203) |
| **At 31 December** | **744,045** | **718,074** | **491,145** | **495,363** |
| **Allowance for credit losses** | | | | |
| At the beginning of the year | 252,500 | 202,218 | 248,203 | 199,362 |
| Charge for the year | 26,796 | 50,282 | 24,018 | 48,841 |
| Exchange difference | (1,562) | - | - | - |
| Bad debts written off | (1,403) | - | - | - |
| **At 31 December** | **276,331** | **252,500** | **272,221** | **248,203** |

**Aged analysis of outstanding premium**

| | | | | |
|---|---|---|---|---|
| Neither past due nor impaired | | | | |
| Less than 30 days | 67,889 | 190,564 | (36,673) | 190,564 |
| 31 – 60 days | 196,062 | 60,431 | 91,500 | 60,431 |
| 61 – 90 days | 163,922 | 71,086 | 59,360 | 71,086 |
| Past due but not impaired | | | | |
| 91 – 120 days | 112,368 | 109,260 | 43,894 | 33,490 |
| Over 120 days | 339,582 | 286,733 | 333,064 | 139,792 |
| **At 31 December** | **744,045** | **718,074** | 491,145 | **495,363** |

Receivables arising out of direct insurance arrangements are non-interest bearing and are generally on cash and carry terms (require immediate settlement). Amounts that are past due are not considered impaired as these relate to active accounts and recovery is still being pursued by management. The impairment was written off to expenses in the respective periods.

## 23. Insurance liabilities

Insurance liabilities comprise gross claims reported, claims handling expense liabilities and the liability for claims incurred but not reported and are stated net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2015 and 2014 are insignificant.

| | Group | | Company | |
|---|---|---|---|---|
| (i) **Outstanding balances** | **2015** | **2014** | **2015** | **2014** |
| | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| **Short term / (non-life) insurance contracts** | | | | |
| Claims reported and claims handling expenses | 4,916,607 | 6,553,121 | 4,333,993 | 5,897,469 |
| Salvage recoverable | - | - | 825,728 | 885,322 |
| Claims incurred but not reported | 942,251 | 1,016,452 | - | - |
| | **5,858,858** | **7,569,573** | **5,159,721** | **6,782,791** |
| **Reinsurers' share of insurance liabilities** | **(4,017,859)** | **(5,762,780)** | **(3,525,788)** | **(5,129,857)** |
| Net outstanding liabilities | **1,840,999** | **1,806,793** | **1,633,933** | **1,652,934** |
| **Long term assurance contracts** | | | | |
| Claims reported and claims handling expenses | **41,489** | **36,676** | **41,489** | **36,676** |
| **Total gross insurance liabilities** | **5,900,347** | **7,606,249** | **5,201,210** | **6,819,467** |

**23. Insurance liabilities (continued)**

**Outstanding claims provisions movement**

**Long term assurance business (Group and Company)**

| | 2015 Insurance contract liabilities KShs'000 | 2014 Insurance contract liabilities KShs'000 |
|---|---|---|
| At 1 January | 36,676 | 33,543 |
| Claims incurred in current year | 363,541 | 328,404 |
| Claims paid | (358,728) | (325,271) |
| **At 31 December** | **41,489** | **36,676** |

**Short term insurance business**

**(a) Group**

| | Insurance contract liabilities KShs'000 | Re-insurers' share/Reinsurance of liabilities KShs'000 | Total 2015 KShs'000 | Insurance contract liabilities KShs'000 | Re-insurers' share/Reinsurance of liabilities KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At 1 January | 7,569,573 | 5,762,780 | 1,806,793 | 8,727,132 | 7,356,037 | 1,371,095 |
| Claims incurred in current accident year | 1,942,615 | 668,443 | 1,274,172 | 1,113,079 | (508,816) | 1,621,895 |
| Other movements in claims incurred in prior accident years | - | - | - | - | - | - |
| Claims paid during the year | (3,653,330) | (2,413,364) | (1,239,966) | (2,270,638) | (1,084,441) | (1,186,197) |
| **At end of year** | **5,858,858** | **4,017,859** | **1,840,999** | **7,569,573** | **5,762,780** | **1,806,793** |

**(b) Company**

| | Insurance contract liabilities KShs'000 | Re-insurers' share/Reinsurance of liabilities KShs'000 | Total 2015 KShs'000 | Insurance contract liabilities KShs'000 | Re-insurers' share/Reinsurance of liabilities KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| At 1 January | 6,782,791 | 5,129,857 | 1,652,934 | 7,791,515 | 6,531,904 | 1,259,611 |
| Claims incurred in current accident year | 1,658,661 | 517,302 | 1,141,359 | 572,189 | (879,316) | 1,451,505 |
| Other movements in claims incurred in prior accident years | - | - | - | - | - | - |
| Claims paid during the year | (3,281,731) | (2,121,371) | (1,160,360) | (1,580,913) | (522,731) | (1,058,182) |
| **At end of year** | **5,159,721** | **3,525,788** | **1,633,933** | **6,782,791** | **5,129,857** | **1,652,934** |

## 24. Other receivables

### (a) Group

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Prepayments | 268 | 3,114 | 3,382 | - | 3,436 | 3,436 |
| Interdepartmental balance | - | 894,001 | 894,001 | | | |
| Deposits, outstanding rental income and others | 21,045 | 396,605 | 417,650 | 59,242 | 377,095 | 436,337 |
| **At end of year** | **21,313** | **1,293,720** | **1,315,033** | **59,242** | **380,531** | **439,773** |

### (a) Company

| | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|
| Amount due from related companies | - | 43,039 | 43,039 | - | 39,038 | 39,038 |
| Interdepartmental balances | - | 894,001 | 894,001 | - | - | - |
| Prepayments | 268 | 1,108 | 1,376 | - | 1,109 | 1,109 |
| Deposits, outstanding rental income and others | 21,045 | 351,593 | 372,638 | 59,242 | 336,049 | 395,291 |
| **At end of year** | **21,313** | **1,289,741** | **1,311,054** | **59,242** | **376,196** | **435,438** |

Other receivables category is made up of amounts due from related companies, inter-departmental balance, pre-payments, deposits, outstanding rental income and miscellaneous receivables. For terms and conditions relating to related party receivables refer to note 39. Other receivables are non-interest bearing and are generally on 30-90 days terms.

### (b) Kenya Motor Insurance Pool (Group and company)

The amount due from Kenya Motor Insurance Pool relates to the Group's share of net assets in a motor insurance pool where underwriters/insurance companies in Kenya were required to cede a portion of their premiums to a pool in order to cushion themselves from excessive claims arising from public vehicles incidences. The Kenya Motor Insurance Pool is able to settle claims as and when they fall due. In the opinion of the directors, the amount due from Kenya Motor Insurance Pool is recoverable.

| | 2015 KShs'000 | 2014 KShs'000 |
|---|---|---|
| At 1 January | 86,857 | 78,489 |
| Net (decrease)/increase in group share of net assets of the pool | (656) | 8,368 |
| **At end of year** | **86,201** | **86,857** |

Summarised financial information in respect of the Kenya Motor Pool is as follows;

| | 2015 KShs'000 | 2014 KShs'000 |
|---|---|---|
| Total assets new pool | 889,020 | 887,444 |
| Total liabilities new pool | (88,336) | (75,036) |
| Total net assets | 800,684 | 812,408 |
| **Group's share of the net assets** | **86,201** | **86,857** |
| (Loss)/surplus for the year new pool | (6,542) | 88363 |
| Group's share of the (loss)/profit for the year | (656) | 8,368 |
| Group's share of other comprehensive income | - | - |

### 25. Government securities

**(a) Group**

| Treasury bills and bonds movement | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|---|
| | Held to maturity | Available for sale | Held to maturity | | Held to maturity | Available for sale | |
| At start of year | 16,336,729 | 916,376 | - | 17,253,105 | 13,928,539 | 875,990 | 14,804,529 |
| Additions | 4,347,992 | 127,268 | 245,537 | 4,720,797 | 3,327,699 | - | 3,327,699 |
| Maturity of bonds | (1,177,692) | (95,200) | - | (1,272,892) | (958,800) | - | (958,800) |
| Reclassification | - | (51,449) | 51,449 | - | - | - | - |
| Fair value adjustment recorded in other comprehensive income | - | (51,768) | - | (51,768) | - | 31,870 | 31,870 |
| Accrued interest | 75,100 | 1,639 | 351 | 77,090 | 39,291 | 8,516 | 47,807 |
| **At end of year** | **19,582,129** | **846,866** | **297,337** | **20,726,332** | **16,336,729** | **916,376** | **17,253,105** |
| **Treasury bills and bonds maturing** | | | | | | | |
| -Within 1 year | 712,740 | 91,314 | 51,449 | 855,503 | 868,980 | 109,867 | 978,847 |
| -In 1-5 years | 3,653,614 | 224,036 | - | 3,877,650 | 1,826,056 | 182,339 | 2,008,395 |
| -After 5 years | 15,215,775 | 531,516 | 245,888 | 15,993,179 | 13,641,693 | 624,170 | 14,265,863 |
| **At end of year** | **19,582,129** | **846,866** | **297,337** | **20,726,332** | **16,336,729** | **916,376** | **17,253,105** |

**(b) Company**

| Treasury bills and bonds movement | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Short term insurance business KShs'000 | Total 2015 KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|---|---|---|
| | Held of maturity | Held to maturity | Available for sale | | Held of maturity | Available for sale | |
| At start of year | 16,336,729 | - | 851,492 | 17,188,221 | 13,928,539 | 819,921 | 14,748,460 |
| Additions | 4,347,992 | 245,537 | 127,268 | 4,720,797 | 3,327,699 | - | 3,327,699 |
| Maturity of bonds | (1,177,692) | - | (95,200) | (1,272,892) | (958,800) | - | (958,800) |
| Fair value adjustment recorded in other comprehensive income | - | - | (50,724) | (50,724) | - | 31,298 | 31,298 |
| Income tax effect | - | - | - | - | - | - | - |
| Accrued interest | 75,100 | 351 | 1,258 | 76,709 | 39,291 | 273 | 39,564 |
| **At end of year** | **19,582,129** | **245,888** | **834,094** | **20,662,111** | **16,336,729** | **851,492** | **17,188,221** |
| **Treasury bills and bonds maturing** | | | | | | | |
| -Within 1 year | 712,740 | - | 78,542 | 791,282 | 868,980 | 58,794 | 927,774 |
| -In 1-5 years | 3,653,614 | - | 224,036 | 3,877,650 | 1,826,056 | 177,908 | 2,003,964 |
| -After 5 years | 15,215,775 | 245,888 | 531,516 | 15,993,179 | 13,641,693 | 614,790 | 4,256,483 |
| **At end of year** | **19,582,129** | **245,888** | **834,094** | **20,662,111** | **16,336,729** | **851,492** | **17,188,221** |

**25. Government securities (continued)**

Held to maturity government securities are in long term business and short term business and are carried at amortised costs (i.e. cost plus accrued discount or interest) and any premium or discount is amortised through profit or loss during the tenancy of the bond or securities. Available-for-sale government securities are in short term business, and are carried at fair value. Gains and losses on valuation of fair value on available-for-sale investments are dealt with in the statement of other comprehensive income.

