CIC INSURANCE GROUP LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2014

CIC INSURANCE GROUP LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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DIRECTORS	J A Magomere	– Group Chairman
	Rev. P N Kagane	– Group Vice Chairman
	N C Kuria	– Group Chief Executive Officer – Retired 28 Feb, 2015
	T Gitogo	– Group Chief Executive Officer - Appointed 19 Jan, 2015
	P N Kipkirui	
	G O Owuor	
	M O Wambia	
	J M Mutuku	
	G Mabishi	
	S G Kaimenyi	- Resigned 31 December 2014
	M. Mungai	– Appointed 19 January 2015
	V Leseya	
	R M Githaiga	

COMPANY SECRETARY

Gail Odongo
Certified Public Secretary (Kenya)
P O Box 59485 - 00100
Nairobi

REGISTERED OFFICE

CIC Plaza
Upper Hill, Mara Road
P. O. Box 59485 - 00200
Nairobi

SENIOR MANAGEMENT	T Gitogo	- Group Chief Executive Officer
	K Kimani	– Managing Director – CIC General Insurance Limited
	P Mwaura	– Managing Director – CIC Asset Management Limited
	J Otieno	– Managing Director – CIC Life Assurance Limited
	G Odongo	– Group Company Secretary/Chief Legal Officer
	P Oyugi	– Group Human Resources Manager
	M Luvai	– Group Chief Internal Auditor
	Dr E Rukwaro	– General Manager Medical Business
	M Njeru	– Resident Actuary
	J Kamiri	- General Manager – Strategy & Marketing
	R Nyakenogo	- General Manager - Cooperatives
	M Kabiru	- AGM – Finance & Investments
	S Robi	- Risk and Compliance Manager
	Mutua Makaa	- Acting Group ICT Manager

AUDITORS

Ernst & Young
Certified Public Accountants (Kenya)
Kenya Re Towers, Upper Hill
Off Ragati Road
P.O. Box 44286 - 00100
Nairobi GPO - Kenya

PRINCIPAL BANKERS

The Co-operative Bank of Kenya Limited
P. O. Box 67881 - 00100
Nairobi

CONSULTING ACTUARIES

The Actuarial Services Company Limited
Victoria Towers
Upper Hill
P.O. Box 10472 - 00100
Nairobi

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2014.

1. PRINCIPAL ACTIVITIES

The principal activity of the Group is the transaction of general and life insurance business and fund management. The Group also invests in equity and government securities, properties and loans.

GROUP RESULTS

	2014	2013 (Restated)
	KShs'000	KShs'000
Profit before taxation	1,390,314	1,671,095
Taxation charge	(301,874)	(366,536)
Profit for the year	1,088,440	1,304,559

2. DIVIDENDS

The directors recommend the payment of a first and final dividend of KShs 261,557,800 (2013: KShs 217,965,500) which represents 10% of the paid up share capital (2013 – 10%).

3. DIRECTORS

The current directors are as shown on page 2. Mrs. Stella Kaimenyi resigned on 31 December 2014 while Mr N C Kuria retired on 28 February 2015. Mr. Tom Gitogo and Mrs. Mary Mungai were appointed as directors on 19 January 2015.

4. AUDITORS

Ernst & Young have expressed their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap 486).

BY ORDER OF THE BOARD

Secretary

11 March 2015

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and 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 affairs of the Group and the Company and of operating results of the Group and the Company.

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 control.

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

Director | Director

11 March 2015

REPORT OF THE INDEPENDENT AUDITORS
TO THE SHAREHOLDERS OF
CIC INSURANCE GROUP LIMITED

Report on the financial statements

We have audited the accompanying financial statements of CIC Insurance Group Limited and subsidiaries, (the Group) which comprise the consolidated and company statement of financial position as at 31 December 2014, consolidated and company statement of profit or loss and other comprehensive income, consolidated and company statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 7 to 89.

