PIONEER ASSURANCE

YOUR SECURITY FOR THE FUTURE

2013 Annual Report &
Financial Statements

Awakening the spirit...

A Breath of Fresh Air

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Content

Value Statements

Our Vision

To Be the Leading and Preferred Life and Health
Insurance Company in Kenya

Our Mission

To offer Quality Insurance Products and Services to our
Customers and Deliver Value to Stake Holders

Core Values:

Team Work
Cooperation, Unity of Purpose, and Family like Values.

Integrity
Respect, Accountability, Transparency, Trustworthy

Empowerment
Responsibility, Delegation, Training, Communication, Open Door Policy.

Innovative
Creativity, Imagination, Initiative.

Corporate Information

BOARD OF DIRECTORS

Bonaventure Omuse – Chairman
Moses Kimani – Principal Officer
Amai Olubayi
John Okondo
Michael K. Mure
Mtalaki Mwashimba
Shiraz Jeraj

REGISTERED OFFICE
Pioneer Assurance Company Limited
Pioneer House, Moi Avenue
P.O. Box 20333 – 00200
Nairobi.

COMPANY ACTUARY
Nalin Kapadia
102 F Wing Pranay Nagar
Ram Mandir Ext Road
Mumbai.

PRINCIPAL BANKERS
Barclays Bank of Kenya Limited
P.O. Box 30120 – 00100
Nairobi.

Commercial Bank of Africa Limited
P.O. Box 30437 – 00100
Nairobi.

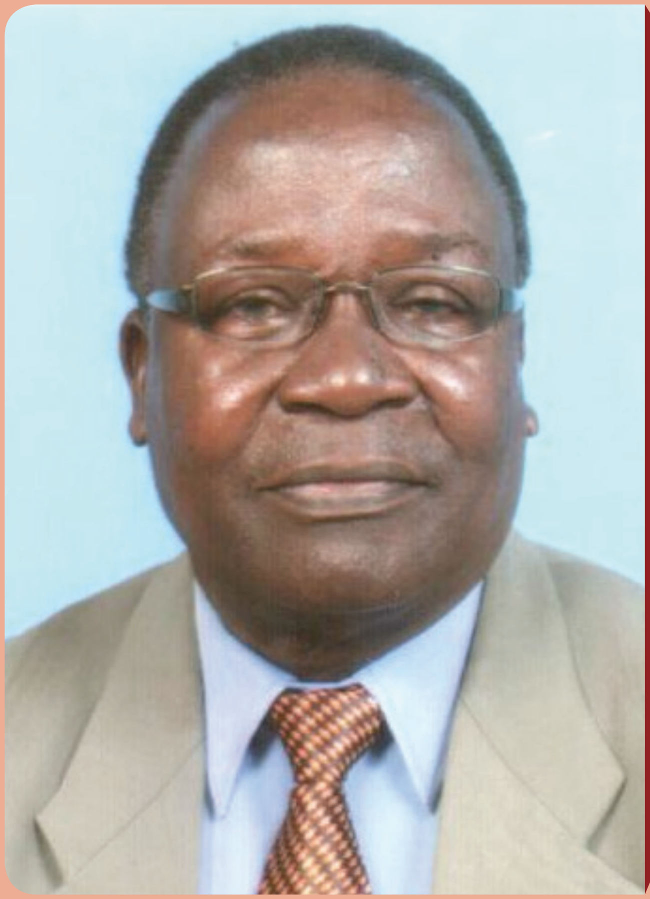
Habib Bank (K) Limited
P.O. Box 30673 – 00100
Nairobi.

PRINCIPAL LEGAL ADVISERS
Mboya Wangong'u & Waiyaki Advocates
P.O. Box 74041 – 00200
Nairobi.

COMPANY SECRETARY
Winniefred N. Jumba
P.O. Box 30029 – 00100
Nairobi.

INDEPENDENT AUDITORS
Crowe Horwath EA
Certified Public Accountants
5th Floor, Geomaps Centre
Matumbato Road, Upperhill
P.O. Box 74066 – 00200
Nairobi.

Chairman's Report



"Our focus in the next four years is on internal efficiency and revenue growth through strategic alliances".

Chairman's Report

It is with pleasure that I present to you the Annual Report and Financial Statements for Pioneer Assurance Company Limited for the year ended 31 December 2013.

Business Environment

In the year 2013, the economy improved marginally from a GDP growth rate of 4.6% in 2012 to an average of 4.7% in 2013. During the first quarter of the year, there were general elections in which the country elected its fourth president, this together with reduced spending by government agencies during the transition period, insecurity concerns, reduction in exports, comparatively higher interest rates and depressed rains resulted in a lower GDP growth rate compared to the projected rate of 5.6%. The Nairobi securities exchange had a marked improvement with the NSE 20 share index improving by 19% from 4133 points at the start of the year to 4927 points as at year end. The rate of inflation dropped to 5.7% in December 2013 compared to 9.4% in December 2012, while the Central Bank of Kenya reviewed the CBR rate from 11% in December 2012 to 8.5% in the first quarter of 2013, the rate is currently at 8.5%.

Year 2013 Results

The company performance was marginally better compared to last year despite the challenging operating environment. The gross premium income grew by 5% from Kshs. 924 million in 2012 to Kshs 966 million in 2013.The growth was depressed by the effects of medical business run- off which entered in the final year. Total assets grew from Kshs 998million in 2012 to Kshs 1,170million in 2013. Profits after tax however reduced to Kshs 18.1million compared to Kshs 31.6million in year 2012 when the revaluation of investment property had a positive effect. Year 2013 was the first year in which the company did not report premium income in medical business but claims were however incurred. We strongly believe that by successfully shedding off medical business we will be able to significantly grow all aspects of the business, going into the future.

Future Outlook

The year 2013 was the second in our next phase of the five year strategic plan period. The company has averaged a growth rate of 28% over the last five years and we strongly believe we can sustain the growth rate at above 30% over the next four years. We stopped underwriting medical business in the first quarter of year 2012 and have finalised settling claims with the various service providers. Shedding off this business line will result in a positive growth to our bottom line and accumulated reserves and will enable the company to focus on its core business of life assurance. The company has completed implementation of a new ERP; the rollout across our entire branch network was completed in the fourth quarter of 2013. Our focus in the next four years is on internal efficiency and revenue growth through strategic alliances. We are focusing on product innovation and improvement, developing the human capacity, customer service and effective distribution channels.

I once again express my confidence and wish to emphasize that the company is taking the right direction. I also wish to assure all the stakeholders that my Board and the Management are committed to achieving the stability and growth for the benefit of all stakeholders.

Appreciation

I would like to conclude by taking the opportunity on behalf of my Board and Management to thank all those who contributed to the successful financial year 2013, our Clients, Brokers, Agents and other business partners for their continued patronage and support during the year. I also wish to thank the Management, Agents and Staff of Pioneer Assurance for their hard work and dedication. Finally let me express my gratitude to my fellow Directors for their unreserved support accorded to me during the year.

Bonaventure Omuse
Chairman

Board of Directors

Standing from left to right

Michael G. Mure (**Director**), Mtalaki Mwashimba (**Director**), Amai Olubai (**Director**)

Seated from left to right

Shiraz Jeraj (**Director**), Moses Kimani (**Managing Director**),
Bonaventure Omuse **(Chairman)**, John Okondo (**Director**)

Management Team

1. **Moses Kimani**
   Managing Director
2. **Margaret Mwashimba**
   Human Resources & Administration Manager
3. **Cyprian Ombogo**
   Head of Finance
4. **Timothy Mutua**
   Life Manager
5. **Isaac Maina**
   Marketing Manager, Corporate Business
6. **Wanderi Ngunje**
   National Sales & Marketing Manager
7. **Robert Ipomai**
   ICT Manager

Statement of Corporate Governance

Introduction

The Board of Directors, Pioneer Assurance Company Limited is committed to developing and implementing policies that will enhance corporate governance in the company. These policies form the core of the company and ensure that there is proper ethics, transparency and accountability in the conduct of business.

Composition

The Board has members with diverse skills, experience and professional background. It consists of the Managing Director and six other non executive Directors. No individual in the Board can dominate its decision making. Proper information is supplied to the Board in a timely manner, in this regard, notices of Board meetings are circulated at least two weeks before Board meetings and detailed Board papers are circulated at least one week before any meeting.

Board Committees

The Board is responsible for the management of the company, and its main responsibility is to give guidance and control operations of the company. There are quarterly meetings held by the full Board where strategic and policy issues are discussed. Responsibility of the day to day running of the company has been delegated to the Chief Executive Officer. The Board has constituted three committees namely; Risk Audit and compliance committee, Finance and investment committee and, Remuneration & appraisal committee. All board committees have charters that govern their operations.

(i) Risk, Audit and compliance committee

The committee is comprised of three members and meets on a quarterly basis.

Membership:-

1)	Mr. John M. Okondo	Chairman	Non Executive Director
2)	Mr. Amai Olubayi	Member	Non Executive Director
3)	Mr. Mtalaki Mwashimba	Member	Non Executive Director

The Managing Director attends meetings at the invitation of the committee. The functions of the audit committee are outlined in its terms of reference and include: Reviewing the reports and following up matters raised by auditors and the actuary; to review regulatory environment and develop strategies that are not in conflict with statutory and other regulatory requirements. The committee held four meetings during the year and all members attended.

(ii) Finance and Investment Committee

This committee meets on a quarterly basis and has five members

Membership:-

1)	Mtalaki Mwashimba	Chairman	Non Executive Director
2)	Amai Olubayi	Member	Non Executive Director
3)	Michael Mure	Member	Non Executive Director
4)	Shiraz Jeraj	Member	Non Executive Director
5)	Moses N Kimani	Member	Managing Director

The functions of the Investments Committee are outlined in its terms of reference and include: Developing and ensuring the implementation of investment policies and guidelines; measuring the company's performance against set benchmarks; reviewing the company's investments; and approving the acquisition and disposal of capital expenditure. The committee held three meetings during the year and all members attended

Statement of Corporate Governance

(iii) Remuneration and appraisal Committee

This committee meets twice a year and has three members

Membership:-

1)	Mr. Bonaventure Omuse	Chairman	Non Executive Director
2)	Amai Olubayi	Member	Non Executive Director
3)	Moses Kimani	Member	Managing Director

The functions of the Remuneration and recruitment Committee are outlined in its terms of reference and include: Reviewing and approving salary reviews and bonuses; approving terms and conditions of service and any amendments thereto; developing guidelines on staffing skills and qualifications required; and reviewing appraisals for key management personnel. The committee held two meetings during the year and all members attended.

Apart from the Managing Director, no other Director or body related to a Director receives compensation from the company. Directors are paid a sitting allowance when they attend Board meetings; a register which is in the custody of the company secretary is used to confirm attendance. All board members have access to the records.

Corporate Social Responsibility

The company gives special attention to its corporate social responsibility and it is involved in various projects affecting society in which it operates such as: Improving the health status of the needy and assisting deserving charities. The company also caters for the welfare of staff and that of their immediate families. The company has in place a medical scheme and last expense cover for the nuclear family of staff and agents, group life and accident covers for the staff.

Training and Recruitment

The company has a well defined training and reward programme on professional courses for its staff. From time to time staff are sent on scheduled short-term training programs that are geared at improving the human capital capacity of the company. Appraisal of all staff is structured and is done semi annually. The company has in place a structured recruitment policy that ensures staff to be recruited posses the necessary skills to adequately serve the insuring public.

Going Concern

The Board submits this annual report and audited financial statements for the year ending 31 December 2013. This annual report and audited financial statements present, in the opinion of the Directors, a fair, balanced and understandable assessment of the state of affairs of the company's position and prospect. The Board reports that the business is a going concern and it has no reason to believe that the company will not be a going concern into the foreseeable future.