**26. Amounts payable under deposit administration contracts (Group and company)**

Movements in amounts payable under deposit administration contracts during the year were as shown below. The liabilities are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 15% for the year (2014: 15.25%).

| | 2015<br>KShs'000 | 2014<br>KShs'000 |
|---|---|---|
| At start of the year | 13,963,555 | 12,069,111 |
| Pension fund deposits received | 2,238,915 | 1,794,285 |
| Withdrawals and benefits paid | (1,268,350) | (1,513,961) |
| Commissions and expenses charged | (111,669) | (82,172) |
| Investment income | 2,168,075 | 1,696,292 |
| **At end of year** | **16,990,526** | **13,963,555** |

**27. Actuarial value of policy holders' liabilities (Group and Company)**

The company underwrites long term policies under its long term assurance business. This type of business is subjected to an actuarial method where liabilities are determined by the company on the advice of the consulting actuary and actuarial valuations are carried out on an annual basis. The annual actuarial valuation of the life fund was carried out by the company's consulting Actuary, Saket Singhal, as at 31 December 2015 and 31 December 2014 respectively, using the net premium method and revealed an actuarial surplus of KShs 876 million (2014: KShs 488 million) after reserves set aside and before declaration of interest and bonuses to policy holders and distribution to shareholders. The actuary recommended KShs 60 million (2014: KShs 60 million) transfer from the life fund to the shareholders.

| **Assets and liabilities of the life fund** | 2015<br>KShs'000 | 2014<br>KShs'000 |
|---|---|---|
| Actuarial value of policy holders' liabilities | 4,953,607 | 4,182,877 |
| **Life fund assets** | **4,953,607** | **4,182,877** |

Policy holders' liabilities are stated inclusive of cumulative provisions for interest and bonuses payable as at 31 December 2015 and 31 December 2014 respectively.

| **Movement is as follows:** | 2015<br>KShs | 2014<br>KShs |
|---|---|---|
| At start of year | 4,182,877 | 3,652,225 |
| Policyholders' bonuses and interest | 527,100 | 383,710 |
| Surrenders and annuity payments | (45,450) | (18,152) |
| Increase in the period (net) | 289,080 | 165,094 |
| **At end of the year** | **4,953,607** | **4,182,877** |

## 27. Actuarial value of policy holders' liabilities (Group and Company) (continued)

**Actuarial assumptions:**

The significant valuation assumptions for the actuarial valuation as at 31 December 2015 are summarised below. The same assumptions were used in 2014.

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

*Mortality rates*
Assumptions are based on standard industry and national tables, according to the type of contract written. They reflect recent historical experience and are adjusted when appropriate to reflect the Group's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders. The rates of mortality used in calculating the liability under a policy are the rates assumed in accordance with the tables published for the Institute of Actuaries in England and the Faculty of Actuaries of Scotland. The company uses the KE 2001-2003 mortality table as a base table for standard mortality rates. The rate of interest used was 4% per annum compound for all long term assurance policies. For valuing annuities, the KE 2001-2003 mortality table for annuities is used with interest at 6.5% per annum. Statistical methods are used to adjust the mortality rates reflected on the base table based on the company's experience of improvement or worsening of the mortality. There are reserves established to take account of the possible deterioration of mortality experience in respect of HIV/AIDS related deaths.

*Longevity*
Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Group's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits for the shareholders.

*Investment return*
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long–term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

*Expenses*
Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

**27. Actuarial value of policy holders' liabilities (Group and Company) (continued)**

**Actuarial assumptions (continued)**

*Lapse and surrender rates*
Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

*Discount rate*
Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

**Sensitivity analysis on actuarial assumptions**

The basis of valuation of life insurance contracts is prescribed in the Insurance Act of Kenya 1984. The Act prescribes Net Premium Valuation method which is very conservative. Changes in actuarial basis derived from recent experience investigations do not have a significant impact in the actuarially derived reserves. The actuarial method used is not sensitive to changes in the key assumptions used in determining the actuarial liabilities. The key actuarial assumptions will need to change very significantly for the actuarial liabilities to change by a relatively small percentage.

Changes in mortality assumptions will have the following impact in the statement of profit or loss.

| **Sensitivities** | % change in base | Insurance participating **2015** **KShs'000** | Assets backing life shareholders **2015** **KShs'000** | Insurance participating **2014** **KShs'000** | Assets backing life shareholders **2014** **KShs'000** |
|---|---|---|---|---|---|
| Discount rate on: | | | | | |
| Assurance mortality | +1% | (80,100) | - | (75,970) | - |
| Assurance mortality | -1% | 86,490 | - | 82,430 | - |

## 28. Provision for unearned premium

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross KShs'000 | Re-insurance KShs'000 | Net KShs'000 | Gross KShs'000 | Re-insurance KShs'000 | Net KShs'000 |
| **(a) Group** | | | | | | |
| At beginning of year | 1,381,350 | 597,372 | 783,978 | 1,389,927 | 526,010 | 863,917 |
| Increase/(decrease) in the year | 62,331 | 2,536 | 59,795 | (8,577) | 71,362 | (79,939) |
| **At end of year** | **1,443,681** | **599,908** | **843,773** | **1,381,350** | **597,372** | **783,978** |
| **(b) Company** | | | | | | |
| At beginning of year | 977,183 | 349,674 | 627,509 | 1,034,726 | 331,605 | 703,121 |
| Increase/(decrease) in the year | 90,246 | 23,268 | 66,978 | (57,543) | 18,069 | (75,612) |
| **At end of year** | **1,067,429** | **372,942** | **694,487** | **977,183** | **349,674** | **627,509** |

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.

Provision for unearned premium is classified as current liability.

Provision for unexpired risks: Unexpired risks provision relates to insurance contracts for which the company expects to pay claims in excess of the related unearned premium provision. The provision for unexpired risks was KShs Nil (2014: KShs Nil).

The movement in the unearned premium is as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross unearned premium KShs'000 | Re-insurance KShs'000 | Net unearned premium KShs'000 | Gross unearned premium KShs'000 | Re-insurance KShs'000 | Net unearned premium KShs'000 |
| **(a) Group** | | | | | | |
| At beginning of year | 1,381,350 | 597,372 | 783,978 | 1,389,927 | 526,010 | 863,917 |
| Premium written during the year | 3,562,588 | 1,555,627 | 2,006,961 | 3,471,288 | 1,628,057 | 1,843,231 |
| Premium earned during the year (note 2a and 2b) | (3,500,257) | (1,553,091) | (1,947,166) | (3,479,865) | (1,556,695) | (1,923,170) |
| | - | - | | | | |
| **At end of year** | **1,443,681** | **599,908** | **843,773** | **1,381,350** | **597,372** | **783,978** |
| **(b) Company** | | | | | | |
| At beginning of year | 977,183 | 349,674 | 627,509 | 1,034,726 | 331,605 | 703,121 |
| Premium written during the year | 3,570,111 | 1,579,963 | 1,990,148 | 2,645,953 | 1,093,833 | 1,552,120 |
| Premium earned during the year (note 2a and 2b) | (3,479,865) | (1,556,695) | (1,923,170) | (2,703,496) | (1,075,764) | (1,627,732) |
| **At end of year** | **1,067,429** | **372,942** | **694,487** | **977,183** | **349,674** | **627,509** |

**29. Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2014:30%). The deferred tax assets and liabilities are made up of the following:

| **Deferred tax asset** | | **2015** | | | **2014** | |
|---|---|---|---|---|---|---|
| **(a) Group** | **Long term assurance business KShs'000** | **Short term insurance KShs'000** | **Total KShs'000** | **Long term assurance business KShs'000** | **Short term insurance KShs'000** | **Total KShs'000** |
| Accelerated capital allowances | - | (2,630) | (2,630) | - | (2,700) | (2,700) |
| Temporary differences arising from accrued leave | - | 7,234 | 7,234 | - | 7,167 | 7,167 |
| Other temporary differences | - | (1,572) | (1,572) | - | - | - |
| Tax losses carried forward | - | 101,216 | 101,216 | - | 114,018 | 114,018 |
| **At end of year** | **-** | **104,248** | **104,248** | **-** | **118,485** | **118,485** |
| **(b) Company** | | | | | | |
| Accelerated capital allowances | - | (2,630) | (2,630) | - | (2,872) | (2,872) |
| Temporary differences arising from accrued leave | - | 7,200 | 7,200 | - | 7,080 | 7,080 |
| Other temporary differences | - | (1,259) | (1,259) | - | - | - |
| Tax losses carried forward | - | 100,844 | 100,844 | - | 113,670 | 113,670 |
| **At end of year** | **-** | **104,155** | **104,155** | **-** | **117,878** | **117,878** |
| **Deferred tax liability** | | | | | | |
| **(a) Group** | | | | | | |
| Actuarial surplus | (4,104) | - | (4,104) | (24,648) | - | (24,648 |
| Accelerated capital allowances | - | (873) | (873) | - | (282) | (282 |
| Other temporary differences | - | (5,759) | (5,759) | - | (849) | (849 |
| Deferred tax on fixed assets revaluation | - | (81,251) | (81,251) | - | (64,141) | (64,141 |
| **At end of year** | **(4,104)** | **(87,883)** | **(91,987)** | **(24,648)** | **(65,272)** | **(89,920** |
| **(b) Company** | | | | | | |
| Actuarial surplus | (4,104) | - | (4,104) | (24,648) | - | (24,648 |
| Deferred tax on fixed assets revaluation | - | (81,251) | (81,251) | - | (64,141) | (64,141 |
| **At end of year** | **(4,104)** | **(81,251)** | **(85,355)** | **(24,648)** | **(64,141)** | **(88,789** |

The Group offsets tax assets and liabilities if and only if it has legally enforceable right to set off current tax assets and current tax liabilities which the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority.