Directors' responsibility for the financial statements

The directors of the Company and Group are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CIC Insurance Group Limited and of its subsidiaries as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on other legal and regulatory 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 Group and the Company, so far as appears from our examination of those books; and

(iii) the Group and Company's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph K Cheboror – P/No. P.1145

Nairobi, Kenya

1 April 2015

CIC INSURANCE GROUP LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Group 2014 KShs'000	Group 2013 KShs'000 Restated	Company 2014 KShs'000	Company 2013 KShs'000
Gross written premiums		13,721,376	11,061,282	-	-
Gross earned premiums	3	13,363,942	10,067,665	-	-
Less: Reinsurance premiums ceded		(1,053,618)	(911,983)	-	-
Net earned premiums		12,310,324	9,155,682	-	-
Fees and commission income		385,697	303,354	-	-
Investment income	4	1,051,816	722,466	103,601	4,475
Other gains/ (losses)	5	772,038	705,598	400,000	300,000
Dividend income		-	-	475,000	577,500
		2,209,551	1,731,418	978,601	881,975
Total income		14,519,875	10,887,100	978,601	881,975
Claims and policyholders' benefits expenses	6	(8,641,875)	(6,020,059)	-	-
Commissions expense		(1,138,843)	(843,552)	-	-
Operating and other expenses	7	(3,206,525)	(2,351,499)	(62,287)	(17,781)
		(12,987,243)	(9,215,110)	(62,287)	(17,781)
Finance cost		(150,000)	-	(150,000)	-
Share of results of associate	14	7,682	(895)	-	-
Profit before taxation		1,390,314	1,671,095	766,314	864,194
Taxation charge	9	(301,874)	(366,536)	-	-
Profit for the year		1,088,440	1,304,559	766,314	864,194
OTHER COMPREHENSIVE INCOME					
Other comprehensive income not to be reclassified to profit or loss in subsequent years					
Surplus on revaluation of buildings	11	87,834	63,480	-	-
Other comprehensive income to be reclassified to profit or loss in subsequent years					
Fair value (loss)/ gain on available-for -sale investments	19(a)	3,300	(5,477)	(3,697)	-
Fair value loss on available-for -sale investments (government securities)	20	(54,990)	-	-	-
Other comprehensive income for the year		36,144	58,003	(3,697)	-
Total comprehensive income for the year		1,124,584	1,362,562	762,617	864,194
Earnings per share (KShs)	10	0.42	0.50	0.29	0.33

CIC INSURANCE GROUP LIMITED

GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	31/12/14	31/12/13 Restated	1/1/13 Restated
		KShs'000	KShs'000	KShs'000
ASSETS				
Property and equipment	11	1,257,021	1,120,589	349,185
Intangible assets	12	94,747	86,670	56,485
Investment properties	13	4,596,000	3,657,000	2,554,472
Investment in associate	14	117,554	109,872	70,447
Government securities classified as held to maturity	16(a)	709,002	2,375,683	2,101,355
Loans receivable -Mortgage loans	17	446,226	314,691	240,869
-Other loans	18(a)	425,735	332,281	255,758
Government securities classified as available for sale	19(a)	1,794,011	-	-
Equity investments classified as available for sale	20	17,667	14,367	19,844
Deferred taxation	21	30,055	21,208	8,109
Equity investments at fair value through profit or loss	22	359,952	282,031	203,377
Deposits and commercial paper	23	2,330,233	818,272	630,378
Deferred acquisition costs	24	404,050	361,527	319,930
Receivables arising out of reinsurance arrangements	25	203,563	200,635	10,084
Receivables arising out of direct insurance arrangements	25	1,464,532	1,502,690	1,144,634
Reinsurers share of liabilities and reserves	38	639,214	1,695,350	1,965,437
Taxation recoverable	9(c)	46,322	22,309	2,450
Other receivables	26	446,040	302,702	134,267
Due from related parties	27	272,448	16,595	16,621
Deposits with financial institutions	28(a)	7,476,940	3,343,407	3,727,723
Cash and bank balances		559,075	457,938	258,126
Total assets		23,690,387	17,035,817	14,069,551
EQUITY AND LIABILITIES				
Equity				
Share capital	29	2,615,578	2,179,655	2,179,655
Share premium	30	162,179	598,102	598,102
Statutory reserve	31	970,671	830,851	594,381
Revaluation surplus	32	87,834	74,623	11,143
Fair value reserve	33	(53,528)	(1,838)	3,639
Retained earnings	34	3,424,706	2,649,429	1,829,306
Total equity		7,207,440	6,330,822	5,216,226
LIABILITIES				
Deferred taxation	21	416,001	356,079	254,734
Borrowings	35	5,052,266	-	-
Other payables	36	546,185	517,715	444,409
Dividend payable	37	34,662	23,151	2,357
Taxation payable	9(c)	-	-	77,006
Payables arising from reinsurance arrangements and insurance bodies	24	63,826	299,128	134,799
Actuarial value of policyholder liabilities	39	3,288,325	2,334,927	1,650,108
Provisions for unearned premiums reserve and unexpired risks	40	4,396,959	4,070,695	3,092,113
Insurance contracts liabilities	41	2,684,723	3,103,300	3,197,799
Total liabilities		16,482,947	10,704,995	8,853,325
Total equity and liabilities		23,690,387	17,035,817	14,069,551