Bonaventure Omuse
Chairman

Moses Kimani
Managing Director

Report of the Directors

The directors submit their report and the audited financial statements for the year ended 31 December 2013 which shows the results and state of the Company's affairs.

1. INCORPORATION AND REGISTERED OFFICE

The Company is registered in Kenya under the Kenyan Companies Act and licensed under the Insurance Act. It is domiciled in Kenya. The address of principal place of business and the registered office are set out in page 3.

2. PRINCIPAL ACTIVITIES

The principal activities of the Company are the provision of insurance and related services as licensed by the Insurance Act. The Company provides individual life assurance, group life assurance and pension administration.

3. RESULTS

The results for the year are set out on page 14 to 61 of these financial statements.

4. RESERVES

The reserves of the Company are set out on page 16 to these financial statements.

5. DIRECTORS

The Company's directors are as shown on page 6.

6. INDEPENDENT AUDITORS

Crowe Horwath EA were appointed auditors during the year and have expressed their willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act.

BY ORDER OF THE BOARD

Company Secretary
Nairobi

29 April ……………………2014

Statement of Directors' Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the Company's accounting policies and in the manner required by 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 Company and of its 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 will not remain a going concern for at least the next twelve months from the date of this statement.

These financial statements were approved by the directors on ....29 April.......... 2014 and signed on their behalf by;

Bonaventure Omuse
Director

Moses Kimani
Director

Report of the Consulting Actuary

I have conducted an actuarial valuation of the life assurance business of Pioneer Assurance Company Limited as at 31 December 2013. The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act.

These principles require prudent provision for 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, the life 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 2013.

Mr. Nalin Kapadia
....
Actuary

28th April 2014
....
Date

Crowe Horwath

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Pioneer Assurance Company Limited as set out on pages 14 to 61, which comprise the statement of financial position as at 31 December 2013 and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 Pioneer Assurance Company Limited as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Cephas Osoro – P/No. 943.

Crowe Horwath EA

Certified Public Accountants (Kenya)

Nairobi

29th April 2014

Statement of Comprehensive Income
For the year ended 31 December 2013

	Notes	2013 KShs	2012 KShs
Gross written premiums	2(a)	965,569,150	923,628,847
Unearned premiums movement	2(a)	2,528,844	120,335,350
Gross earned premiums		968,097,994	1,043,964,197
Premium ceded to reinsurers	2(b)	(85,633,328)	(108,823,028)
Net earned premiums		882,464,666	935,141,169
Investment income	3	67,745,582	112,216,654
Commissions income	4	9,125,984	12,406,539
Other income	5	3,807,805	2,084,312
		963,144,037	1,061,848,674
Claims and policyholder benefits expense	6	(637,614,901)	(685,139,527)
Recoverable under reinsurance arrangements	6	9,362,976	35,432,523
Net claims incurred		(628,251,925)	(649,707,004)
Operating and other expenses	7	(180,922,895)	(208,672,374)
Commission expense	8	(125,408,022)	(162,421,264)
Profit before tax		28,561,195	41,048,032
Income tax expense	10(a)	(10,500,000)	(9,455,892)
Profit for the year		18,061,195	31,592,140
Other comprehensive income		-	-
Total comprehensive income		18,061,195	31,592,140
Earnings per share (basic and diluted)	11	12.04	21.06

Statement of Financial Position

As at 31 December 2013

	Notes	2013 KShs	2012 KShs
ASSETS			
Property and equipment	12	14,021,936	13,746,809
Intangible assets	13	10,273,823	2,168,619
Investment property	14	436,703,000	436,703,000
Financial assets at fair value through profit or loss	15	49,114,583	34,663,264
Policy loans receivable	16	116,429,655	98,380,460
Government securities held to maturity	17	154,161,397	173,538,615
Reinsurance arrangements receivables	18	11,519,410	35,248,403
Direct insurance arrangements receivables	19	199,334,639	92,175,916
Reinsurers' share of insurance liabilities	20	-	210,492
Deferred commissions	21	-	267,696
Other receivables	22	72,834,029	57,129,288
Tax recoverable	10(b)	487,786	586,303
Deposits with financial institutions	23	92,919,418	40,083,162
Bank and cash balances	24	12,269,289	12,606,760
TOTAL ASSETS		1,170,068,965	997,508,787
EQUITY AND LIABILITIES			
Share capital	25	150,000,000	150,000,000
Retained earnings		129,936,093	111,874,898
Statutory fund	26	96,532,445	67,942,033
TOTAL EQUITY		376,468,538	329,816,931
LIABILITIES			
Insurance contract liabilities	27	464,887,600	420,522,166
Payables under deposit administration contracts	28	34,719,714	25,276,014
Unit linked payables	29	26,597,825	15,186,512
Outstanding claims	30	165,152,004	137,764,262
Term loan	31	26,710,177	1,173,123
Payables under reinsurance contracts	32	34,383,680	15,869,369
Other payables	33	41,149,427	48,893,378
Unearned premium reserve	34	-	3,007,032
		793,600,427	667,691,856
TOTAL EQUITY AND LIABILITIES		1,170,068,965	997,508,787

The financial statements on pages 14 to 61 were approved by the board of directors for issue on 29th April 2014 and signed on its behalf by:

Bonaventure Omuse — Chairman

Shiraz Jeraj — Director

Moses Kimani — Principal Officer

Statement of Changes in Equity

For the year ended 31 December 2013

	Notes	Share capital KShs	Retained earnings KShs	Statutory Reserve KShs	Total KShs
Year ended 31 December 2012					
As at 1 January 2012		150,000,000	80,282,758	70,426,587	300,709,345
Total comprehensive income for the year		-	31,592,140	-	31,592,140
Transfer to retained earnings		-	31,519,641	(31,519,641)	-
Transfer to statutory fund	26		(31,519,641)	31,519,641	-
Transfer to insurance contract liabilities		-	-	(2,484,554)	(2,484,554)
As at 31 December 2012		150,000,000	111,874,898	67,942,033	329,816,931
Year ended 31 December 2013					
As at 1 January 2013		150,000,000	111,874,898	67,942,033	329,816,931
Total comprehensive income for the year		-	18,061,195	-	18,061,195
Transfer to retained earnings		-	35,000,000	(35,000,000)	-
Transfer to statutory fund	26	-	(35,000,000)	35,000,000	-
Transfer from Insurance contract liabilities	26	-	-	28,590,412	28,590,412
As at 31 December 2013		150,000,000	129,936,093	96,532,445	376,468,538

Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 KShs	2012 KShs
OPERATING ACTIVITIES:			
Profit/(loss) before taxation		**28,561,195**	**41,048,032**
Adjustment for:-			
Depreciation of property and equipment	12	4,339,062	4,144,772
Amortization of intangible assets	13	1,655,191	746,161
Fair value gain on quoted investments		(4,409,965)	(3,447,784)
Fair value gain on unit linked investments		(1,530,571)	(5,147,414)
Fair value gain on investment property		-	(45,000,000)
Change in technical provisions		24,858,899	(36,511,439)
Interest on loans		1,578,356	525,837
Change in actuarial liabilities		72,955,846	71,794,982
Gain on disposal of property and equipment		(6,365)	(10,740)
Cash flows before changes in working capital		**128,001,648**	**28,142,407**
Trade and other assets		(99,134,471)	33,871,996
Trade and other liabilities		31,625,372	(36,307,004)
Cash from operating activities before tax paid		**60,492,549**	**25,707,399**
Tax paid	10(b)	(10,401,483)	(12,114,400)
Net cash flows generated from operating activities		**50,091,066**	**13,592,999**
INVESTING ACTIVITIES:			
Purchase of property and equipment	15	(4,614,189)	(2,888,196)
Purchase of intangible assets	17	(9,760,395)	(568,000)
Purchase of investment property		-	(103,000)
Purchase of quoted investments		(1,910,442)	7,867,696
Purchase of unit linked investments		(6,600,341)	(4,636,164)
Policy loans advanced		(18,049,195)	(12,518,321)
Investment in fixed deposits		(30,508,427)	2,407,223
Investment in government securities		19,377,218	(6,174,079)
Proceeds from sale of property and equipment		6,365	10,740
Net cash flows used in investing activities		**(52,059,406)**	**(16,602,101)**
FINANCING ACTIVITIES:			
Borrowing during the year	31	35,000,000	-
Interest on loan repaid		(1,578,366)	(525,837)
Repayment of loan obligations	31	(9,462,946)	(1,399,682)
Net cash flows from financing activities		**23,958,698**	**(1,925,519)**
Net increase/(decrease) in cash and cash equivalents		**21,990,358**	**(4,394,621)**
Cash and cash equivalents at 1 January		49,377,016	54,311,637
Cash and cash equivalents at 31 December	**24**	**71,367,374**	**49,377,016**

1. Accounting policies

1.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. The financial statements are presented in Kenya Shillings (KShs) except when otherwise indicated. The financial statements provide comparative information in respect of the previous period.

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and in compliance with Kenyan Companies Act.

(b) Presentation of financial statements

The Company presents its statement of financial statements in line with IAS 1 Presentation of Financial Statements. An analysis on liquidity regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non current) is presented in Note 40.

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2013

- **IFRS 7, Amendments-Disclosure: offsetting financial assets and financial liabilities**

Amendment the disclosure requirements in IFRS 7 Financial Instruments: Disclosure to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation.

The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The application of the amendment had no effect on the Company's financial statements as the Company did not offset any such financial assets and liabilities during the year.

- **IFRS 10, Consolidated Financial Statements**

IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the returns.

1. Accounting policies (continued)

The application of the standard had no effect on the Company's financial statements as the Company had no such relationship with other entities as stipulated by the standard.

- **IFRS 11, Joint Arrangements**

IFRS 11 replaces IAS 31 'Interests in Joint Ventures'. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly);
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 'Investments in Associates and Joint Ventures (2012)'. Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted.

The application of the standard had no effect on the Company's financial statements as the Company had no such arrangements as stipulated by the standard.

- **IFRS 12, Disclosure of Interests in Other Entities**

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined;
- Interests in subsidiaries - including details of the structure of the Company, risks associated with structured entities, changes in control, and so on;
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information); and
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

The application of the standard had no effect on the Company's financial statements as the Company had no such relationships with other entities as stipulated by the standard.

- **IFRS 13, Fair Value Measurements**

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The

1. Accounting policies (continued)

IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).
With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

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

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The application of the standard had no effect on the Company's financial statements except for the requirement to have more extensive disclosures in the financial statements.

- **IAS 19 (as revised in 2012) - Employee Benefits**

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.
The application of the amendment had no effect on the Company's financial statements as the Company does not operate a defined benefit plan.

- **IAS 27, Separate Financial Statements (as revised in 2011)**

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.
The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments. The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

1. Accounting policies (continued)

The application of the amendment had no effect on the Company's financial statements as the Company does not have investments in subsidiaries, associates or jointly controlled entities.

- **IAS 28, Investments in Associates and Joint Ventures (as revised in 2011)**

This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

The application of the amendment had no effect on the Company's financial statements as the Company does not have investments in associates or joint ventures.

- **IFRIC 20, Stripping Costs in the Production Phase of A Surface Mine**

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the Interpretation, the costs from this waste removal activity (stripping) which provide improved access to ore is recognised as a non-current asset (stripping activity asset) when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.
IFRIC 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply IFRIC 20 for the first time. However, IFRIC 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented.
The application of the IFRIC had no effect on the Company's financial statements as the Company does not engage in mining activities.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

These amend IAS 1, Presentation of Financial Statements, to revise the way other comprehensive income is presented.
The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and Other comprehensive Income (OCI) to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement.
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified.
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The application of the amendment had no effect on the Company's financial statements other than presentation of financial statements.