## 30. Insurance payables

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **(a) Group** | **Amounts payables on direct insurance business KShs'000** | **Amounts payable from reinsurance KShs'000** | **Amounts payables on direct insurance KShs'000** | **Amounts payable from reinsurance KShs'000** |
| At 1 January | 272,423 | 1,537,727 | 178,108 | 1,719,791 |
| Arising during the year | - | 569,459 | 94,315 | |
| Utilised/paid | (42,298) | - | - | (182,064) |
| **At end of year** | **230,125** | **2,107,179** | **272,423** | **1,537,727** |
| **(b) Company** | | | | |
| At 1 January | 272,423 | 1,240,644 | 178,108 | 1,407,885 |
| Arising during the year | - | 401,167 | 94,315 | - |
| Utilised /paid | (42,298) | - | - | (167,241) |
| **At end of year** | **230,125** | **1,641,811** | **272,423** | **1,240,644** |

Insurance payables comprise of amounts payable on direct insurance business (to agents and brokers) and amounts payable from reinsurance (payable to the reinsurers)

## 31. Other payables

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **(a) Group** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total KShs'000** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total KShs'000** |
| Inter- departmental balance | 894,001 | - | 894,001 | - | - | - |
| Accrued expenses | 8,015 | 50,503 | 58,518 | - | 44,228 | 44,228 |
| Other liabilities | 106,875 | 2,184,691 | 2,291,566 | 217,574 | 414,542 | 632,116 |
| **At end of year** | **1,008,891** | **2,235,194** | **3,244,085** | **217,574** | **458,770** | **676,344** |
| **(b) Company** | | | | | | |
| Accrued expenses | 8,015 | 49,216 | 57,231 | - | 42,469 | 42,469 |
| Inter-departmental balance | 894,001 | - | 894,001 | - | - | - |
| Other liabilities | 106,875 | 2,128,772 | 2,235,647 | 217,574 | 367,710 | 585,284 |
| **At end of year** | **1,008,891** | **2,177,988** | **3,186,879** | **217,574** | **410,179** | **627,753** |

For terms and conditions relating to related party payables, refer to Note 39.

Other payables are non-interest bearing and are generally on 30-90 day terms. Other payables are carried at amortised cost.

## 32. Cash and cash equivalents

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **(a) Group** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total KShs'000** | **Long term assurance business KShs'000** | **Short term insurance business KShs'000** | **Total KShs'000** |
| Bank and cash balances | 165,282 | 136,945 | 302,227 | 31,326 | 112,776 | 144,102 |
| Deposits with financial institutions maturing within 90 days of the date of acquisition(call deposits and fixed deposits) | 388,169 | 2,289,479 | 2,677,648 | 712,626- | 511,450 | 1,224,076 |
| Commercial paper maturing within 90 days of the date of acquisition | 103,425 | - | 103,425 | - | - | - |
| **At end of year** | **656,876** | **2,426,424** | **3,083,300** | **743,952** | **624,226** | **1,368,178** |

| **(b) Company** | | | | | | |
|---|---|---|---|---|---|---|
| Bank and cash balances | 165,282 | 57,259 | 222,541 | 31,326 | 55,865 | 87,191 |
| Deposits with financial institutions maturing within 90 days of the date of acquisition(call deposits and fixed deposits) | 388,169 | 2,282,522 | 2,670,691 | 712,626 | 506,246 | 1,218,872 |
| Commercial paper maturing within 90 days of the date of acquisition | 103,425 | - | 103,425 | - | - | - |
| **At end of year** | **656,876** | **2,339,781** | **2,996,657** | **743,952** | **562,111** | **1,306,063** |

## 32. Cash and cash equivalents (continued)

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. All bank balances are subject to an average variable interest rate of 0.5% (2014: 1.77%).

The carrying amounts disclosed above reasonably approximate fair value at the reporting date. There are no restrictions or collateral held on cash and equivalents

**33. Financial instruments**

**(a) Summary per category**

**(i) Group**

The Group's financial instruments are summarised by categories as follows:

| | Held-to maturity financial assets (Note 25) | Loans and other receivables, cash and cash equivalents (Note20,24,32) | Available-for-sale financial assets (Note 25) | Financial assets at Fair value through profit and (Note19,33) | Total |
|---|---|---|---|---|---|
| **Financial assets** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| **31 December 2015:** | | | | | |
| Investment in quoted shares | - | - | - | 276,380 | 276,380 |
| Investment in government securities | 19,879,466 | - | 846,866 | - | 20,726,332 |
| Loans receivable | - | 96,656 | - | - | 96,656 |
| Other receivables | - | 1,316,370 | - | - | 1,316,370 |
| Deposits with financial institutions: | | | | | |
| -Maturing after 90 days of the date of acquisition | - | - | - | 717,074 | 717,074 |
| -Maturing within 90 days of the date of acquisition | - | 2,677,648 | - | - | 2,677,648 |
| | - | 2,677,648 | - | 717,074 | 3,394,722 |
| Commercial paper | - | - | - | 103,425 | 103,425 |
| Bank and cash balances | - | 302,206 | - | - | 302,206 |
| **Carrying value** | **19,879,466** | **4,392,880** | **846,866** | **1,096,879** | **26,216,091** |
| **Fair value** | **19,879,466** | **4,392,880** | **846,866** | **1,096,879** | **26,216,091** |

**33. Financial instruments (continued)**

**(a) Summary per category (continued)**
**(i) Group**

The Group's financial instruments are summarised by categories as follows:

| | Held-to maturity financial assets (Note 25) | Loans and other receivables, cash and cash equivalents (Note20,24,32) | Available-for-sale financial assets (Note 25) | Financial assets at Fair value through profit and (Note19,33) | Total |
|---|---|---|---|---|---|
| **Financial assets** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** | **KShs'000** |
| **31 December 2014:** | | | | | |
| Investment in quoted shares | - | - | - | 272,101 | 272,101 |
| Investment in government securities | 16,336,729 | - | 916,376 | - | 17,253,105 |
| Loans receivable | - | 86,548 | - | - | 86,548 |
| Other receivables | - | 439,773 | - | - | 439,773 |
| Deposits with financial institutions: | | | | | |
| -Maturing after 90 days of the date of acquisition | - | - | - | 613,789 | 613,789 |
| -Maturing within 90 days of the date of acquisition | - | 1,224,076 | - | - | 1,224,076 |
| | - | 1,224,076 | - | 613,789 | 1,837,865 |
| Commercial paper | - | - | - | 103,734 | 103,734 |
| Bank and cash balances | - | 144,102 | - | - | 144,102 |
| **Carrying value** | **16,336,729** | **1,894,499** | **916,376** | **989,624** | **19,909,454** |
| **Fair value** | **16,336,729** | **1,894,499** | **916,376** | **989,624** | **20,137,228** |

**(i) Group**

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Financial liabilities** | **Liabilities at amortised cost KShs'000** | **Liabilities at fair value KShs'000** | **Total KShs'000** | **Liabilities at amortised cost KShs'000** | **Liabilities at fair value KShs'000** | **Total KShs'000** |
| Financial liabilities at amortised cost (Note 31) | 3,244,085 | - | 3,244,085 | 676,344 | - | 676,344 |
| Payable under deposit administration liabilities (Note 26) | - | 16,990,526 | 16,990,526 | - | 13,963,555 | 13,963,555 |
| **Carrying value** | **3,244,085** | **16,990,526** | **16,990,526** | **676,344** | **13,963,555** | **14,639,899** |
| **Fair value** | **3,244,085** | **16,990,526** | **20,234,611** | **676,344** | **13,963,555** | **14,639,899** |

## 33. Financial instruments (continued)

### (a) Summary per category (continued)

#### (ii) Company

The Company's financial instruments are summarised by categories as follows:

| Financial assets | Held-to-maturity financial assets (Note25) | Loans and other receivables, cash and cash equivalents ((Note 20,24,32) | Available-for-sale financial assets (Note25) | Financial assets at fair value through profit and loss (Note19,33) | Total |
|---|---|---|---|---|---|
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **31 December 2015:** | | | | | |
| Investment in quoted shares | - | - | - | 265,611 | 265,611 |
| Investment in government securities | 19,828,017 | - | 834,094 | - | 20,662,111 |
| Loans receivable | - | 96,656 | - | - | 96,656 |
| Other receivables | - | 1,312,391 | - | - | 1,312,391 |
| Deposits with financial institutions: | | | | | |
| -Maturing after 90 days of the date of acquisition | - | - | - | 507,537 | 507,537 |
| -Maturing within 90 days of the date of acquisition | - | 2,670,691 | - | - | 2,670,691 |
| | - | 2,670,691 | - | 507,537 | 3,178,228 |
| Commercial paper | | - | - | 103,425 | 103,425 |
| Bank and cash balances | - | 222,520 | - | - | 222,520 |
| **Carrying value** | **19,828,017** | **4,302,258** | **834,094** | **876,573** | **25,840,942** |
| **Fair value** | **19,828,017** | **4,302,258** | **834,094** | **876,573** | **25,840,942** |

#### (ii) Company

| Financial liabilities | 2015 Liabilities at amortised cost KShs'000 | Liabilities at fair value KShs'000 | Total KShs'000 | 2014 Liabilities at amortised cost KShs'000 | Liabilities at fair value KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|
| Financial liabilities at amortised cost (Note 31) | 3,186,879 | - | 3,186,879 | 627,753 | - | 627,753 |
| Payable under deposit administration liabilities (Note 26) | - | 16,990,526 | 16,990,526 | - | 13,963,555 | 13,963,555 |
| **Carrying value** | **3,186,879** | **16,990,526** | **20,177,405** | **627,753** | **13,963,555** | **14,591,308** |
| **Fair value** | **3,186,879** | **16,990,526** | **20,177,405** | **627,753** | **13,963,555** | **14,591,308** |

**33. Financial instruments (continued)**

**(b) Summary per category (continued)**

**(ii) Company**

| Financial assets | Held-to-maturity financial Assets (Note25) | Loans and other receivables, cash and cash equivalents (Note20,24,32) | Available-for-sale financial assets (Note25) | Financial assets at fair value through profit and loss (Note19,33) | Total |
|---|---|---|---|---|---|
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **31 December 2014:** | | | | | |
| Investment in quoted shares | - | - | - | 262,406 | 262,406 |
| Investment in government securities | 16,336,729 | - | 851,492 | - | 17,188,221 |
| Loans receivable | - | 86,548 | - | - | 86,548 |
| Other receivables | - | 435,438 | - | - | 435,438 |
| Deposits with financial institutions: | | | | | |
| -Maturing after 90 days of the date of acquisition | - | - | - | 431,154 | 431,154 |
| -Maturing within 90 days of the date of acquisition | - | 1,218,872 | - | - | 1,218,872 |
| | - | 1,218,872 | - | 431,154 | 1,650,026 |
| Commercial paper | | - | - | 103,734 | 103,734 |
| Bank and cash balances | - | 87,191 | - | - | 87,191 |
| **Carrying value** | **16,336,729** | **1,828,049** | **851,492** | **797,294** | **19,813,564** |
| **Fair value** | **16,336,729** | **1,828,049** | **851,492** | **797,294** | **19,813,564** |

**(c) Fair value of financial assets and liabilities not carried at fair value**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements (i.e., held to maturity and loans and receivables).