1. Accounting policies (continued)

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2013
IAS 32, Financial Instruments: Offsetting financial assets and financial liabilities, effective for annual periods beginning on or after 1 January 2014;
IFRS 9, Financial Instruments (as revised in 2010), effective for annual periods beginning on or after 1 January 2015;

Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date of IFRS 9 and Transition Disclosures, effective for annual periods beginning on or after 1 January 2015.

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods

- **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:
- the meaning of "currently has a legally enforceable right of set-off";
- the application of simultaneous realisation and settlement;
- the offsetting of collateral amounts; and
- the unit of account for applying the offsetting requirements.

The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014. The directors anticipate that the application of this amendment may result in more disclosures being made with regard to offsetting of financial assets and financial liabilities in the future. The Company will apply the amendments prospectively.

- **IFRS 9, Financial Instruments**

IFRS 9 Financial Instruments issued in November 2010 and amended in October 2010 and December 2011 introduces new requirements for the classification and measurement of financial assets.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement 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 values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 recognized 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. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

1. Accounting policies (continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

(iv) Early adoption of standards

The Company did not early-adopt new or amended standards in 2013.

1.2 Summary of Significant Accounting Policies

(a) Significant accounting judgments, estimates and assumptions

In the process of applying the Company's accounting policies, management has exercised its judgment and made estimates in determining the amounts recognized in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. The most significant uses of judgment and estimates are as follows:

- **Actuarial value of policy liabilities**

Critical assumptions are made by the actuary in determining the present value of actuarial liabilities. These assumptions are set out in note 4 (risk management).

- **Property and equipment**

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in accounting policy (f).

- **Going concern**

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue as a going concern. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

- **Impairment losses on policy loans receivables**

The Company reviews its policy loans receivables at each reporting date to assess whether an allowance for impairment should be recognised in profit or loss. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and may result to future changes in impairment charge.

- **Fair value of financial instruments**

Where the fair values of the financial assets and liabilities 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 recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

1. Accounting policies (continued)

- **Income taxes**

The Company is subject to income taxes under the Kenya Income Tax Act. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and the deferred tax provisions in the period in which such determination is made.

Critical judgements in applying the entity's accounting policies
In the process of applying the Company's accounting policies, management has made judgments in determining:

- The classification of financial assets
- Whether assets are impaired.
- Whether land and buildings meet the criteria to be classified as investment property.

(b) Underwriting results

(i) The outstanding claims represent claims arising from incidents occurring prior to the reporting date but not settled at the time the records for the year are closed. The short term business is on run off.

(ii) Results of the Company's share of the two Kenya Motor Insurance Pools are accounted for in the revenue accounts in accordance with the Pool's accounting year which runs from October to September of the following year. As a result, the Pool's results for the year have been accounted for on an estimated basis.

(iii) Premium income on medical business is recognised on assumption of risks, and includes estimates of premiums due but not yet received less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the reporting date that relates to the unexpired terms of policies in force at the reporting date, and is computed using the 1/24ths method.

(iv) Reinsurance

The Company 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 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 Company 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 Company will receive from the reinsurer.

The impairment loss is recorded in the profit or loss.
Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums

1. Accounting policies (continued)

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.

(v) Product classification - Insurance contracts are those contracts when the Company (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 Company 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.

(vi) Investment contracts - These are those contracts that transfer significant financial risk and no significant insurance 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.

(vii) Deferred acquisition costs (DAC) - Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts and/or investment contracts with DPF, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DAC for life insurance and investment contracts with DPF are amortised over the expected life of the contracts as a constant percentage of expected premiums. DAC for general insurance and health products are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

1. Accounting policies (continued)

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. DAC are also considered in the liability adequacy test for each reporting period. DAC are derecognised when the related contracts are either settled or disposed of.

(viii) 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 income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets.

(ix) 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 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 premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company.

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

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

Non-life insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is 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 a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. 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 obligation to pay a claim expires, is discharged or is cancelled. The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

1. Accounting policies (continued)

(x) 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.

Derecognition insurance payables

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

(xi) Deferred revenue

Initial and other front-end fees received for rendering future investment management services relating to investment contracts without DPF, are deferred and recognised as revenue when the related services are rendered.

(xii) Benefits, claims and expenses recognition

Gross benefits and claims

Gross benefits and claims for life insurance contracts and for investment contracts with DPF 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 and policyholder bonuses declared on DPF contracts. Changes in the gross valuation of insurance and investment contract liabilities with DPF are also included. 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.

Reinsurance claims

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

(xiii) Income recognition

Premium income on life and medical policies relates to business incepted during the year, and includes estimates of premiums due but not yet received, less an allowance for estimated lapses.

Group life premiums are accounted for when receivable and collection is reasonably assured.

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

Investment income - Interest income is recognised in the 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.

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

1. Accounting policies (continued)

Fees and commission income - Insurance and investment 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. If the fees are for services provided in future periods then they are deferred and recognised over those future periods.

(xiv) Benefits and Claims incurred

Claims incurred comprise all claims occurring during the year, whether reported or not and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date.

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.

(xv) Actuarial valuation

The Company determines its liabilities on long term insurance contracts using the Net Premium Valuation ('NPV') method. This method was considered to be appropriate because it arrives at prudent and conservative actuarial liabilities at the valuation date. In addition, the actuarial reserves arrived at using this method and the assumptions used will be no less than those arrived at using the minimum valuation basis set out in Insurance Act, 1997. The NPV method makes explicit assumptions in respect of expected future deaths and investment returns. The method makes implicit assumptions regarding expected experience in respect of lapses, expenses, bonuses and a margin for uncertainty on these assumptions.

The latest actuarial valuation of the Company's life fund was undertaken as at 31 December 2013 by the consulting actuary. Surpluses arising are allocated by the directors on the advice of the actuaries and in accordance with the Articles of Association, to policyholders' bonuses and the statement of comprehensive income. Any balance remaining is carried forward in the Statutory Fund.

(c) Expenses and commissions

Expenses are recognised in the 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. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

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 profit or losson 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 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.

1. Accounting policies (continued)

(d) Deposit administration contracts

The Company administers the funds of its staff retirement benefit scheme and pension on annuity for individual members. The liability of the Company to the Scheme and pension on annuity are included in the statement of financial position.

(e) Property, equipment and depreciation

All categories of property and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets.

These are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Day-to-day repairs and maintenance expenses are charged to the profit or lossin the year in which they are incurred.

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

Motor vehicles	20%
Computers and office equipment	20%
Furniture, fixtures and fittings	12½%

The assets residual values useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively as appropriate at each financial year end.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the profit or loss as an expense.

An item of property and equipment is derecognised upon disposal or where no future economic benefits are expected from its use or disposed. Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

(f) Intangible assets

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

Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, even when idle. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

1. Accounting policies (continued)

An intangible asset shall be 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 profit or loss when the asset is derecognised.

(g) Investment property

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. Investment property is initially recognised at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the reporting date determined by annual valuations carried out by external registered valuers/directors. Gains or losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate.

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 costs of day-to-day servicing of an investment property.

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 not subject to depreciation. Changes in their carrying amount between reporting dates are recorded in profit or loss.

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

(h) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company 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.

Where the carrying amount of an asset or 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, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

1. Accounting policies (continued)

For assets excluding goodwill, 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 Company 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 amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually at 31 December, either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

(i) Investments and other financial assets

The Company classifies its investments into financial assets at fair value through profit or loss, loans and receivables and held-to-maturity financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

(i) Financial assets at fair value through profit and 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. This category includes derivative financial instruments entered into by the company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

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.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses'. Interest is accrued and presented in 'Investment income' or 'Finance cost', respectively, using the effective interest rate (EIR).

The Company evaluates its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

1. Accounting policies (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through income or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and 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 EIR method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'finance income' in the profit or loss. Gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that the Company's management has the positive intention and ability to hold to maturity.

After initial measurement, held to maturity financial assets are measured at amortised cost, using the EIR, less impairment. The EIR amortisation is included in 'investment income' in the profit or loss. Gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(j) Unit linked investment contracts

These are contracts designated as financial liabilities at fair value through profit and loss. The benefits offered under these contracts are based on the return on a portfolio of equities and debt securities managed by professional investment managers. The maturity value of the financial liabilities is determined by the fair value of the linked assets. Changes in fair value are recorded in fair value gains and losses, there will be no difference between the carrying amount and the maturity amount at maturity date. Fees charged and investment income received is recognised in the profit or loss when earned.

These liabilities are derecognised when the related contracts are settled or paid.

(k) Trade and other receivables

Trade receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, trade receivables are measured at amortised cost, using the effective interest rate method. The carrying value of the 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 income statement.

Bad debts are written off in the year in which they are identified as irrecoverable.

(l) Fair value of financial instruments

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

(m) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

1. Accounting policies (continued)

If there is objective evidence that an impairment loss on asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is written down through use of an allowance account. The amount of the loss is recognised through the statement of comprehensive income.

When there is a decline in the fair value of an available-for-sale financial asset whose fair value gains and losses have been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the statement of comprehensive income even though the financial asset has not been derecognised.

Impairment losses recognised in the statement of comprehensive income for an investment in an equity instrument classified as available for sale are not reversed.

(n) Derecognition of financial assets

Financial assets (or a portion thereof) are de-recognised when the Company's rights to the cash flows expire or when the Company transfers substantially all the risks and rewards related to the financial asset or when the Company loses control of the financial asset. On de- recognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the statement of comprehensive income.

(o) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is 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 expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expires. On de-recognition, the difference between the carrying amount of the financial liability, including related un-amortised costs and amounts paid for it, are included in the statement of comprehensive income. Financial liabilities – initial recognition and subsequent measurement.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, minus directly attributable transaction costs. The Company's financial liabilities include investment contracts without DPF, net asset value attributable to unit holders, trade and other payables, borrowings, and insurance payables.

Subsequent measurement
The subsequent measurement of financial liabilities depends on their classification, as follows:
Financial liabilities at fair value through profit or loss

1. Accounting policies (continued)

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Company has also designated investment contracts with DPF and net asset value attributable to unit-holders as financial liabilities at fair value through profit or loss upon initial recognition. Gains or losses on designated or held for trading liabilities are recognised in fair value gains and losses in the income statement.

Interest bearing loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

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 income statement.

(p) Deferred commissions

A proportion of commissions' payable in medical business is deferred and amortised over the period in which the related premium is earned.

(q) 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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(r) Accounts payables

Accounts payable are non interest bearing financial liabilities and are carried at amortised cost using effective interest rate (EIR) method, which is measured at the fair or contractual value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed to the Company or not, less any payments made to the suppliers.

(s) Retirement benefit obligations

(i) Defined contribution plan

The Company operates a defined contribution retirement benefit scheme for qualifying employees. The retirement plan is

1. Accounting policies (continued)

funded by payments from both employees and the Company.

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 profit and loss in the year to which they relate.

(ii) Other entitlements

The employees were previously entitled to gratuity and long service awards which were recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

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 reporting date.

(t) Share capital

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

(u) Statutory fund

The statutory reserve represents accumulated life fund inclusive of surpluses whose distribution is subject to restrictions imposed by the Insurance Act. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% actuarially determined valuation surpluses of the life business.

Movements in the statutory reserve are shown in the statement of changes in equity on page 8.

(v) Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

(w) Taxation

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

Current Income tax

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income tax

Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the reporting date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

1. Accounting policies (continued)

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit/loss.