*Assets for which fair value approximates carrying value*
For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

*Fixed rate financial instruments*
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing marke interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fai value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates fo debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted marke prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used base on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

**33. Financial instruments (continued)**

**(d) Determination of fair value and fair value hierarchy**

Below follows required disclosure of fair value measurements, using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover instruments measured at fair value.

**Level 1**

Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Level 2**

Included in level 2 category are financial assets and liabilities measured using significant inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

**Level 3**

Financial assets and liabilities measured using significant inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

**33. Financial instruments (continued)**

**(d) Determination of fair value and fair value hierarchy (continued)**

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

| **Group**<br>**As at 31 December 2015** | **Level 1**<br>**KShs'000** | **Level 2**<br>**KShs'000** | **Level 3**<br>**KShs'000** | **Total fair value**<br>**KShs'000** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| **Financial assets held-for-trading** | | | | |
| Investment in quoted shares | 276,380 | - | - | 276,380 |
| **Financial assets designated at fair value through profit and loss** | | | | |
| Deposits with financial institutions | 3,394,722 | - | - | 3,394,722 |
| Commercial paper | - | 103,425 | - | 103,425 |
| Bank and cash balances | - | 302,227 | - | 302,227 |
| | 3,394,722 | 405,652 | - | 3,800,374 |
| **Available-for-sale financial assets** | | | | |
| Investment in government securities | 846,866 | - | - | 846,866 |
| **Total financial assets** | **4,517,968** | **405,652** | **-** | **4,923,620** |
| **Financial liabilities:** | | | | |
| Deposit administration contracts | **-** | **16,990,526** | **-** | **16,990,526** |

| **Group**<br>**As at 31 December 2014** | **Level 1**<br>**KShs'000** | **Level 2**<br>**KShs'000** | **Level 3**<br>**KShs'000** | **Total fair value**<br>**KShs'000** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| **Financial assets held-for-trading** | | | | |
| Investment in quoted shares | 272,101 | - | - | 272,101 |
| **Financial assets designated at fair value through profit and loss** | | | | |
| Deposits with financial institutions | 1,837,865 | - | - | 1,837,865 |
| Commercial paper | - | 103,734 | - | 103,734 |
| Bank and cash balances | - | 144,102 | - | 144,102 |
| | 1,837,865 | 247,836 | - | 2,085,701 |
| **Available-for-sale financial assets** | | | | |
| Investment in government securities | 916,376 | - | - | 916,376 |
| **Total financial assets** | **3,026,342** | **247,836** | **-** | **3,274,178** |
| **Financial liabilities:** | | | | |
| Deposit administration contracts | **-** | **13,963,555** | **-** | **13,963,555** |

**33. Financial instruments (continued)**

**d) Determination of fair value and fair value hierarchy (continued)**

| Company<br>As at 31 December 2015 | Level 1<br>KShs'000 | Level 2<br>KShs'000 | Level 3<br>KShs'000 | Total fair value<br>KShs'000 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| **Financial assets held-for-trading** | | | | |
| Investment in quoted shares | 265,611 | - | - | 265,611 |
| **Financial assets designated at fair value through profit and loss** | | | | |
| Deposits with financial institutions | 3,178,228 | - | - | 3.178,228 |
| Commercial paper | - | 103,425 | - | 103,425 |
| Bank and cash balances | - | 222,541 | - | 222,541 |
| | 3,178,228 | 325,966 | - | 3,504,194 |
| **Available-for-sale financial assets** | | | | |
| Investment in government securities | 834,094 | - | - | 834,094 |
| **Total financial assets** | **4,277,933** | **325,966** | **-** | **4,603,899** |
| **Financial liabilities:** | | | | |
| Deposit administration contracts | **-** | **16,990,526** | **-** | **16,990,526** |

| Company<br>As at 31 December 2014 | Level 1<br>KShs'000 | Level 2<br>KShs'000 | Level 3<br>KShs'000 | Total fair value<br>KShs'000 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| **Financial assets held-for-trading** | | | | |
| Investment in quoted shares | 262,406 | - | - | 262,406 |
| **Financial assets designated at fair value through profit and loss** | | | | |
| Deposits with financial institutions | 1,650,026 | - | - | 1,650,026 |
| Commercial paper | - | 103,734 | - | 103,734 |
| Bank and cash balances | - | 87,191 | - | 87,191 |
| | 1,650,026 | 190,925 | - | 1,840,951 |
| **Available-for-sale financial assets** | | | | |
| Investment in government securities | 851,492 | - | - | 851,492 |
| **Total financial assets** | **2,763,924** | **190,925** | **-** | **2,954,849** |
| **Financial liabilities:** | | | | |
| Deposit administration contracts | **-** | **13,963,555** | **-** | **13,963,555** |

**34. Actuarial valuation**

In accordance with section 57 of the Insurance Act, 1984 as amended by the Insurance (Amendment) Act, 1994, an actuarial valuation of the life fund was carried out by Saket Singhal actuaries and financial consultants, into the financial condition in respect of the long-term insurance business of the company and revealed an actuarial surplus of KShs 2,886.63 million before setting aside reserves and before declaration of interest and bonuses to policyholders. The value of the life fund at 31 December 2015 was KShs 22,005.57 million. Transfers before tax were made out of the statutory reserve in the year amounting to KShs 60 million (2014: KShs 60 million) based on the recommendation of the Actuary.

**35. Weighted average effective fixed interest rates**

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

| | 2015 | 2014 |
|---|---|---|
| | % | % |
| Mortgage loans | 8.00 | 8.00 |
| Policy loans | 15.00 | 15.00 |
| Government securities | 12.72 | 12.55 |
| Deposits with financial institutions | 12.51 | 11.56 |

Deposits with financial institutions regarded as cash and cash equivalents have an average maturity of 3 months (2014: 3 months)

**36. Reinsurers' share of insurance liabilities**

| | 2015 | 2014 |
|---|---|---|
| | KShs'000 | KShs'000 |
| **Short term business** | | |
| **Group** | | |
| Reinsurers' share of: | | |
| - unearned premiums (Note 28) | **599,908** | **597,372** |
| - notified claims outstanding | 3,699,395 | 5,377,795 |
| - claims incurred but not reported | 318,464 | 384,985 |
| | **4,017,859** | **5,762,780** |
| **At end of year** | **4,617,767** | **6,360,152** |
| **Company** | | |
| Reinsurers' share of: | | |
| - unearned premiums (Note 28) | **372,942** | **349,674** |
| - notified claims outstanding | 3,289,336 | 4,850,359 |
| - claims incurred but not reported | 236,452 | 279,498 |
| | **3,525,788** | **5,129,857** |
| **At end of year** | **3,898,730** | **5,479,531** |

Amounts due from reinsurers in respect of claims already paid by the company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position.
Detailed movements in the above reinsurance assets are shown below and in Notes 23 and 28.

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| At start of year | 6,360,152 | 7,882,047 | 5,479,531 | 6,863,509 |
| Increase /(decrease) during the period (gross) | (1,742,385) | (1,521,895) | (1,580,801) | (1,383,978) |
| At 31 December | **4,617,767** | **6,360,152** | **3,898,730** | **5,479,531** |

Reinsurers' share of insurance liabilities is classified as a current asset.

## 37. Contingent liabilities

*Legal Proceedings and Regulations*
The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position. The Group is also subject to insurance solvency regulations in all the territories where it operates and has complied with all these solvency regulations. There are no contingencies associated with the Group's compliance or lack of compliance with such regulations.

Contingent liabilities for custom bonds, at the year-end were KShs 2.552 billion (2014: KShs 1.106 billion).

*Material Damage Claim*
The company was in discussion with its reinsurers on a matter relating to a claim by one of its clients, relating to material damage as at 31 December 2012. The lead reinsurer on the matter, had contended that the company over ceded on the surplus treaty in respect of material damage portion of the policy. The company subsequently contested this assertion by the reinsurer, and reinsurers paid off their portion of the liability.
The company then settled the claim and issued a discharge voucher which was not signed and returned as expected from the claimant alleging dissatisfaction of the quantum of the settlement. The matter is still unresolved.
From management assessment, even if the insured goes to court, any additional liability will be borne by the reinsurers and the company will only suffer to the extent of the retention limit.

## 38. Commitments

**a) Capital commitments**
There was no capital expenditure contracted for at the reporting date but not recognised in the financial statements (2014: KShs Nil).

**b) Operating lease commitments – as a lessee**
The group has entered into commercial property leases in respect of its investment property portfolio. Leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.
The future minimum lease payments under non-cancellable operating lease are as follows:

| | Payable | |
|---|---|---|
| | **2015** | **2014** |
| **Payable (as a lessee)** | **KShs'000** | **KShs'000** |
| Not later than 1 year | 11,990 | 11,990 |
| Later than 1 year and not later than 5 years | 14,300 | 13,787 |
| **At end of year** | **26,290** | **25,777** |

| | Receivable | |
|---|---|---|
| | **2015** | **2014** |
| **Receivable (as a lessor)** | **KShs'000** | **KShs'000** |
| Not later than 1 year | 86,127 | 65,684 |
| Later than 1 year and not later than 5 years | 86,647 | 69,871 |
| **At end of year** | **172,774** | **135,555** |

## 39. Related party transactions

There are several companies which are related to the company through common shareholdings or common directorship. General Insurance Corporation, New India Assurance Company Limited and Life Insurance Corporation of India are

major shareholders of Kenindia Assurance Company Limited. United Insurance Company Limited, National Insurance Company Limited, Oriental Insurance Company Limited and Kaluworks Kenya Limited are related to Kenindia Assurance Company Limited through common directorship.

Kenindia Asset Management Company Limited and Kenya Pravack Limited are wholly owned subsidiaries of Kenindia Assurance Company Limited. Tanzindia Assurance Company Limited is partially owned (65%) by Kenindia Assurance Company Limited.

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

The following transactions were carried out with related parties

| (i) Transactions with related parties | Long term assurance business KShs'000 | Short term insurance business KShs'000 | 2015 Total KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | 2014 Total KShs'000 |
|---|---|---|---|---|---|---|
| **Gross earned premium** | | | | | | |
| General insurance corporation | - | 337,156 | 337,156 | - | 110,970 | 110,970 |
| Other related parties | - | 219,602 | 219,602 | - | 206,759 | 206,759 |
| **Net claims incurred** | | | | | | |
| General insurance corporation | - | 154,752 | 154,752 | - | 21,829 | 21,829 |
| Other related parties | - | 77,187 | 77,187 | - | 78,954 | 78,954 |

| (i) Outstanding balances with related parties | Long term assurance business KShs'000 | Short term insurance business KShs'000 | 2015 Total KShs'000 | Long term assurance business KShs'000 | Short term insurance business KShs'000 | 2014 Total KShs'000 |
|---|---|---|---|---|---|---|
| **Premiums receivable from related parties** | | | | | | |
| General Insurance Corporation | - | 44,001 | 44,001 | - | 97,614 | 97,614 |
| Life Insurance Corporation of India | (3,049) | - | (3,049) | (3,049) | - | (3,049) |
| New India Assurance Company Limited | - | (553,274) | (553,274) | - | (638,254) | (638,254) |
| United Insurance Company Limited | - | - | - | - | 619 | 619 |
| National Insurance Company Limited | - | 2,181 | 2,181 | - | 708 | 708 |
| Oriental Insurance Company Limited | - | 1,476 | 1,476 | - | 335 | 335 |
| Tanzindia Assurance Company Limited | - | 34,239 | 34,239 | - | 852 | 852 |
| East Africa Re Limited | (4,511) | 11,723 | 7,212 | (3,220) | 70,197 | 66,977 |

There were no provisions made or amounts written off on related party balances during the year (2014: KShs Nil).

**39. Related party transactions (continued)**

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| **(iii) Bank deposits** | | | | |
| Credit Bank Deposits | - | - | - | - |
| **(iv) Directors' emoluments** | | | | |
| Directors' fees (Note 6) | 2,025 | 2,025 | 2,025 | 2,025 |
| Other expenses | 9,766 | 14,307 | 9,604 | 11,763 |
| As executives | 23,097 | 28,834 | 21,670 | 17,389 |
| | **34,888** | **45,166** | **33,299** | **31,177** |
| **Directors' loans** | - | - | - | - |
| **(v) Key management personnel** | | | | |
| Salaries and benefits | 121,298 | 125,088 | 85,103 | 99,115 |
| Social security benefit costs | 28 | 29 | 28 | 29 |
| Retirement benefit costs | 8,063 | 8,200 | 4,435 | 5,603 |
| | **129,389** | **133,317** | **89,566** | **104,747** |

Key management personnel relate to top and middle level management (general managers and assistant general managers).

**40. Insurance risk**

The company's activities expose it to insurance risk. 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, managing insurance risk through appropriate pricing, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers.

This section summarises the way the company manages key insurance risks:

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Group purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. The majority of proportional reinsurance is quota–share reinsurance which is taken out to reduce the overall exposure of the Group to certain classes of business. Non–proportional reinsurance is primarily excess–of–loss reinsurance designed to mitigate the group's net exposure to catastrophe losses. Retention limits for the excess–of–loss reinsurance vary by product line.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the reporting date.

**40. Insurance risk (continued)**

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.

(a) *Life assurance contracts*

Life assurance contracts offered by the Group include whole life and term assurance. Whole life and term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability. Few contracts have a surrender value.

The main risks that the Group is exposed to are as follows:

Mortality risk – risk of loss arising due to policyholder death experience being different than expected.

Morbidity risk – risk of loss arising due to policyholder health experience being different than expected.

Longevity risk – risk of loss arising due to the annuitant living longer than expected.
Investment return risk – risk of loss arising from actual returns being different than expected.
Expense risk – risk of loss arising from expense experience being different than expected.
Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the type of risk insured or by industry

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

For contracts when death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Group wide reinsurance limits on any single life insured and on all high risk individuals insured are in place.

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. The Group reinsures its annuity contracts on a quota share basis to mitigate its risk.

**40. Insurance risk (continued)**

(a) *Life assurance contracts (continued)*

The following table shows the concentration of life insurance contract liabilities by type of contract;

| **Life assurance contract liabilities** | **2015 KShs'000** | **2014 KShs'000** |
|---|---|---|
| Whole life | 395,277 | 52,753 |
| Term assurances | 125 | - |
| Endowments | 3,185,087 | 4,185,789 |
| Annuities | 8,881 | 9,302 |
| | **3,589,370** | **4,247,844** |

**Key assumptions and sensitivities**

Refer to note 27 for key assumptions and sensitivities.

(b) *Non-life insurance contracts (which comprise of general insurance and healthcare)*

The Group principally issues the following types of general insurance contracts: motor, household, commercial and business interruption. Healthcare contracts provide medical expense coverage to policyholders and are not guaranteed renewable. Risks under non–life insurance policies usually cover twelve months duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured and by industry.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Furthermore, strict claim review policies to assess all new and on-going claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. flood damage).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Groups risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 50% of shareholders' equity on a gross basis and 10% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 2% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

**Key assumptions**

The principal assumption underlying the liability estimates is that the Group's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

**40. Insurance risk (continued)**

(b) *Non-life insurance contracts (which comprise of general insurance and healthcare) (continued)*

**Sensitivities**

The non–life insurance claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear.

The assumptions are as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Adjustments to claims incurred in prior accident years due to in assumption** | **Gross insurance liabilities KShs'000** | **Re-insurance/ reinsurers share of insurance liabilities KShs'000** | **Net insurance liabilities (gross insurance liabilities less insurance KShs'000** | **Gross insurance liabilities KShs'000** | **Re-insurance/ reinsurers share of insurance liabilities KShs'000** | **Net insurance liabilities (gross insurance liabilities less insurance KShs'000** |
| Average claim cost inclusive of average cost to process the claim settlement | 199 | (118) | 81 | 199 | (118) | 81 |
| Average number of claims | 25 | (25) | 25 | 25 | (25) | 25 |
| Average claims settlement period (days) | 60 | 60 | 60 | 60 | 60 | 60 |

**Insurance liabilities (Group)**

| **31 December 2015** | **Change in assumptions** | **Impact on gross insurance liabilities** | **Impact on net insurance liabilities** | **Impact on profit or loss before tax** | **Impact on equity** |
|---|---|---|---|---|---|
| Average claim cost | +10% | 585,886 | 184,100 | (85,672) | (82,369) |
| Average number of claims | -10% | (585,886) | 184,100 | 85,672 | 82,369 |
| Average claims settlement period | Reduce from 60 days to 50 days | (976,476) | (306,833) | 142,786 | 137,282 |
| **31 December 2014** | | | | | |
| Average claim cost | +10% | 681,967 | 130,580 | (16,479) | (11,817) |
| Average number of claims | -10% | (681,967) | (130,580) | 16,479 | 11,817 |
| Average claims settlement period | Reduce from 60 days to 50 days | (1,136,612) | (217,633) | 27,464 | 19,695 |

**40. Insurance risk (continued)**

(b) *Non-life insurance contracts (which comprise of general insurance and healthcare) (continued)*

**Sensitivities (continued)**

**Reinsurance assets (Group)**

| 31 December 2015 | Change in assumptions | Impact on gross insurance liabilities | Impact on net insurance liabilities | Impact on profit or loss before tax | Impact on equity |
|---|---|---|---|---|---|
| Average claim cost | +10% | - | (401,786) | 85,672 | 82,369 |
| Average number of claims | -10% | - | 401,786 | (85,672) | (82,369) |
| Average claims settlement period | Reduce from 60 days to 50 days | - | (669,643) | 142,786 | 137,282 |
| **31 December 2014** | | | | | |
| Average claim cost | +10% | - | (551,388) | 16,479 | 11,817 |
| Average number of claims | -10% | - | 551,388 | (16,479) | (11,817) |
| Average claims settlement period | Reduce from 60 days to 50 days | - | (918,979) | 27,464 | 19,695 |

**Insurance liabilities (Company)**

| 31 December 2015 | Change in assumptions | Impact on gross insurance liabilities | Impact on net insurance liabilities | Impact on profit or loss before tax | Impact on equity |
|---|---|---|---|---|---|
| Average claim cost | +10% | 515,972 | 163,393 | (80,468) | (79,091) |
| Average number of claims | -10% | (515,972) | 163,393 | 80,468 | 79,091 |
| Average claims settlement period | Reduce from 60 days to 50 days | (859,954) | (272,322) | 134,113 | 131,818 |
| **31 December 2014** | | | | | |
| Average claim cost | +10% | 603,289 | 115,194 | (14,036) | (9,722) |
| Average number of claims | -10% | (603,289) | (115,194) | 14,036 | 9,722 |
| Average claims settlement period | Reduce from 60 days to 50 days | (1,005,481 | (191,989) | 23,394 | 16,203 |

**Reinsurance assets (Company)**

| 31 December 2015 | Change in assumptions | Impact on gross insurance liabilities | Impact on net insurance liabilities | Impact on profit or loss before tax | Impact on equity |
|---|---|---|---|---|---|
| Average claim cost | +10% | - | (352,579) | 80,468 | 79,081 |
| Average number of claims | -10% | - | 352,579 | (80,468) | (79,081) |
| Average claims settlement period | Reduce from 60 days to 50 days | - | (587,631) | (134,113) | 131,801 |
| **31 December 2014** | | | | | |
| Average claim cost | +10% | - | (488,095) | 14,036 | 9,722 |
| Average number of claims | -10% | - | 488,095 | (14,036) | (9,722) |
| Average claims settlement period | Reduce from 60 days to 50 days | - | (813,492) | 23,394 | 16,203 |

**40. Insurance risk (continued)**

(b) *Non-life insurance contracts (which comprise of general insurance and healthcare) (continued)*

**Concentrations**

The following table shows the concentration of non-life insurance contract liabilities by type of contract:

**Non-life insurance contract liabilities**

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Engineering | 1,246,740 | 1,202,102 | 1,198,266 | 1,174,325 |
| Fire Domestic | 19,942 | 19,285 | 19,942 | 19,285 |
| Fire Industrial | 2,488,932 | 4,306,971 | 2,152,925 | 3,803,387 |
| Liability | 65,128 | 72,249 | 65,128 | 72,249 |
| Marine | 217,732 | 188,659 | 205,784 | 176,796 |
| Motor Private | 354,212 | 299,256 | 194,809 | 190,923 |
| Motor Commercial | 378,253 | 336,697 | 378,253 | 336,697 |
| Personal Accident | 80,477 | 97,667 | 80,477 | 97,667 |
| Theft | 185,265 | 206,659 | 185,265 | 206,659 |
| Workmen Compensation | 657,698 | 676,062 | 657,698 | 676,062 |
| Medical | 19,088 | 22,225 | 19,088 | 21,979 |
| Aviation | 317 | - | - | - |
| Miscellaneous | 145,074 | 141,741 | 2,086 | 6,762 |
| **At 31 December** | **5,858,858** | **7,569,573** | **5,159,721** | **6,782,791** |

**41. Financial risk management objectives and policies**

**Financial risk**

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, foreign currency exchange risks, interest rate risks, market price risks and the effect of changes in property values risk.