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

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 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.

(x) Provisions

Provisions are recognised when the Company 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. Where the Company 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 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.

(y) Events after the 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.

(t) Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

2. Premium income

	2013 KShs	2012 KShs
(a) Gross earned premiums		
Ordinary life	505,241,143	482,102,291
Group life	460,328,007	414,210,285
Medical	-	27,316,271
Gross written premiums	965,569,150	923,628,847
Change in unearned premiums provision	2,528,844	120,335,350
	968,097,994	1,043,964,197
(b) Premiums ceded to reinsurers		
Ordinary life	(794,933)	(279,698)
Group life	(84,838,395)	(113,508,425)
Medical	-	13,388,569
Reinsurer share of change in unearned premiums provision	-	(8,423,474)
	(85,633,328)	(108,823,028)
Net earned premiums	882,464,666	935,141,169

The unearned premium reserve shown above relates to medical business.

3. Investment income

	2013 KShs	2012 KShs
(a) Gross earned premiums		
Interest on policy loans	13,431,976	10,785,502
Policy processing fee	13,628,734	10,096,750
Interest on treasury bills and bonds	16,888,042	18,736,350
Interest on fixed deposits	9,082,971	14,250,659
(Loss)/gain on revaluation of quoted shares	(1,333,648)	397,931
Gain on revaluation of unit linked products	1,530,571	1,455,506
Realized gain on quoted investments	6,817,752	6,741,761
Investment expenses	(1,074,139)	(531,195)
Rental income from investment property	8,152,115	6,753,992
Investment property expenses	(2,947,408)	(2,895,667)
Other investment income	3,568,616	1,425,065
Gain on revaluation of investment property	-	45,000,000
	67,745,582	112,216,654

4. Commission income

	2013 KShs	2012 KShs
Group life	9,046,442	12,346,966
Ordinary life	79,542	59,573
	9,125,984	12,406,539

The Company earns commissions from its reinsurers, on agreed percentage basis, for business ceded to them.

5. Other income

	2013 KShs	2012 KShs
Share of income – Kenya Motor Pool	3,807,805	2,084,312

6. Claims and policyholders benefits expense

	2013 KShs	2012 KShs
Death	290,824,403	223,592,587
Maturities	238,537,503	179,698,356
Surrenders	12,240,177	4,442,134
Personal accident	157,483	141,316
Withdrawals	7,105,576	2,534,440
Medical	11,420,295	199,502,003
Change in actuarial value of policyholders' liabilities	72,955,846	71,794,982
Interest declared on investment products	4,373,618	3,433,709
Gross claims and policyholders' benefits payable	637,614,901	685,139,527
Recoverable under reinsurance contracts	(9,362,976)	(35,432,523)
Net claims and policyholders' benefits payable	628,251,925	649,707,004

7. Operating and other expenses

	2013 KShs	2012 KShs
Administration and operating expenses	153,566,427	142,725,271
Selling and distribution expenses	17,307,450	28,360,527
Finance costs	4,042,704	2,732,630
Bad debts provision and charges	12,061	29,963,013
Depreciation	4,339,062	4,144,772
Amortization	1,655,191	746,161
	180,922,895	208,672,374

8. Commission expense

	2013 KShs	2012 KShs
Ordinary life	93,457,752	114,409,178
Group life	31,950,270	28,349,329
Medical cover	-	5,856,034
Micro insurance	-	13,806,723
	125,408,022	162,421,264

9. Staff costs

	2013 KShs	2012 KShs
Staff costs include the following:		
- Salaries and wages	72,212,929	67,058,872
- National social security benefit costs	101,900	160,400
- Retirement benefit costs	3,491,262	2,975,521
- Others	20,410,231	14,411,560
	96,216,322	84,606,353

10. Taxation

	2013 KShs	2012 KShs
(a) Statement of comprehensive income		
(i) Current year tax charge	10,500,000	9,455,892
(ii) Reconciliation of taxation expense to tax based on accounting profit:-		
Accounting profit before tax	28,561,195	41,048,032
Tax applicable rate of 30% (2012 - 30%)	8,568,358	12,314,410
Tax effect on items not deducted/(allowable) for tax	1,931,642	(2,858,518)
	10,500,000	9,455,892
(b) Statement of financial position		
Tax (recoverable)/payable		
As at 1 January	(586,303)	2,072,205
Charge for the year	10,500,000	9,455,892
Paid during the year	(10,401,483)	(12,114,400)
As at 31 December	(487,786)	(586,303)

11. Earnings per share

	2013 KShs	2012 KShs
Total number of shares in issue during the year	1,500,000	1,500,000
Profit after tax	18,061,195	31,592,140
Basic and diluted earnings per share	12.04	21.06

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

12. Property and equipment

(I) year ended 31 december 2013

	Motor vehicles KShs	Fittings and equipment KShs	Computer equipment KShs	Total KShs
COST				
As at 1 January 2013	5,743,285	16,626,784	18,479,276	40,849,345
Additions	-	2,803,153	1,811,036	4,614,189
Disposals	-	(288,973)	(85,000)	(373,973)
As at 31 December 2013	5,743,285	19,140,964	20,205,312	45,089,561
DEPRECIATION				
As at 1 January 2013	2,944,055	10,517,244	13,641,237	27,102,534
Charge for the year	1,049,710	1,460,259	1,829,093	4,339,062
Elimination on disposal	-	(288,973)	(85,000)	(373,973)
As at 31 December 2013	3,993,765	11,688,530	15,385,330	31,067,622
NET CARRYING AMOUNT				
As at 31 December 2013	1,749,520	7,452,434	4,819,982	14,021,936

12. Property and equipment (continued)

(Ii) year ended 31 december 2012

	Motor vehicles KShs	Fittings and equipment KShs	Computer equipment KShs	Total KShs
COST				
As at 1 January 2012	5,743,285	15,879,804	16,362,059	37,985,148
Additions	-	752,980	2,135,217	2,888,197
Disposals	-	(6,000)	(18,000)	(24,000)
As at 31 December 2012	5,743,285	16,626,784	18,479,276	40,849,345
DEPRECIATION				
As at 1 January 2012	1,894,345	9,192,806	11,894,613	22,981,764
Charge for the year	1,049,710	1,330,438	1,764,624	4,144,772
Eliminated on disposal	-	(6,000)	(18,000)	(24,000)
As at 31 December 2012	2,944,055	10,517,244	13,641,237	27,102,536
NET CARRYING AMOUNT				
As at 31 December 2012	2,799,230	6,109,540	4,838,039	13,746,809

13. Intangible assets

	2013 KShs	2012 KShs
COST		
As at 1 January	11,150,089	10,582,089
Additions	9,760,395	568,000
As at 31 December	20,910,484	11,150,089
AMORTIZATION		
As at 1 January	8,981,470	8,235,309
Charge for the year	1,655,191	746,161
As at 31 December	10,636,661	8,981,470
NET CARRYING AMOUNT		
As at 31 December	10,273,823	2,168,619

This relates to computer software. Included in the cost of intangible assets above is an amount of KShs 7,860,619 (2012: KShs 7,255,159) fully amortized assets.

14. Investment property

	2013 KShs	2012 KShs
As at 1 January	436,703,000	391,600,000
Additions	-	103,000
Gain on revaluation	-	45,000,000
As at 31 December	436,703,000	436,703,000

Investment property are stated at fair value, which has been determined based on valuations performed by Gimco Limited and Nnamdi & Maende Associates, registered and independent valuers as at 31 December 2012 on the basis of open market value. The directors are of the opinion the market values did not materially change during the year. The Company has entered into operating leases for its investment property. The rental income arising during the year and the expenses arising in respect of such property during the year are disclosed in Note 3.

15. Financial assets at fair value through profit or loss

	2013 KShs	2012 KShs
(a) Quoted investment		
As at 1 January	5,844,465	10,264,377
Purchases	55,247,108	20,871,754
Disposals	(53,336,666)	(28,739,450)
Fair value gain	4,409,965	3,447,784
As at 31 December	12,164,872	5,844,465

These relate to investment in quoted equities traded at the Nairobi Securities Exchange.

(b) Investments with fund managers

	2013 KShs	2012 KShs
As at 1 January	28,818,799	19,035,221
Subscriptions for the year	6,683,248	6,096,538
Withdrawals	(82,907)	(1,460,374)
Fair value gain	1,530,571	5,147,414
As at 31 December	36,949,711	28,818,799
Total financial assets at fair value through profit or loss	49,114,583	34,663,264

The fund managers invest the fund in unit trusts which are valued at fair value on as at 31 December.

16. Policy loans' receivables

	2013 KShs	2012 KShs
(a) Gross policy loans' receivables		
As at 1 January	122,216,770	109,698,449
Loans advanced	22,617,227	20,244,578
Loan repayments	(4,688,746)	(7,726,257)
	140,145,251	122,216,770
Less: Provision for impairment losses (Note 16(b))	(23,715,596)	(23,836,310)
As at 31 December	116,429,655	98,380,460
(b) Impairment loss		
As at 1 January	23,836,310	7,289,269
(Reversal)/impairment loss for the year	(120,714)	16,547,041
As at 31 December	23,715,596	23,836,310
(c) Maturity of gross loans and advances to customers		
Maturing:		
Within one year	17,991,823	15,690,168
One year to two years	15,728,964	13,716,792
Three years to five years	106,424,463	92,809,810
	140,145,251	122,216,770

The weighted average effective interest rate on policy loans was 14% (2012: 14%). The collateral for the policy loans is the cash surrender value of the underlying policy. In case of default the loan is written off against the cash surrender value. Impairment loss has been assessed on policy loans that are no longer being repaid by the policy holders. The impaired amount is the balance in excess of the security that the company holds.

17. Government securities held to maturity

	2013 KShs	2012 KShs
Treasury bills and bonds:		
Maturing within 91 days	52,809,169	104,847,523
Maturing after 91 days but less than one year	40,255,750	5,915,749
Maturing after one year	61,096,478	62,775,343
	154,161,397	173,538,615

The weighted average effective interest rate on Government securities was 10.24% (2012: 13.21%).
The movement of government securities during the year is as shown below:

	2013 KShs	2012 KShs
As at 1 January	176,500,000	171,500,000
Purchases	292,500,000	125,000,000
Maturity	(311,000,000)	(120,000,000)
As at 31 December	158,000,000	176,500,000
Unearned interest	(2,399,985)	(1,652,477)
Unamortized interest on bonds	(1,438,618)	(1,308,908)
As at 31 December	154,161,397	173,538,615

18. Reinsurance arrangements receivables

	2013 KShs	2012 KShs
General business (run off)	10,651,722	6,843,917
Claims recoverable under reinsurance arrangements:-		
Life business	-	27,536,798
Medical business	867,688	867,688
	11,519,410	35,248,403

These are receivables arising from reinsurance policy that provides an insurer with coverage for specific individual risks that are unusual or so large that they are not covered in the insurance entity's reinsurance treaties.

19. Direct insurance arrangements receivables

	2013 KShs	2012 KShs
Check off schemes	112,326,138	22,260,605
Direct clients – life	77,488,052	57,584,409
Corporate clients – Medical	9,520,449	12,330,902
	199,334,639	92,175,916

The amounts receivable do not carry interest and are due within period ranging from 30 days to 180 days except for amounts due from corporate clients medical which has been due by more than 365 days.

20. Reinsurance share of insurance liabilities

	2013 KShs	2012 KShs
As at 1 January	210,492	8,633,967
Reserve released during the year	(210,492)	(8,423,475)
As at 31 December	-	210,492

This relates to the reinsurers portion of the Unearned Premium Reserve in Note 34.