The Group is exposed to financial risk through its financial assets, 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 contracts. The most important components of this financial risk are interest rate risk, price risk, currency risk, liquidity risk and credit risk.

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 Group primarily faces due to the nature of its investments and liabilities are interest rate risk and price risk.

This section summarises the way the Group manages key risks:

**(i)Market risk**

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

## 41. Financial risk management objectives and policies

### (i) Market risk (continued)

### (a) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The group has a large portion of its investments in interest (fixed) earning deposits and government securities and variable interest investments such as bank balances. Interest rate risk arises primarily from the group's investments in fixed and variable income securities, which are exposed to fluctuations in interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk. The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable interest rate instruments.

The sensitivity analysis on interest rate risk over insurance participating and assets backing life shareholders is shown in Note 27.

Appraisal of investment portfolio is done on a regular basis and the investment spread reviewed depending on the existing interest rates. The group has also placed significant balances in fixed deposits. However, the Group has no loans and borrowings and therefore is not exposed to interest rate risk as far as loans and borrowings are concerned.

The impact of Group's liabilities to interest rates is shown in Note 27 (under 'sensitivity analysis on actuarial assumptions'). Short term non-life insurance liabilities are not impacted by interest rate risk since discounting of future cash flows of claims is not carried out. Non-life claims are stated on actual basis.

The quantitative exposure to interest rate risk as required by IFRS 7 is shown below:

Changes in interest rates (for assets with fixed and variable interest rates) will have the following impact in the statement of profit or loss.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | % change in base | 2015 | 2014 | 2015 | 2014 |
| **Financial assets** | | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| ***Variable interest rates*** | | | | | |
| Bank balances | +(-)10.00% | +(-)30,223 | +(-)14,410 | +(-)22,252 | +(-)8,719 |
| ***Fixed interest rates*** | | | | | |
| Government securities (Held to maturity) | +(-)10.00% | +(-)1,987,947 | +(-)1,633,673 | +(-)1,982,802 | +(-)1,633,673 |
| Deposits with financial institutions | +(-)10.00% | +(-)339,472 | +(-)183,787 | +(-)317,823 | +(-)165,003 |
| Mortgage loans | +(-)10.00% | +(-)481 | +(-)481 | +(-)481 | +(-)481 |
| Policy loans | +(-)10.00% | +(-)9,101 | +(-)8,041 | +(-)9,101 | +(-)8,041 |

Changes in interest rates (for assets with fixed interest rates) will have the following impact in the statement of profit or loss.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | % change in | 2015 | 2014 | 2015 | 2014 |
| | base | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Government securities (Available for sale) | +(-)10.00% | +(-)84,687 | +(-)91,638 | +(-)83,409 | +(-)85,149 |

**41. Financial risk management objectives and policies**

**(i) Market risk (continued)**

**a) Interest rate risk (continued)**

The group has no significant concentration of interest rate risk other than what is currently disclosed. The method used for deriving sensitivity information and significant variables did not change from the previous period.

**b) Currency rate risk**

Currency rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company predominantly transacts in the local currency (Kenya shillings). The risk associated with transactions ir other currency (US Dollar) is considered nominal. Except for an amount of USD 60,264/18 (KShs 5,459,802) equivalent held as bank balances, all other balances are originally denominated in the local currency. If the US Dollar was tc appreciate against the Kenya Shilling by 5%, with all other factors remaining constant, the post-tax profit would be highe by KShs 272,990. About 82% of the group's business is generated in Kenya, 18% from the subsidiary (Tanzindia Assurance Company Limited) whose transactions are originally denominated in Tanzania Shillings (TShs). The foreigr currency translation of the subsidiary was KShs 17,926,000 (2014: KShs 15,254,000). The group has no significan concentration of currency risk.

**c) Price risk**

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than arising from interest rate risk or currency risk), whether those changes are carried by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

The capital is invested in equities and interest-bearing instruments (government securities) that are valued at fair value and are therefore susceptible to market fluctuations. Management assesses the trend in the market prices and the interest rates and ensures a smoothening effect by balancing the portfolios, without contravening investment mandates, in order to ensure investment income growth as well as stability in equities. The Group has no significant concentration of price risk.

At 31 December 2015, if the prices at the Nairobi Stock Exchange had appreciated by 5% with all other variables held constant, the profit for the year would have increased by KShs 9,680,423 (2014: KShs 4,231,774) for long-term business and KShs 3,600,130 (2014: KShs 4,226,428) for short-term business respectively. The method used for deriving sensitivity information and significant variables did not change from the previous period.

Changes in prices of Government Securities (Available-for-sale investments) for the Group and Company will have the following impact in statement of profit or loss and equity.

| | % change in base | 2015 KShs'000 | 2014 KShs'000 |
|---|---|---|---|
| **Group-Short term business** | | | |
| Government securities (Available-for-sale) | +(-)5% | +(-)42,344 | +(-)45,819 |
| **Company-Short term business** | | | |
| Government securities (Available-for-sale) | +(-)5% | +(-)41,705 | +(-)42,575 |

**(ii) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the group's exposure to credit risk.

- The group trades only with recognised, creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the management. In addition, receivable balances are monitored on an on going basis with the result that the group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the group.

**41 Financial risk management objectives and policies (continued)**

**(ii)Credit risk (continued)**

- Credit risk in respect to re-insurance is managed by placing the group's reinsurance only with companies that have high international or similar ratings.

The amount that best represents the Group's and the company's maximum exposure to credit risk at 31 December is made up as follows:

| | Note | Group 2015 KShs'000 | Group 2014 KShs'000 | Company 2015 KShs'000 | Company 2014 KShs'000 |
|---|---|---|---|---|---|
| **Financial instruments** | | | | | |
| Held-to-maturity financial assets | 25 | 19,879,466 | 16,336,729 | 19,828,017 | 16,336,729 |
| Loans receivable | 20 | 96,656 | 86,548 | 96,656 | 86,548 |
| Investment in the Kenya Motor Insurance Pool | 24 | 86,201 | 86,857 | 86,201 | 86,857 |
| Available-for-sale financial assets (Government securities) | 25 | 846,866 | 916,376 | 834,094 | 851,492 |
| Financial assets at fair value through profit or loss | 19 | 276,380 | 272,101 | 265,611 | 262,406 |
| Deposits with financial institutions | 33 | 3,394,722 | 1,837,865 | 3,178,228 | 1,650,026 |
| Commercial paper | 33 | 103,425 | 103,734 | 103,425 | 103,734 |
| Receivables arising out of reinsurance arrangements | 21 | 1,371,511 | 1,149,153 | 969,547 | 912,507 |
| Reinsurers' share of insurance liabilities | 36 | 4,617,767 | 6,360,152 | 3,898,730 | 5,479,531 |
| Receivables arising out of direct insurance arrangements | 22 | 744,045 | 718,074 | 491,145 | 495,363 |
| Bank and cash balances | 32 | 302,227 | 144,102 | 222,541 | 37,191 |
| Other receivables | 24 | 1,315,033 | 439,773 | 1,311,054 | 435,438 |
| **Total credit risk exposure** | | **33,034,299** | **28,451,464** | **31,285,249** | **26,737,822** |

Information regarding the credit quality of 'not past due' and 'not impaired' monetary assets is disclosed in Note 22 and Note 41.

**Age analysis of Group's financial assets neither past due nor impaired and past due but not impaired:-**

**31 December 2015**

| | <30days KShs'000 | Not past due and not impaired KShs'000 | 31 to 60 days KShs'000 | 61 to 90 days KShs'000 | Over 90 days KShs'000 | Total past due but not impaired KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|---|
| Loans receivable | 1,273 | **1,273** | 1,308 | 826 | 93,249 | **95,383** | **96,656** |
| Reinsurance assets | 482,382 | **482,382** | 22,264 | 14,843 | 852,022 | **889,129** | **1,371,51** |
| Insurance receivables | 67,889 | **67,889** | 196,062 | 163,922 | 451,950 | **676,156** | **744,04** |
| **Total** | **551,544** | **551,544** | **219,634** | **179,591** | **1,397,221** | **1,660,668** | **2,212,21** |

**41 Financial risk management objectives and policies (continued)**

**Age analysis of Group's financial assets neither past due nor impaired and past due but not impaired:-**

**31 December 2014**

| | <30days | Not past due and not impaired | 31 to 60 days | 61 to 90 days | Over 90 days | Total past due but not impaired | Total |
|---|---|---|---|---|---|---|---|
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Loans receivable | 1,273 | **1,273** | 1,308 | 826 | 83,141 | **85,275** | **86,548** |
| Reinsurance assets | 482,382 | **482,382** | 22,264 | 14,843 | 629,664 | **666,771** | **1,149,153** |
| Insurance receivables | 190,564 | **190,564** | 60,431 | 71,086 | 395,993 | **527,510** | **718,074** |
| **Total** | **674,219** | **674,219** | **84,003** | **86,755** | **1,108,798** | **1,279,556** | **1,953,775** |

**Age analysis of Company's financial assets neither past due nor impaired and past due but not impaired:-**

| **31 December 2015** | <30days | Neither past due nor impaired | 31 to 60 days | 61 to 90 days | Over 90 days | Total past due but not impaired | Total |
|---|---|---|---|---|---|---|---|
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Loans receivable | 1,273 | **1,273** | 1,308 | 826 | 93,249 | **95,383** | **96,656** |
| Reinsurance assets | 266,888 | **266,888** | 8,952 | 5,643 | 699,350 | **702,659** | **969,547** |
| Insurance receivables | (36,673) | **(36,673)** | 91,500 | 59,360 | 376,958 | **527,818** | **491,145** |
| **Total** | **231,488** | **231,488** | **101,760** | **65,829** | **1,169,557** | **1,325,860** | **1,557,348** |
| **31 December 2014** | | | | | | | |
| Loans receivable | 1,273 | **1,273** | 1,308 | 826 | 83,141 | **85,275** | **86,548** |
| Reinsurance assets | 266,888 | **266,888** | 8,952 | 5,643 | 631,024 | **645,619** | **912,507** |
| Insurance receivables | 190,564 | **190,564** | 60,431 | 71,086 | 173,282 | **304,799** | **495,363** |
| **Total** | **458,725** | **458,725** | **70,691** | **77,555** | **887,447** | **1,035,693** | **1,494,418** |

**41 Financial risk management objectives and policies (continued)**

**Impaired financial assets**

At 31 December 2015, the Group and Company had impaired insurance assets of KShs 26,796,000 and KShs 24,018,000 respectively (2014: Group and Company KShs 50,282,000 and KShs 48,841,000 respectively). For assets to be classified as 'past-due and impaired', contractual payments must be in arrears for more than 90 days.

Collateral is held for loans receivables. For reinsurance assets and insurance receivables, no collateral is held as security for any past due or impaired assets.

The Group and Company records impairment allowances for loans and receivables in a separate impairment allowance account. A reconciliation of the allowance for impairment losses for loans and receivables is as shown in note 22.

**(iii) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty, in meeting obligations associated with its financial liabilities. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk: A Group liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk committee. The policy is regularly reviewed and for changes in the risk environment. Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The Group is exposed to daily calls on its available cash for claims settlement and other administration expenses. The Group does maintain cash resources to meet all these needs and experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of stability.

- The Group holds a large portion of its assets in short term deposits and investments that are easily convertible to cash.
- The cash flow position of the Group is reviewed on a weekly basis.

**Maturity profiles**

The table that follows summarises the maturity profile of the financial assets and financial liabilities of the Group based on remaining undiscounted contractual obligations, including interest payable and receivable. Liabilities and payables represent non-discounted cash flows.

**(ii) Credit risk (continued)**

For insurance contracts liabilities in short term business and reinsurance assets, maturity profiles are shown on undiscounted basis. Unearned premiums and the reinsurers' share of unearned premiums have been included in the analysis although they are not contractual obligations, since insurance items are included in IFRS 7 disclosures as if the insurance items were financial instruments. Re payments which are subject to notice are treated as if notice were to be given immediately.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. Reinsurance assets have been presented on the same basis as insurance liabilities. Loans and receivables include contractual interest receivable (if any).

**41. Financial risk management objectives and policies (continued)**

**(iii) Liquidity risk (continued)**

**Group**
**31 December 2015**

| | Up to a year KShs '000 | 1-3 years KShs '000 | 3-5 years KShs '000 | 5-15 years KShs '000 | Over 15 years KShs '000 | On demand/No maturity KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| Insurance liabilities | 5,900,347 | - | - | - | - | - | 5,900,347 |
| Payable under deposit administration contracts | - | - | - | - | - | 16,990,526 | 16,990,526 |
| Provision for unearned premium | 1,443,681 | - | - | - | - | - | 1,443,681 |
| Tax liability | 52,869 | - | - | - | - | - | 52,869 |
| Reinsurance payables | 2,107,179 | - | - | - | - | - | 2,107,179 |
| Insurance payables | 230,125 | - | - | - | - | - | 230,125 |
| Other payables | 3,244,085 | - | - | - | - | - | 3,244,085 |
| **Total liabilities** | **12,978,286** | **-** | **-** | **-** | **-** | **16,990,526** | **29,968,812** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**41. Financial risk management objectives and policies (continued)**

**(iii) Liquidity risk (continued)**

**Group**
**31 December 2014**

| | Up to a year KShs '000 | 1-3 years KShs '000 | 3-5 years KShs '000 | 5-15 years KShs '000 | Over 15 years KShs '000 | On demand/No maturity KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| Insurance liabilities | 7,606,249 | - | - | - | - | - | 7,606,249 |
| Payable under deposit administration contracts | - | - | - | - | - | 13,963,555 | 13,963,555 |
| Provision for unearned premium | 1,381,350 | - | - | - | - | - | 1,381,350 |
| Tax liability | 30,005 | - | - | - | - | - | 30,005 |
| Reinsurance payables | 1,537,727 | - | - | - | - | - | 1,537,727 |
| Insurance payables | 272,423 | - | - | - | - | - | 272,423 |
| Other payables | 676,344 | - | - | - | - | - | 676,344 |
| **Total liabilities** | **11,504,098** | **-** | **-** | **-** | **-** | **13,963,555** | **25,467,653** |

**41. Financial risk management objectives and policies (continued)**

**(iii) Liquidity risk (continued)**

**Company**
**31 December 2015**

| | Up to a year KShs '000 | 1-3 years KShs '000 | 3-5 years KShs '000 | 5-15 years KShs '000 | Over 15 years KShs '000 | On demand/No maturity KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| Insurance liabilities | 5,201,210 | - | - | - | - | - | 5,201,210 |
| Payable under deposit administration contracts | - | - | - | - | - | 16,990,526 | 16,990,526 |
| Reinsurance payables | 1,641,811 | - | - | - | - | - | 1,641,811 |
| Insurance payables | 230,125 | - | - | - | - | - | 230,125 |
| Provision for unearned premium | 1,067,429 | - | - | - | - | - | 1,067,429 |
| Other payables | 3,186,879 | - | - | - | - | - | 3,186,879 |
| **Total liabilities** | **11,327,454** | **-** | **-** | **-** | **-** | **16,990,526** | **28,317,980** |

## 41. Financial risk management objectives and policies (continued)

### (iii) Liquidity risk (continued)

**Company**
**31 December 2014**

| | Up to a year KShs '000 | 1-3 years KShs '000 | 3-5 years KShs '000 | 5-15 years KShs '000 | Over 15 years KShs '000 | On demand/No maturity KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| Insurance liabilities | 6,819,467 | - | - | - | - | - | 6,819,467 |
| Payable under deposit administration contracts | - | - | - | - | - | 13,963,555 | 13,963,555 |
| Reinsurance payables | 1,240,644 | - | - | - | - | - | 1,240,644 |
| Insurance payables | 272,423 | - | - | - | - | - | 272,423 |
| Provision for unearned premium | 977,183 | - | - | - | - | - | 977,183 |
| Tax liability | 30,005 | - | - | - | - | - | 30,005 |
| Other payables | 627,753 | - | - | - | - | | 627,753 |
| **Total liabilities** | **9.967,475** | **-** | **-** | **-** | **-** | **13,963,555** | **23,931,030** |

## 41. Financial risk management objectives and policies (continued)

### (iii) Liquidity risk (continued)

**Group**
**31 December 2015**

| | Up to a year KShs '000 | 1-3 years KShs '000 | 3-5 years KShs '000 | 5-15 years KShs '000 | Over 15 years KShs '000 | On demand/No maturity KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| Held to maturity financial assets | 764,189 | 2,031,758 | 1,621,856 | 9,895,787 | 5,565,876 | - | 19,879,466 |
| Loans receivable | 21,345 | 30,978 | 20,652 | 23,681 | - | - | 96,656 |
| Available-for-sale financial assets | 91,314 | 138,532 | 85,504 | 269,960 | 261,556 | 175,861 | 1,022,727 |
| Financial assets at fair value through profit and loss | - | - | - | - | - | 276,380 | 276,380 |
| Cash and cash equivalents and short term investments | 3,696,949 | - | - | - | - | - | 3,696,949 |
| Commercial paper | 103,425 | - | - | - | - | - | 103,425 |
| Reinsurance assets | 5,989,278 | - | - | - | - | - | 5,989,278 |
| Insurance receivables | 744,045 | - | - | - | - | - | 744,045 |
| Investment in the Kenya Motor Insurance Pool | - | - | - | - | - | 86,201 | 86,201 |
| Tax recoverable | 56,147 | - | - | - | - | - | 56,147 |
| Other receivables | 1,315,033 | - | - | - | - | - | 1,315,033 |
| **Total assets** | **12,781,725** | **2,201,268** | **1,728,012** | **10,189,428** | **5,827,432** | **538,442** | **33,266,307** |

**41. Financial risk management objectives and policies (continued)**

**(iii) Liquidity risk (continued)**

**Group**
**31 December 2014**

| | Up to a year KShs '000 | 1-3 years KShs '000 | 3-5 years KShs '000 | 5-15 years KShs '000 | Over 15 years KShs '000 | On demand/No maturity KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| Held to maturity financial assets | 868,980 | 705,173 | 1,751,600 | 9,140,700 | 3,870,276 | - | 16,336,729 |
| Loans receivable | 11,237 | 30,978 | 20,652 | 23,681 | - | - | 86,548 |
| Available-for-sale financial assets | 123,678 | 33,811 | 144,098 | 252,232 | 362,557 | 176,126 | 1,092,502 |
| Financial assets at fair value througt profit and loss | - | - | - | - | - | 272,101 | 272,101 |
| Cash and cash equivalents and short term investments | 1,981,967 | - | - | - | - | - | 1,981,967 |
| Commercial paper | 103,734 | - | - | - | - | - | 103,734 |
| Reinsurance assets | 7,509,305 | - | - | - | - | - | 7,509,305 |
| Insurance receivables | 718,074 | - | - | - | - | - | 718,074 |
| Investment in the Kenya Motor Insurance Pool | - | - | - | - | - | 86,857 | 86,857 |
| Tax recoverable | 59,761 | - | - | - | - | - | 59,761 |
| Other receivables | 439,773 | - | - | - | - | - | 439,773 |
| **Total assets** | **11,816,509** | **769,962** | **1,916,350** | **9,416,613** | **4,232,833** | **535,084** | **28,687,351** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**41. Financial risk management objectives and policies (continued)**

**(iii) Liquidity risk (continued)**

**Company**
**31 December 2015**

| | Up to a year KShs '000 | 1-3 years KShs '000 | 3-5 years KShs '000 | 5-15 years KShs '000 | Over 15 years KShs '000 | On demand/No maturity KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| Held to maturity financial assets | 712,740 | 2,031,758 | 1,621,856 | 9,895,787 | 5,565,876 | - | 19,828,017 |
| Loans receivable | 21,345 | 30,978 | 20,652 | 23,681 | - | - | 96,656 |
| Available-for-sale financial assets | 78,542 | 138,532 | 85,504 | 269,960 | 261,556 | 123,454 | 957,548 |
| Financial assets at fair value through profit and loss | - | - | - | - | - | 265,611 | 265,611 |
| Cash and cash equivalents and short term investment | 3,400,769 | - | - | - | - | - | 3,400,769 |
| Commercial paper | 103,425 | - | - | - | - | - | 103,425 |
| Reinsurance assets | 4,868,277 | - | - | - | - | - | 4,868,277 |
| Insurance receivables | 491,145 | - | - | - | - | - | 491,145 |
| Investment in the Kenya Motor Insurance Pool | - | - | - | - | - | 86,201 | 86,201 |
| Tax recoverable | 55,888 | - | - | - | - | - | 55,888 |
| Other receivables | 1,311,054 | - | - | - | - | - | 1,311,054 |
| **Total assets** | **11,043,185** | **2,201,268** | **1,728,012** | **10,189,428** | **5,827,432** | **475,266** | **31,464,591** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**41. Financial risk management objectives and policies (continued)**