21. Deferred commissions

	2013 KShs	2012 KShs
As at 1 January	267,696	26,051,610
Movement during the year	(267,696)	(25,783,914)
As at 31 December	-	267,696

This relates to the reinsurers portion of the Unearned Premium Reserve in Note 34.

21. Deferred commissions (continued)

	2013 KShs	2012 KShs
Interest receivable	4,658,086	6,251,064
Agents loans and advances	49,022,016	39,989,760
Allowance for impairment losses (Note 22(a))	(11,912,173)	(11,912,173)
Staff loans and advances	14,928,146	10,392,536
Deposits	8,793,565	7,137,608
Prepayments	413,296	215,357
Rent receivable	5,319,445	473,988
Guarantees and performance bonds	160,000	160,000
Other sundry debtors	1,451,648	4,421,148
	72,834,029	57,129,288

(a) Allowance for impairment losses movement

	2013 KShs	2012 KShs
As at 1 January	(11,912,173)	(12,311,611)
Recoveries during the year	-	399,438
As at 31 December	(11,912,173)	(11,912,173)

23. Deposits with financial institutions

	2013 KShs	2012 KShs
Commercial Bank of Africa Limited	2,312,906	2,312,906
Habib Bank Limited	5,000,000	6,000,000
Bank of Africa Limited	52,169,069	17,914,746
NIC Bank Limited	2,929,016	13,855,510
Chase Bank Limited	25,508,427	-
Jamii Bora Bank Limited	5,000,000	-
	92,919,418	40,083,162
Maturing:		
Within 91 days	59,098,085	36,770,256
Maturing after 91 days but less than one year	33,821,333	3,312,906
	92,919,418	40,083,162

These relate to investments in fixed and call deposits. The weighted average effective interest rate on deposits with financial institutions was 9.54% (2012: 14.78%).

24. Cash and bank balances

	2013 KShs	2012 KShs
Cash and bank balances	12,269,289	12,606,760

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following items in the statement of financial position:

	2013 KShs	2012 KShs
Cash and bank balances	12,269,289	12,606,760
Deposits with financial institutions maturing within 91 days5	9,098,085	36,770,256
	71,367,374	49,377,016

25. Share capital

(a) Authorized, issued and fully paid:	2013 KShs	2012 KShs
1,500,000 (2012: 1,500,000) shares of KShs 100 each	150,000,000	150,000,000

The weighted average number of shares in issue during the year was 1,500,000.

26. Statutory fund

The statutory fund represents a reserve maintained within the long term insurance business and represents unallocated surpluses from previous actuarial valuations as required by section 46(5) of the Insurance Act. Transfers from this fund are made upon recommendation of the actuary.

	2013 KShs	2012 KShs
As at 1 January	67,942,033	70,426,587
Transfer from/(to) insurance contracts liabilities	28,590,412	(2,484,554)
As at 31 December	96,532,445	67,942,033

27. Insurance contract liabilities

	2013 KShs	2012 KShs
As at 1 January	420,522,166	346,242,630
Transfer (to)/from statutory fund	(28,590,412)	2,484,554
Change in actuarial value of policyholders liabilities	72,955,846	71,794,982
Life fund as at 31 December	464,887,600	420,522,166

An actuarial valuation of the long term insurance business fund was carried out by the Company's consulting actuary as at 31 December 2013. The actuarial valuation revealed an actuarial surplus of KShs 148,506,732 (2012: KShs 114,299,282). The actuary recommended a transfer to statement of comprehensive income amounting to KShs 35,000,000 (2012: KShs 31,519,641). The surplus not appropriated by the actuary at the end of the financial year increased by KShs 28,590,412 (2012: reduced by KShs 2,484,554).

28. Payables under deposit administration contracts

	2013 KShs	2012 KShs
As at 1 January	25,276,014	18,269,694
Deposits received during the year	6,683,248	6,096,538
Benefits paid	(121,640)	(1,476,222)
Deposit administration expenses	(273,416)	(145,415)
Interest declared	3,155,508	2,531,419
As at 31 December	34,719,714	25,276,014

Deposit administration contracts are recorded at amortised cost. The liabilities are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the client accounts at a weighted average rate of 10% for the year (2012: 13%). Members' contributions accrue interest from receipt date and cease accruing interest upon withdrawal. Interest is credited as per the received returns less administration expenses subject to the minimum guaranteed rate of return.

29. Unit linked payables

	2013 KShs	2012 KShs
As at 1 January	15,186,512	56,852,662
Received during the year	44,030,820	34,851,387
Withdrawals during the year	(33,837,617)	(77,380,342)
Interest declared	1,218,110	862,805
As at 31 December	26,597,825	15,186,512

This relates to the investment allocation portion of the Super Investor Plan. Interest was declared and credited to the client accounts at a weighted average rate of 5% for the year (2012: 5%).

30. Outstanding claims

	2013 KShs	2012 KShs
Ordinary life	71,684,423	69,563,538
Group life	54,064,817	13,761,091
Medical	3,204,347	18,231,773
General business (run off)	6,251,250	6,251,250
Outstanding	135,204,837	107,807,652
Provision for Incurred But Not Reported	29,947,167	29,956,610
Total outstanding claims	165,152,004	137,764,262
Movement in outstanding claims:-		
As at 1 January	137,764,262	104,694,782
Claims intimated during the year	566,326,157	611,593,699
Claims paid during the year	(538,938,415)	(578,524,219)
As at 31 December	165,152,004	137,764,262

The balance at year end represents intimated amounts remaining unsettled as at year end. The amounts payable do not carry interest and are due within period ranging from 30 days to 180 days.

31. Term loan

	2013 KShs	2012 KShs
As at 1 January	1,173,123	2,572,805
Loans advanced	35,000,000	-
Repayment during the year	(9,462,946)	(1,399,682)
As at 31 December	26,710,177	1,173,123

The term loan was obtained from Chase Bank Limited. The amount borrowed was KShs 35 million working capital support to run off medical business. The loan is repayable within 12 months with effect from July 2013 and will be fully repaid by August 2014 at an interest rate of 8% p.a. (Deposit rate plus a spread of 4%).
The loan facility is secured by a 50% cash cover on existing deposit at Chase Bank Limited.

32. Payables under reinsurance contracts

	2013 KShs	2012 KShs
Life	34,354,213	15,835,440
Motor Pool	29,467	33,929
	34,383,680	15,869,369

The balance at year end represents premiums owed to reinsurers with respect to business in excess of the Company's retention limits at year end.

33. Other payables

	2013 KShs	2012 KShs
Commission payable	4,336,686	3,467,999
Commission on dormant agents	8,855,185	11,996,806
Agents bonds	4,573,100	4,272,600
Accrued expenses	6,125,801	6,659,070
Provision for gratuity (Note 33 (a))	8,002,136	8,177,640
Provision for accrued leave (Note 33 (a))	7,063,912	4,739,737
Other sundry creditors	2,192,608	9,579,526
	41,149,428	48,893,378

The carrying amounts disclosed above reasonably approximate fair value at statement of financial position date due to their short-term nature. The amounts payable do not carry interest and are due within period ranging from 30 days to 180 days.

(a) Movement during the year:-	Gratuity KShs	Accrued leave KShs	Total KShs
Year ended 31 December 2013			
As at 1 January 2013	8,177,640	4,739,737	12,917,377
Additional provisions	-	2,324,175	2,324,175
Paid during the year	(175,504)	-	(175,504)
As at 31 December 2013	8,002,136	7,063,912	15,066,048
Year ended 31 December 2012			
As at 1 January 2012	8,177,640	3,768,164	11,945,804
Additional provisions	-	971,573	971,573
As at 31 December 2012	8,177,640	4,739,737	12,917,377

34. Unearned premium reserve

	2013 KShs	2012 KShs
As at 1 January	3,007,032	123,342,382
Release of reserves	(3,007,032)	(120,335,350)
As at 31 December	-	3,007,032

This provision represents the liability for medical and health business contracts where the Company's obligations are not expired as at the year end. Movement in the provision is as shown above.
The reserve account do not have amount as at 31 December 2013 since the Company ceased offering medical and health business contracts which was known as Medlife.

35. Related party transactions

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

Details of related party balances and transactions are as follows.

	2013 KShs	2012 KShs
(a) Amounts due from related parties		
Key management staff personnel loans	8,998,983	9,649,895
Softline Limited	5,319,445	473,988

The Company held no deposits from directors or companies associated with directors (2012: nil).

(b) Key management personnel compensation

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

	2013 KShs	2012 KShs
Salaries and other short-term employment benefits	28,232,064	33,934,025
Post-employment benefits	1,426,003	1,564,850
	29,658,067	35,498,875
(c) Directors' remuneration		
Fees for services as directors	3,307,137	3,721,426
Other emoluments	11,894,764	10,400,000
	15,201,901	14,121,426

36. Capital commitments

	2013 KShs	2012 KShs
(a) Authorized and contracted for	4,000,000	13,000,000
(b) Authorized and not contracted for	17,845,845	11,675,820

Capital commitments include KShs 7.8 million which will be spent to acquire computers and office equipment and KShs 10 million will be spent on partitioning of offices and purchasing of furniture.

37. Operating lease arrangements

The Company as a lessee

Rental expense incurred during the year was KShs 20,927,124 (2012: KShs 19,758,005).
As at 31 December 2013, the Company had contracted with its landlords for the following future rental lease payables:

	2013 KShs	2012 KShs
Within one year	12,749,185	8,304,000
In the second to fifth year inclusive	36,648,815	35,748,720
	49,398,000	44,052,720

Leases are negotiated for an average term of five years.

38. Assets pledged as securities

As at 31 December 2013, there were no assets pledged by the Company to secure liabilities and there were no secured Company liabilities (2012: nil).

39. Contingencies

(a) Litigation against the Company

(i) The company is involved in arbitration with Kenyatta University, a former client to recover unpaid premiums of KShs 8.9 million. Recoverability of the full amount is dependent on the ruling of the arbitrator who was appointed by the chairman law society of Kenya. As per the contract the verdict of the arbitrator is final and binding on both parties. This matter has not been finalized, the final were hearings in 2013. The advocate expects to conclude the matter in 2014.

(ii) Due to the nature of the business the Company is involved in some litigation which have been fully provided for in the financial statements, the provision for such litigation is included in the claims and policy owner benefits payable.

40. Financial risk management objectives and policies

The principal risk that the Company faces under insurance contracts is that the actual claims and benefits 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 Company is to ensure that sufficient reserves are available to cover these liabilities. The above risk exposure is mitigated by diversification across a large portfolio of insurance products. 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 main risks the Company 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;

40. Financial risk management objectives and policies (continued)

- Investment return risk-risk of loss arising from actual returns being different than expected;
- Expense risk - risk of loss arising from actual expenses being different than expected; and
- Policyholder decision risk-risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The key assumptions for non life (medical business) includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in future, for example one off changes in market factor such as public attitude to claiming, economic conditions as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.
The key assumptions for life business to which the estimation of liabilities is particularly sensitive are summarised below. The same assumptions were used in 2012.

(a) Mortality and morbidity rates

The Company uses the KE2001-2003 ultimate table of assured lives as a base table of standard mortality rates. 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 mortality. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and business 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.

(b) Investment returns

The actuarial valuation as at 31 December 2013 used a discount rate of 4% p.a. compounded for individual long term insurance contracts. The same rate was used for the valuation as at 31 December 2012. The weighted average rate of return earned by the assets backing the life fund in 2013 was 13.88% (2012: 10.95% p.a.) and the average over the last valuation interest rate assumption allows for a significant margin over the actual rate earned hence strengthening the prudence in the valuation basis significantly. An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

(c) Expenses and expenses inflation

Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of management expenses is taken to be an appropriate expense base. The NPV method makes implicit assumptions on the level of expenses and expense inflation. As at 31 December 2013 the proportion of annual premiums reserved for future expenses was 32.1% p.a. (2012: 49.7% p.a.).This is significantly higher than the actual current level of management expenses being incurred in the life fund, again significantly strengthening the prudence in valuation basis.

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

(d) Sensitivity analysis

The analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant. Sensitivity information will also vary according to the current economic assumptions. The Net Premium Valuation (NPV) actuarial method used to value the actuarial liabilities of long term insurance business is not very 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. The Company underwrites long term insurance business contracts with fixed and guaranteed terms as set out in the individual policy contracts with its clients. For actuarial liabilities under these contracts the key actuarial assumptions (i.e. interest rate used for discounting, mortality, lapses, inflation etc) are unchanged for the duration of the contract. Accordingly given the actuarial method and basis used under the NPV sensitivity analysis will not produce any significant movements.

40. Financial risk management objectives and policies (continued)

The table below summarises the effect on the valuation of the life business, of possible changes in the key actuarial assumptions i.e. mortality and investment return assumptions.

	Base Value KShs '000	Investment Returns -1% KShs '000	Investment Returns +1% KShs '000	Mortality +10% KShs '000
Year ended 31 December 2013				
Ordinary Life Business	338,869	338,768	338,970	338,869
Superannuation Business	94,833	94,517	95,149	94,833
Total Policy Liability	433,702	433,285	434,119	433,702
Year ended 31 December 2012				
Ordinary Life Business	332,815	339,804	325,906	332,815
Superannuation Business	75,001	75,001	75,001	75,001
Total Policy Liability	407,816	414,805	400,907	407,816

(e) Insurance risk

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

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

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

By nature of the Company's business, the uncertainty about the amount and timing of claims payments is typically resolved within one year.

(f) Lapses and surrender rates

Lapses relate to termination of policies due to non-payment of premiums. Surrender rates relate to voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on Company's experience and vary by product type, policy and sales trends. An increase in lapse rates will increase the value of insurance liability and therefore reduce profits for the shareholders.

40. Financial risk management objectives and policies (continued)

(g) Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate 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 Company primarily faces due to the nature of its investments and liabilities are interest rate risk and currency fluctuation risk.

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Company's management monitors the sensitivity of reported interest rate movements on a quarterly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Company's overall exposure to interest rate sensitivities included in the Company's ALM framework and its impact in the Company's profit or loss by business.

Given the Company's asset and liability profiles a 5% increase or decrease in interest yields would not result in any significant additional profit or loss for the period to 31 December 2013.

	Change in variables	2013 Impact on profit before tax KShs	2012 Impact on profit before tax KShs
Increase in interest rate	5%	1,691,931	303,968
Decrease in interest rate	5%	(1,691,931)	(303,968)

The table below gives the concentration of interest risk:

	2013	2012
Interest from government securities	42%	43%
Interest from bank deposits	23%	33%
Interest from policy loans	33%	24%
Other interest income	2%	0%

40. Financial risk management objectives and policies (continued)

(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 Company's credit risk is primarily guided by the Insurance Act. The Company has an active finance and investments committee that guides the credit control function of the Company. The committee comprises board members and sits on a quarterly basis.

The Company's credit risk is primarily guided by the Insurance Act. The Company has an active finance and investments committee that guides the credit control function of the Company. The committee comprises board members and sits on a quarterly basis.

The table below provides information regarding the credit risk exposure of the Company at 31 December 2013.

	Neither past-due nor impaired KShs	Past due but not impaired KShs	Impaired KShs	Total Net amount KShs
Policy loans receivable	59,401,707	33,312,352	23,715,596	116,429,655
Reinsurance receivables	-	11,519,410	-	11,519,410
Direct insurance receivables	96,414,058	94,964,541	7,956,040	199,334,639
Other receivables	42,090,325	18,831,531	11,912,173	72,834, 029
Deposits with financial institutions	92,919,418	-	-	92,919,418
Bank and cash balances	12,269,289	-	-	12,269,289
	303,094,797	158,627,834	43,583,809	505,306,440

The table below provides information regarding the credit risk exposure of the Company at 31 December 2012.

	Neither past-due nor impaired KShs	Past due but not impaired KShs	Impaired KShs	Total Net amount KShs
Policy loans receivable	55,958,760	18,585,390	23,836,310	98,380,460
Reinsurance receivables	28,367,428	6,880,975	-	35,248,403
Direct insurance receivables	55,407,960	28,811,916	7,956,040	92,175,916
Other receivables	35,946,721	9,270,394	11,912,173	57,129,288
Deposits with financial institutions	40,083,162	-	-	40,083,162
Bank and cash balances	12,606,760	-	-	12,606,760
	228,370,791	63,548,675	43,704,523	335,623,989

The fair value of collateral on the loans amounted to KShs 121.7 million (2012: KShs. 123 million). No collateral is held for any of the above assets. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

Collateral is held for policy loans receivables. The Company records impairment allowance for policy loans receivables in a separate impairment allowance account.

40. Financial risk management objectives and policies (continued)

The movement in the allowance for impairment losses account for policy loan receivables is as follows:

	2013 KShs	2012 KShs
As at 1 January	23,836,310	7,289,269
Provision (reversal)/charge for the year	(120,714)	16,547,041
As at 31 December	23,715,596	23,836,310

(ii) Price risk

Equity 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 those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market and careful and planned use of financial instruments.
The Company has no significant concentration of price risk.

Changes in prices of equities will have the following impact in the statement of comprehensive income

	% change in base	2013 KShs	% change in base	2012 KShs
Equity investments at fair value through P&L (Quoted)	+/(-)5%	608,244	+/(-)5%	292,223
Investments with fund managers	+/(-)5%	1,735,986	+/(-)5%	1,382,823

(h) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

40. Financial risk management objectives and policies (continued)

The maturity profile of assets and liabilities as at 31 December 2013 is as shown below.

	Up to 3 months KShs	3-12 months KShs	1-5 years KShs	Over 5 years KShs	Total KShs
ASSETS					
Investments	142,034,001	85,161,397	116,429,655	529,998,759	873,623,812
Trade and other receivables	199,334,639	85,653,549	-	-	284,988,188
Cash and bank balances	12,269,289	-	-	-	12,269,289
Total financial assets	353,637,929	170,814,946	116,429,655	529,998,759	1,170,881,289
LIABILITIES					
Insurance contract liabilities	165,152,004	-	-	464,887,600	630,039,604
Payable under investment contracts	-	-	61,317,539	-	61,317,539
Payables under reinsurance arrangements	34,383,680	-	-	-	34,383,680
Other payables	-	52,793,558	15,066,048	-	67,859,606
Total financial liabilities	199,535,684	52,793,558	76,383,587	464,887,600	793,600,429

The maturity profile of assets and liabilities as at 31 December 2012 is as shown below.

	Up to 3 months KShs	3-12 months KShs	1-5 years KShs	Over 5 years KShs	Total KShs
ASSETS					
Investments	74,746,426	104,847,523	98,380,460	521,309,520	799,283,929
Trade and other receivables	92,175,916	93,442,182	-	-	185,618,098
Cash and bank balances	12,606,760	-	-	-	12,606,760
Total financial assets	179,529,102	198,289,705	98,380,460	521,309,520	997,508,787
LIABILITIES					
Insurance contract liabilities	137,764,262	3,007,032	-	420,522,166	561,293,460
Payable under investment contracts	-	-	40,462,527	-	40,462,527
Payables under reinsurance arrangements	15,869,369	-	-	-	15,869,369
Other payables	-	37,149,124	12,917,377	-	50,066,501
Total financial liabilities	153,633,631	40,156,156	53,379,904	420,522,166	667,691,857

40. Financial risk management objectives and policies (continued)

(i) Currency risk

The Company predominantly transacts in Kenya Shillings (KShs). The risk associated with transactions in other currency is considered nominal.

41. Capital management

The Company's key objective in management of capital is to ensure that it operates as a going concern. Capital management is not restricted to management of equity but includes management of working capital and compliance with regulatory and other legal requirements. The Company has throughout the year maintained adequate working capital.

The Company has complied with solvency requirements and security deposits as required by the Insurance Act. The table below illustrates compliance with margin of solvency requirements and lien deposit requirements:

	2013 KShs	2012 KShs
Solvency Margin Requirements:		
Required solvency margin	41,193,452	33,384,593
Available solvency Margin	117,345,235	199,959,604
Surplus on solvency margin	76,151,783	166,575,011
Solvency ratio	285%	599%
Security Deposit Requirements:		
Required security deposits	47,060,714	43,382,573
Available security deposits	55,000,000	55,000,000
Surplus in security deposits	7,939,286	11,617,427

The management of the Company's capital base requires a continuous review of optimal capital levels, including the use of alternative sources of funding, to maximise return on Company Embedded Value. The Company has an integrated capital and risk management approach. The amount of capital required by the various businesses is directly linked to their exposure to financial and operational risks. Risk management is accordingly an important component of effective capital management.
Processes for managing capital:

(a) Capital allocation methodology

Company businesses are each allocated an optimal level of capital and are measured against appropriate return hurdles.

The following methodology is used to determine the allocation of long-term required capital to the covered business:

(i) The level and nature of the supporting capital is determined by minimum regulatory capital requirements as well as economic, risk and growth considerations. Regulatory capital must comply with specific requirements of the Insurance Act and Kenya Companies Act. A deterministic modelling process is used to determine the long-term required capital levels;

(ii) The fair value of other Company operations includes the working capital allocated to the respective operations;

41. Capital management (continued)

(iii) The Company's policy to ensure appropriate capital levels is two-fold as follows:

- The Company dividend policy is based on the annual declaration of all discretionary capital that is not required for normal operations or expansion; and
- Performance targets are set for other Company operations based on an expected return on the fair value of the businesses, equal to their internal hurdle rates. This ensures that all non-productive working capital is declared as a dividend to the Company.

(b) Required Capital

Long-term required capital – covered business

The Company's covered business requires significantly higher levels of allocated capital than the other Company operations. The optimisation of long-term required capital is accordingly a primary focus area of the Company's capital management philosophy given the significant potential to enhance shareholder value.

The following main strategies are used to achieve this objective:

(i) Appropriate matching of assets and liabilities for policyholder solutions. This is especially important for long-duration policyholder solutions that expose the Company to interest rate risk, e.g. non-participating annuities, but also for participating business where asset/liability matching and investment strategy have a direct impact on capital requirements;

(ii) Managing the impact of new business on capital requirements by limiting volumes of capital-intensive new business per business;

(iii) The asset mix of the long-term required capital also impacts on the overall capital requirement. An increased exposure to interest-bearing instruments reduces the volatility of the capital base and accordingly also the capital requirement. The expected investment return on these instruments are however lower than equity with a potential negative impact on the return on Company Embedded Value;

(iv) There is accordingly a trade-off between lower capital levels and the return on capital. The Company's stochastic capital model is used to determine the optimal asset mix that will ensure the highest return on capital; and

(v) Certain of the Company's investments in other Company operations qualify, to a varying degree, to be utilised as regulatory capital for the covered business. Maximum capital efficiency can therefore be achieved by optimising the level of such investments held in the life companies' regulatory capital.

The Company continues to improve and further develop its capital management models and processes in line with international best practice and the current significant international developments surrounding solvency and capital requirements (for example the Solvency II initiative in the European Union).