**(iii) Liquidity risk (continued)**

**Company**

**31 December 2014**

| | Up to a year KShs '000 | 1-3 years KShs '000 | 3-5 years KShs '000 | 5-15 years KShs '000 | Over 15 years KShs '000 | On demand/No maturity KShs '000 | Total KShs '000 |
|---|---|---|---|---|---|---|---|
| Held to maturity financial assets | 868,980 | 705,173 | 1,751,600 | 9,140,700 | 3,870,276 | - | 16,336,729 |
| Loans receivable | 11,237 | 30,978 | 20,652 | 23,681 | - | - | 86,548 |
| Available-for-sale financial assets | 58,794 | 33,811 | 144,098 | 252,232 | 362,557 | 123,454 | 974,946 |
| Financial assets at fair value through profit and loss | - | - | - | - | - | 262,406 | 262,406 |
| Cash and cash equivalents and short term investments | 1,737,217 | - | - | - | - | - | 1,737,217 |
| Commercial paper | 103,734 | - | - | - | - | | 103,734 |
| Reinsurance assets | 6,392,038 | - | - | - | - | - | 6,392,038 |
| Insurance receivables | 495,363 | - | - | - | - | - | 495,363 |
| Investment in the Kenya Motor Insurance Pool | - | - | - | - | - | 86,857 | 86,857 |
| Tax recoverable | 58,479 | - | - | - | - | - | 58,479 |
| Other receivables | 435,438 | - | - | - | - | - | 435,438 |
| **Total assets** | **10,161,280** | **769,962** | **1,916,350** | **9,416,613** | **4,232,833** | **472,717** | **26,969,755** |

## 41. Financial risk management objectives and policies (continued)

### Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events.
The Group mitigates this risk through its culture and values, a comprehensive system of internal controls and other measures such as back-up facilities, contingency planning and insurance. The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions.

### Compliance risk

**Laws and regulations:**
The Group considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Group's management facilitates the compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

**Compliance with Investment mandates:**
Management reviews compliance with Investment mandates on a monthly basis. When a possible breach is detected, management ensure that immediate remedial action is taken.

**Property risk**
The capital portfolio has limited exposure to investment properties and accordingly the related property risk. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

## 42 Prior year adjustment

The prior year adjustment in 2014 related to deferred income tax liability on the whole actuarial surplus carried forward in life business on adoption of a guideline issued during the year in relation to application of IAS 12.

The financial statements for the financial years ended 31 December 2013 have been restated to comply with the IAS provisions. For purposes of comparative movements, 2012 position have also been shown in the note. The effect of the restatement on those financial statements is summarised below:

**42. Prior year adjustment (continued)**

**Year ended 31 December 2013**

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | As previously reported At December 2013 KShs'000 | Adjustment KShs'000 | As restated At 31 December 2013 KShs'000 | As previously reported At 31 December 2013 KShs'000 | Adjustment KShs'000 | As restated At 31 December 2013 KShs'000 |
| **Liabilities** | | | | | | |
| Deferred tax liability | - | 98,304 | 98,304 | - | 98,304 | 98,304 |
| **Capital and reserves** | | | | | | |
| Retained earnings | 1,267,950 | (98,304) | 1,169,646 | 1,202,230 | (98,304) | 1,103,926 |
| **Net movement** | - | - | - | - | - | - |

**Results for the year**

**Short-term insurance business**

| | Group 2013 Kshs'000 | Company 2013 Kshs'000 |
|---|---|---|
| Profit for the year as previously reported | 493,735 | 475,617 |
| Prior period adjustments | (72,747) | (72,747) |
| **Profit for the year as restated** | 420,988 | 402,870 |

**43. Capital management**

Externally imposed capital requirements are set and regulated by the Insurance Regulatory Authority (IRA). These requirements are put in place to ensure solvency margins are maintained in the insurance industry. Further objectives are set by the group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders value.

Further, the company currently has a paid up capital of KShs 161,388,000 million in the long term business which exceeds the minimum (KShs 150 million) requirement as per the Insurance Act. In the short term business, the company's paid up capital should not be less than 10% of the total gross premium written in the short term business during the year. The paid up capital is KShs 400,000,000 while 10% of gross premium written is KShs 286,405,081 (2014: KShs 264,595,256).

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholder issue new capital or sell assets to reduce debt.

## 44. Company solvency margins

| | 2015 KShs'000 | 2014 KShs'000 |
|---|---|---|
| **Short term insurance business** | | |
| Admitted assets | **8,120,015** | **5,147,165** |
| Net premium for 2015/2014 | 1,733,646 | 1,725,194 |
| 15% of net premium | 260,047 | 258,779 |
| Admitted liabilities | 6,427,948 | 4,249,730 |
| | **6,687,995** | **4,508,509** |
| **Solvency margin** | **1,432,020** | **638,656** |
| **Long term assurance business** | | |
| Admitted assets | **23,617,687** | **18,950,000** |
| 5% of admitted liabilities | 1,092,277 | 865,850 |
| Admitted liabilities | 21,845,539 | 17,317,000 |
| | **22,937,816** | **18,182,850** |
| **Solvency margin** | **679,871** | **767,150** |

General business solvency has been disclosed on net basis.
Life solvency requirement has been calculated as 5% of admitted liabilities and declared interest has been included as part of the admitted liabilities as per regulatory requirement.

**45. Incorporation and registered office**

The company is incorporated in Kenya under the Companies Act. The address of the registered office is given on page 1.

**46. Currency**

These financial statements are presented in Kenya Shillings (KShs) and are rounded to the nearest KShs 1,000.

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

## COMPANY LONG TERM ASSURANCE BUSINESS REVENUE ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Ordinary life business KShs'000 | Group life business KShs'000 | Retirement benefit fund KShs'000 | Total 2015 KShs'000 |
|---|---|---|---|---|
| **Gross premium income** | 1,001,162 | 43,860 | - | 1,045,022 |
| Premiums ceded to reinsurers | (3,094) | (20,295) | - | (23,389) |
| Contributions received | - | - | 2,238,915 | 2,238,915 |
| **Net premium income** | **998,068** | **23,565** | **2,238,915** | **3,260,548** |
| Investment income | 550,256 | 14,716 | 2,168,075 | 2,733,047 |
| Other income | (168) | - | - | (168) |
| | **550,088** | **14,716** | **2,168,075** | **2,732,879** |
| Claims incurred | 357,688 | 5,852 | 279,759 | 643,299 |
| Surrenders and annuity incurred | 45,450 | - | 988,591 | 1,034,041 |
| **Net claims and policyholder benefits expense** | **403,138** | **5,852** | **1,268,350** | **1,677,340** |
| Operating expenses | 183,155 | 1,962 | 76,533 | 261,650 |
| Other expenses | 35,708 | 383 | 14,921 | 51,012 |
| Provision for bad debts | 710 | 87 | 297 | 1,015 |
| Commissions expense | 109,040 | 8,247 | 19,918 | 137,205 |
| Premium levy | 6,616 | - | - | 6,616 |
| Contribution to policy holders compensation fund | 888 | - | - | 888 |
| **Total expenses** | **336,117** | **10,600** | **111,669** | **458,386** |
| **Results of operating activities** | **809,901** | **21,829** | **3,026,971** | **3,857,701** |
| Transfer to statutory reserve | (30,000) | (30,000) | - | (60000) |
| **Increase/(decrease) in funds** | **778,9(** | **(8,171)** | **3,026,971** | **3,797,7(** |
| Funds at the beginning of the year | 4,088,098 | 94,779 | 13,963,555 | 18,146,432 |
| **Funds at the end of the year** | **4,866,999** | **86,608** | **16,990,526** | **21,944,133** |

**Long term funds at the end of the year comprise amounts attributable to:**
Policyholders:

| | | | | |
|---|---|---|---|---|
| -Actuarial liabilities | 3,575,960 | 13,410 | - | 3,589370 |
| -Deposit administration fund | - | - | 15,006,837 | 15,006837 |
| -Bonus to policy holders | 527,100 | - | 1,594,020 | 2,121120 |
| -Statutory reserves | - | - | - | - |
| | **4,103,060** | **13,410** | **16,600,857** | **20,717327** |

KENINDIA ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

## COMPANY LONG TERM ASSURANCE BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2014

| | Ordinary life business KShs'000 | Group life business KShs'000 | Retirement benefit fund KShs'000 | Total 2014 KShs'000 |
|---|---|---|---|---|
| **Gross premium income** | 698,544 | 39,968 | - | 738,512 |
| Premiums ceded to reinsurers | (2,177) | (21,780) | - | (23,957) |
| Contributions received | - | - | 1,794,285 | 1,794,285 |
| **Net premium income** | **696,367** | **18,188** | **1,794,285** | **2,508,840** |
| Investment income | 468,492 | 18,332 | 1,696,292 | 2,183,116 |
| Other income | 4,372 | - | - | 4,372 |
| | **472,864** | **18,332** | **1,696,292** | **2,187,488** |
| Claims incurred | 323,641 | 4,763 | 405,569 | 733,973 |
| Surrenders and annuity incurred | 18,152 | - | 1,108,392 | 1,126,544 |
| **Net claims and policyholder benefits expense** | **341,793** | **4,763** | **1,513,961** | **1,861,517** |
| Operating expenses | 149,278 | 1,599 | 62,378 | 211,255 |
| Other expenses | 10,499 | 112 | 4,387 | 14,998 |
| Commissions expense | 95,546 | 5,700 | 15,407 | 110,653 |
| Premium levy | 5,018 | - | - | 5,018 |
| Contribution to policy holders compensation fund | 791 | - | - | 791 |
| **Total expenses** | **261,132** | **7,411** | **82,172** | **350,715** |
| **Results of operating activities** | **566,306** | **24,346** | **1,894,444** | **2,485,096** |
| Transfer to statutory reserve | - | (60,000) | - | (60,000) |
| **Increase/(decrease) in funds** | **566,306** | **(35,654)** | **1,894,444** | **2,425,096** |
| Funds at the beginning of the year | 3,521,792 | 130,433 | 12,069,111 | 15,721,336 |
| **Funds at the end of the year** | **4,088,098** | **94,779** | **13,963,555** | **18,146,432** |

**Long term funds at the end of the year comprise amounts attributable to:**

| | | | | |
|---|---|---|---|---|
| Policyholders: | | | | |
| -Actuarial liabilities | 3,219,380 | 10,870 | 12,089,540 | 15,319,790 |
| | **3,219,380** | **10,870** | **12,089,540** | **15,319,790** |