Other Company operations

The performance measurement of other Company operations is based on the return achieved on the fair value of the businesses. Risk adjusted return targets are set for the businesses to ensure that each business' return target takes cognisance of the inherent risks in the business. This approach ensures that the management teams are focused on operational strategies that will optimise the return on fair value, thereby contributing to the Company's main objective of optimising return on Company Embedded Value.

Audit Committee

The Audit Committee is responsible for reviewing and overseeing the management of the Company's capital base in terms of the specific strategies approved by the Board.

41. Capital management (continued)

(c) Discretionary capital

Any capital in excess of requirements, and not optimally utilised, is identified on a continuous basis. The pursuit of structural growth initiatives has been set as the preferred application of Company capital, subject to such initiatives yielding the applicable hurdle rate and being complementary to or in support of Company strategy. Any discretionary capital not being efficiently redeployed will be returned to shareholders in the most effective form.

42. Events after the reporting period

The directors are not aware of any significant matter or circumstances arising after the end of the financial year that is reportable.

43. Currency

These financial statements are presented in Kenya Shillings (KShs).

44. Comparatives

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

Long Term Insurance Business Revenue Account

Appendix I – Long Term Insurance Business Revenue Account

	Life business KShs	Medical Business KShs	2013 Total KShs
Gross written premium	965,569,150	-	965,569,150
Unearned premiums	-	2,528,844	2,528,844
Gross earned premium	965,569,150	2,528,844	968,097,994
Premium ceded to reinsurers	(85,633,328)	-	(85,633,328)
Net earned premiums	879,935,822	2,528,844	882,464,666
Investment and other income	67,745,582	-	67,745,582
Commissions earned	9,125,984	-	9,125,984
Total income	956,807,388	2,528,844	959,336,232
Life and health claims	(290,824,403)	(11,420,295)	(302,244,698)
Surrenders	(12,240,177)	-	(12,240,177)
Annuity payments	(245,800,562)	-	(245,800,562)
Change in actuarial value of policyholders' benefits	(72,955,846)	-	(72,955,846)
Interest declared under investment contracts	(4,373,618)	-	(4,373,618)
Recoverable under reinsurance contracts	9,362,976	-	9,362,976
Net claims and policyholder benefits payable	(616,831,630)	(11,420,295)	(628,251,925)
Operating and other expenses	(179,567,736)	(1,355,159)	(180,922,895)
Commissions payable	(125,408,022)	-	(125,408,022)
Total policy owner benefits and expenses	(921,807,388)	(12,775,454)	(934,582,842)
Profit before income tax	35,000,000	(10,246,610)	24,753,390
Income tax expense	(10,500,000)	-	(10,500,000)
Profit after tax	24,500,000	(10,246,610)	14,253,390

Appendix I – Long Term Insurance Business Revenue Account (Continued)

	Life business KShs	Medical Business KShs	2012 Total KShs
Gross written premium	896,312,576	27,316,271	923,628,847
Unearned premiums	-	120,335,350	120,335,350
Gross earned premium	896,312,576	147,651,621	1,043,964,197
Premium ceded to reinsurers	(122,211,597)	13,388,569	(108,823,028)
Net earned premiums	774,100,979	161,040,190	935,141,169
Investment and other income	52,964,957	59,251,697	112,216,654
Commissions earned	12,406,539	-	12,406,539
Total income	839,472,475	220,291,887	1,059,764,362
Life and health claims	(220,644,297)	(199,502,003)	(420,146,300)
Surrenders	(4,442,134)	-	(4,442,134)
Annuity payments	(185,322,402)	-	(185,322,402)
Change in actuarial value of policyholder benefits	(71,794,982)	-	(71,794,982)
Interest declared under investment contracts	(3,433,709)	-	(3,433,709)
Recoverable under reinsurance contracts	35,432,523	-	35,432,523
Net claims and policyholder benefits payable	(450,205,001)	(199,502,003)	(649,707,004)
Operating and other expenses	(201,006,995)	(7,665,379)	(208,672,374)
Commissions payable	(156,740,838)	(5,680,426)	(162,421,264)
Total policy owner benefits and expenses	(807,952,834)	(212,847,808)	(1,020,800,642)
Profit before income tax	31,519,641	7,444,079	38,963,720
Income tax expense	(9,455,892)	-	(9,455,892)
Profit after tax	22,063,749	7,444,079	29,507,828

General Insurance Business Revenue Account

Appendix II – General Insurance Business Revenue Account

Class of insurance Business	Motor Private KShs	Motor Commercial KShs	31 December 2013 Total KShs	31 December 2012 Total KShs
Claims outstanding b/f	2,515,000	3,736,250	6,251,250	6,251,250
Claims outstanding c/f	(2,515,000)	(3,736,250)	(6,251,250)	(6,251,250)
Income not charged to any fund or account				
Share of income from Kenya Motor Pool			3,807,805	2,084,312
Profit before tax			3,807,805	2,084,312

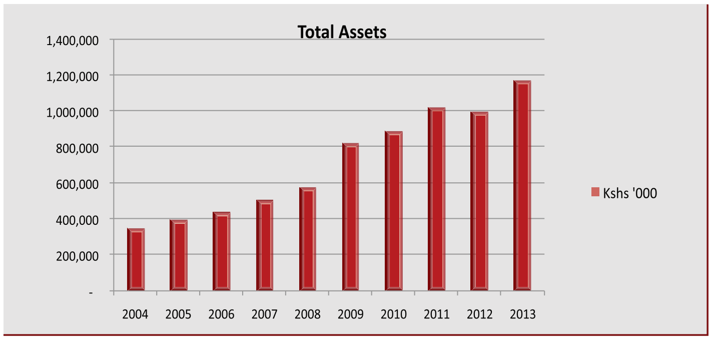
Performance Statistics

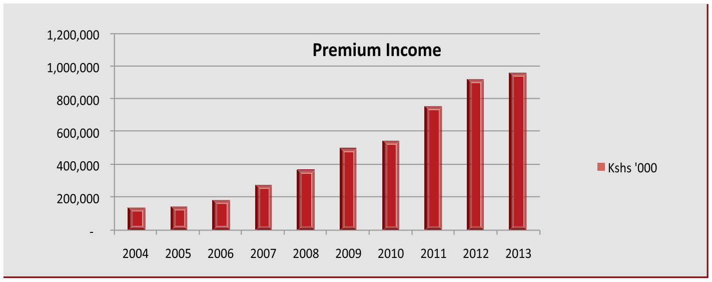
Premium Income	Kshs '000
2004	137,259
2005	145,842
2006	182,378
2007	277,853
2008	367,487
2009	500,070
2010	545,038
2011	759,263
2012	923,629
2013	965,569

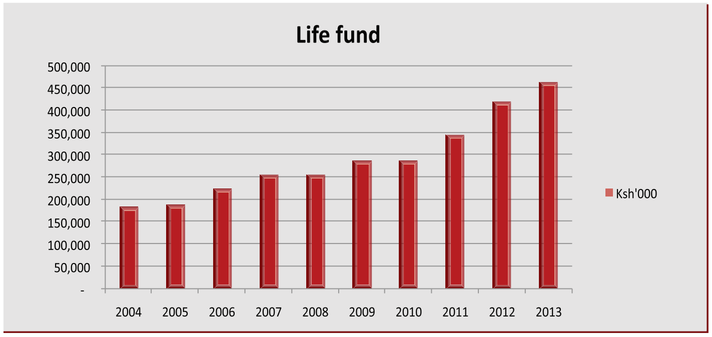
Total Assets	Kshs '000
2004	346,370
2005	398,609
2006	438,572
2007	507,562
2008	579,883
2009	823,341
2010	886,595
2011	1,021,166
2012	997,509
2013	1,170,068

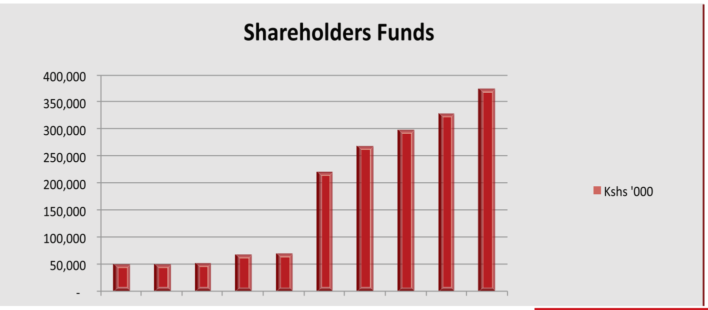
Life fund	Ksh'000
2004	184,116
2005	188,980
2006	224,376
2007	254,893
2008	256,764
2009	287,893
2010	286,346
2011	346,243
2012	420,522
2013	464,888

Shareholders Funds	Kshs '000
2004	51,221
2005	51,799
2006	54,480
2007	68,922
2008	71,045
2009	221,734
2010	270,910
2011	300,709
2012	329,817
2013	376,469









Products and Services

Endowment

This is an endowment policy taken on a fixed sum assured or premium for a specified duration in years. The sum assured is payable upon maturity or upon the death of the life assured and participates in profits. The policy can be surrendered for cash during the life of the policy provided it is in force.

The policy provides for term of cover 10 to 30 years. The policy acquires surrender and paid up values upon full payment of premiums for three years entitling the policy holder to acquire a loan as stated in the policy.

The product benefits can be enhanced by incorporating Personal Accident as well as Funeral Expense riders.

Anticipated Endowment

This is policy features a fixed sum assured for a specified duration in years. The policy provides for term of cover from 12 to 21 years. The policy has cash benefits payable every 1/3 and 2/3 period while the balance plus accrued Bonus are payable at maturity.

On death the full sum assured together with accrued bonuses is payable without any deduction of amounts that may have been paid earlier as cash benefits. The policy acquires surrender and paid up values after three years of full premium payment. The product benefits can be enhanced by incorporating Personal Accident as well as Funeral Expense riders.

Super Investor Policy-Regular Premium

This is an investment plan coupled with insurance benefits and provides for a minimum term of 10 years. In the event of death during the term of the policy the life cover benefit.

Cash benefits are paid to the assured during the life of the policy based on the fund value. Interest accrues monthly and is re invested. The policy includes Waiver of premium benefit which ensures that in the unfortunate event of premature death, the fund value continues to grow because the company will continue to pay the investment premium, and the cash benefits when they fall due will be paid to the nominated beneficiaries. This policy can be used to plan for the education of your child or other future commitments.

Super Investor Policy -Single Premium

The product provides for a minimum term of 5 years. In the event of death during the term of the policy, the investment component and life cover is paid out.

Family Master Plan

This is an investment product with a funeral whole life cover for self, immediate family and extended family. The FMP allows you flexibility to choose any term from 3 years.

On the death of the applicant, waiver of premium applies and the policy covers the nuclear family up to the time the age of the applicant, had s/he lived, gets to 65.

On the death of a covered dependent, his/her premium goes to the cash bonus automatically thus boosting the savings further. The policy holder may access the cash bonus any time after 3 years of premium payment to take care of personal commitments. On the death of the applicant, the accumulated cash bonus goes to the beneficiary.

New Family Master Plan

This product is similar to the Family master plan. It provides for:

1. Funeral Cover for self and covered dependants
2. Waiver of premium – free continuance of cover for nuclear family – on death of life assured while the policy is in force.
3. Annual cash benefit payments as from the 3rd year. The policy also carries a surrender value.

Heshima Mpango Poa

It is a group life Product that offers Funeral cover for the family. It pays for the first death for a family member within one year. Benefit are Payable in 24 – 48 hours from the time of reporting. Entry age Limit is 6 months to 74 years.

School Fees Policy

Education is the key to every child's future. Prudent parents plan to ensure that their children's educational opportunities are assured. Our school fees policy can help you plan well since it covers all contingencies, even those after the child comes of age. It pays for both present and future needs and protects the child even if the parent passes away before the child has completed his/her education. The policy allows choice of any term between 10 and 18 years depending on the age of the child. Most importantly, it provides you with cash payouts for the last 6 years of the policy anniversary equivalent to a percentage of the sum assured. After three years of full premium payment the policy will acquire cash and paid up values, entitling the policy holder to acquire a loan as stated in the policy. The product benefits can be enhanced by incorporating Personal Accident as well as Funeral Expense riders. It also allows you insurance tax relief amounting to 15% of the premium paid subject to maximum of Kshs. 3,000 per month. The full amount payable at maturity is tax-free.

Hazina Policy

Hazina is an innovative and flexible life insurance product which is structured to suit the financial needs and challenges of our dynamic economy. It recognizes that the old concept of fixed premium and fixed benefit does not respond to the economic pressures of inflation, high interest rates, recession and taxation. Hazina allows you to save your money and protect your loved ones at the same time. Policy Value increases steadily from the start of the policy as premium is paid. The Death Benefit is initially equal to the Face Amount of Insurance which is selected by you at the commencement of the policy. However, in some instances, the Policy Value can actually surpass the Face Amount of the policy and when this happens; the Death Benefit becomes equal to the increasing Policy Value. The policy incorporates both life and investment elements and offers a life cover at very competitive rates. - Hazina allows you to decide how much life Insurance you need and subject to certain requirements and limitations, you may adjust the death benefit and the premium payments over the term of your policy to fit your changing circumstances.

Other features

Policy Loans – You may choose to apply for a policy loan against the policy value at competitive interest rates. This ensures the policy value remains intact.

Partial withdrawals – One partial withdrawal can be made in each policy year without incurring any administrative fee.

Premium holiday – In times of economic hardship you may temporarily suspend premium payment and continue enjoying cover out of the accumulated policy value.

Inflation Beater – Hazina allows you to escalate/increase premiums every year by a certain percentage, say at 5 %, 7.5%, 10%, 12.5% and 15%. Escalation option is taken to beat inflation and has the effect of increasing the units and ultimately the accumulated policy value at maturity.

Benefits

Policy Value

The premiums you pay are accumulated within your Policy Value after deduction of administration fees. The Policy Value is credited with interest monthly at a competitive rate determined by the performance of the investments underlying this portfolio.

Income Guard Policy

This policy is intended to provide lump sum benefits in case of death of the policy holder. It is specially designed to protect your income from uncertainties thus affording you peace of mind to ensure you focus on income generation activities without worry. The accidental death benefit is at ten times the lump sum benefit. This product also carries several other benefits namely, Life Cover, Accidental Death Benefit, Total and Permanent Benefit due to accident, Income Replacement, Accident Medical Expenses Reimbursement, Funeral Expenses

Med-Life Policy

At Pioneer Assurance, we have a solution, which will not only provide life cover to applicants but also ensure their families live a healthy life by providing access to superior medical care at affordable rates. Our Life & Health Policy will put your mind to rest and allow you to go about your business in the knowledge that your family is adequately protected.

Scope of Cover: It provides for both life and health covers up to a maximum of Ksh. 500,000.

Term: Minimum term is 5 years and Maximum term is up to age 70

Age at Entry:

Any children from one month to adults of fifty-five years old shall be eligible for membership. Dependants shall include one legal spouse, own or legally adopted or foster children. Joining between fifty years to fifty five years requires a medical examination report.

Waiting Period: A waiting period of 90 days will apply for illnesses and 12 months for surgery. There will be no waiting period for benefits payable on accidental death; however a six month waiting period will apply for natural death

Benefits

Life cover to the applicant ONLY (Minimum sum assured of KShs. 100,000 and a Maximum of KShs. 500,000)

Medical cover on an in-patient basis for the family (Applicant, Spouse and Five children), Minimum cover limit per year of KShs. 100,000, Maximum of KShs. 500,000).

No Claims Discount: Where the family does not make any claim within 36 months, the applicant will be entitled to a no-claims discount. The discount will be paid in cash for check-off & Banker's order cases and in form of reduced premium at renewal for cash cases.

Income on Hospitalization: The policy also incorporates an additional income on hospitalization benefit at the rate of KShs. 500 from the third day of hospitalization up to the 14th day. This benefit will be paid only when the applicant (not dependant) is hospitalized.

Group Life

A Term assurance cover provided to a group of people which exists for purposes other than insurance. Amount of cover can be on a fixed sum basis or based on a multiple of salary. Minimum entry age for members is 18 years and maximum entry age is 65 years. Cover generally purchased by employers on the lives of employees for benefit of dependants incase of death or disability due to sickness or accident. Rider options available include critical illness, PTD, Last Expense, medical and WIBA. Free cover limits available (cover provided without sending client for medical examination). Cover provided for one year renewable and can be extended to spouses and dependants.

Products and Services

Benefits

1. Death of covered member – Selected Sum Assured is payable, subject to terms.
2. Permanent Total disability (PTD) of policyholder – Selected benefit is payable.
3. Critical Illness– percentage of Sum Assured is payable as a lump sum.

Group Credit

A Term assurance cover provided to a group of creditors, The group must exist for purposes other than insurance. Amount of cover is an equivalent of the actual outstanding loan amount. Cover generally purchased by the institution that issue loans to qualified members to protect the institution against losses as a result of death or disability of the persons for whom loans have been awarded. Pioneer Assurance Company pays the outstanding loan amount as at the time of death of the member insured. Cover provided for one year renewable and is available for as long as the loan still exists. It ceases immediately the loan amount is cleared.

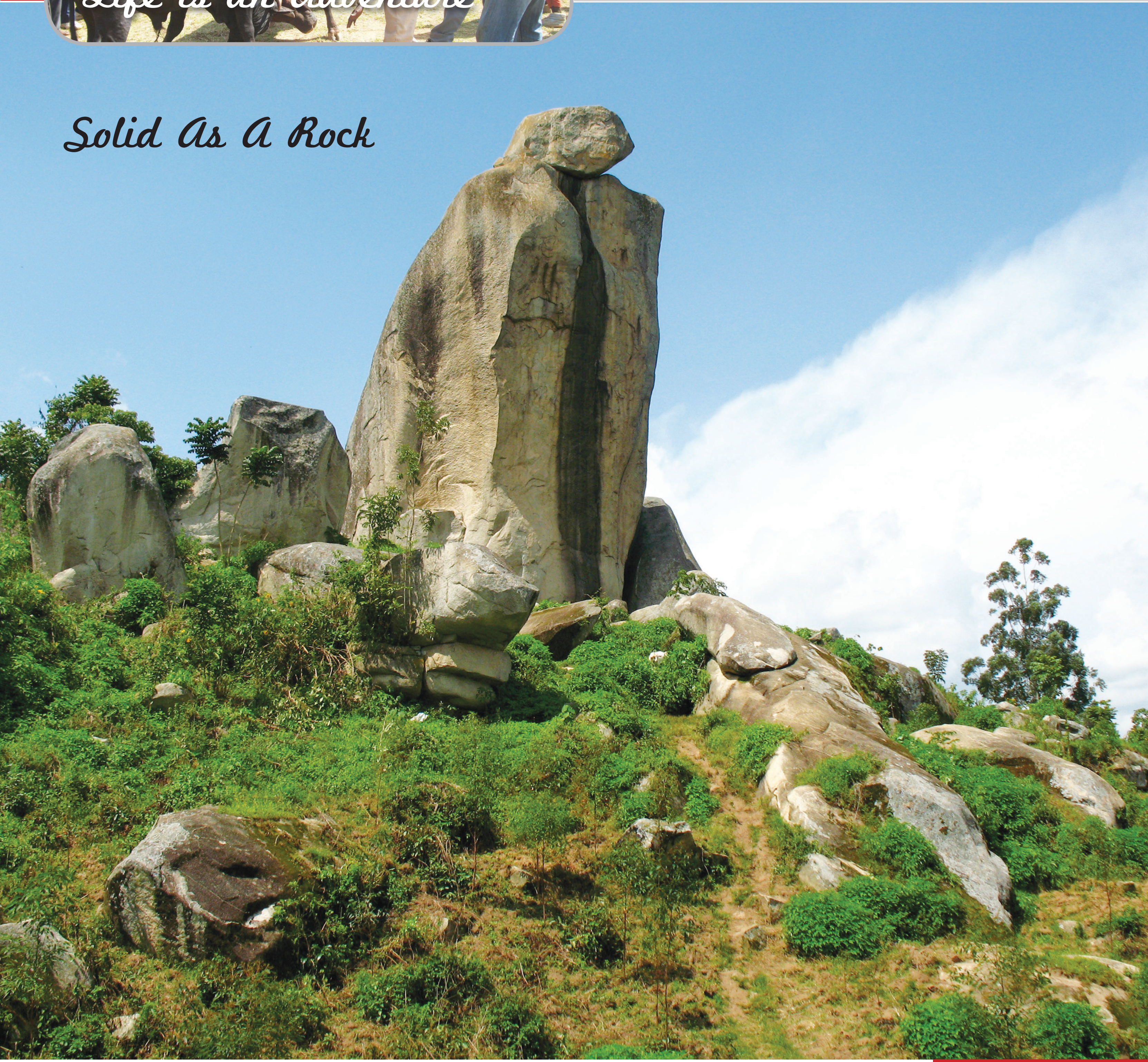
The Individual Pension Plan (IPP)

Is an arrangement for individuals, who would like to save for retirement and, especially, do not belong, as members, to an occupational retirement scheme. In order to enjoy the benefits available under the IPP, you are required to complete the IPP Application Form. On receipt of this form, Pioneer Assurance will issue you with a policy document. This becomes your title document for your investment in the Individual Pension Plan. Pioneer Assurance Company Limited will maintain an account to which your future contributions (if any) will be credited together with interest your contributions will accrue over the term of your investment. You will be able to monitor your account through regular statements of your fund that Pioneer will issue to you. The account can also be credited with any transfer of benefits from other retirement benefit schemes to which you were formally a member. The IPP is registered under Income Tax Department as a retirement benefits plan enabling you to take advantage of tax-free benefits on contributions and the benefits payable upon exit from the plan. Further, as is required by law, the Plan is registered with the Retirement Benefits Authority. Consequently, the Plan is managed in full compliance of the Retirement Benefits Act and the subsidiary rules attaching to it.

The main features of the IPP are as here under:

- There is no requirement for you to appoint trustees and other professional service providers as stipulated under the RBA;
- Pioneer Assurance Company Limited takes all responsibilities in ensuring full compliance of the Plan with all legislative authorities (Retirement Benefits Authority and Kenya Revenue Authority) and is responsible for the audit, management, custodial and actuarial services;
- Your employer (if any) is able to contribute into the Plan at the rate (percentage of salary) agreed with you. Contributions paid into the plan by the Employer on behalf of a member vest to the member immediately they are paid into the scheme;
- You will have the flexibility of contributing as much as you would like in order to enhance your retirement benefits subject to the set minimum;
- Although the normal retirement age is 60, you may defer taking the benefits to a later date (late retirement);
- Your change of employment does not affect the Plan as you can continue contributing into the Plan in the new employment, suspend contributions until securing new employment or defer benefits until retirement;
- You will be provided with an annual statement showing the contributions and interest credited during the year;
- A member can also take advantage and arrange individual life insurance with Pioneer Assurance Company Limited to enhance their savings and also obtain life assurance cover; and
- At retirement you can apply your benefit to obtain very favourable pensions


Life is an Adventure


Solid As A Rock

PIONEER ASSURANCE

YOUR SECURITY FOR THE FUTURE

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