Certain amounts shown here do not correspond to the 2012 and 2013 financial statements and reflect adjustments made as detailed in note 21.

The financial statements were approved by the Board of Directors on 11 March 2015 and signed on its behalf by:

Director Director Principal Officer

CIC INSURANCE GROUP LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	Company 2014 KShs'000	2013 KShs'000
ASSETS			
Investment properties	13	1,900,000	1,500,000
Investment in associate	14	140,320	140,320
Investment in subsidiaries	15	2,811,000	2,011,000
Government securities classified as held to maturity	16(b)	-	36,757
Loans receivable	18(b)	130,639	41,729
Government securities classified as available for sale	19(b)	36,303	-
Deferred taxation	21	6,800	6,800
Deposits and commercial paper	23	1,065,164	-
Taxation recoverable	9(c)	2,000	2,000
Other receivables	25	38,932	188,869
Due from related parties	27	352,786	4,685
Deposits with financial institutions	28(b)	3,249,635	-
Total assets		9,733,579	3,932,160
EQUITY AND LIABILITIES			
Equity			
Share capital	29	2,615,578	2,179,655
Share premium	30	162,179	598,102
Fair value reserve	33	(3,697)	-
Retained earnings	34	1,250,135	701,782
Total equity		4,024,195	3,479,539
LIABILITIES			
Borrowings	35	5,052,266	-
Due to related parties	27	606,552	429,005
Other payables	36	15,904	465
Dividend payable	37	34,662	23,151
Total liabilities		5,709,384	452,621
Total equity and liabilities		9,733,579	3,932,160

The financial statements were approved by the Board of Directors on 11 March 2015 and signed on its behalf by:

Director Director Principal Officer

CIC INSURANCE GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital KShs'000	Share Premium KShs'000	Statutory Fund KShs'000	Revaluation surplus KShs'000	Fair value reserve KShs'00	Retained earnings KShs'000	Total KShs'000
At 1 January 2013	2,179,655	598,102	849,115	11,143	3,639	1,829,306	5,470,960
Prior year adjustment	-	-	(254,734)	-	-	-	(254,734)
1 January 2013 restated	2,179,655	598,102	594,381	11,143	3,639	1,829,306	5,216,226
Transfer to retained earnings	-	-	(100,000)	-	-	100,000	-
Tax on transfer to retained earnings	-	-	-	-	-	(30,000)	(30,000)
Dividends declared – 2013	-	-	-	-	-	(217,966)	(217,966)
Profit for the year	-	-	336,470	-		968,089	1,304,559
Other comprehensive income for the year	-	-	-	63,480	(5,477)	-	58,003
Total comprehensive income for the year	-	-	336,470	63,480	(5,477)	968,089	1,362,562
At 31 December 2013	2,179,655	598,102	830,851	74,623	(1,838)	2,649,429	6,330,822
At 1 January 2014	2,179,655	598,102	830,851	74,623	(1,838)	2,649,429	6,330,822
Transfer to retained earnings	-	-	(100,000)	-	-	100,000	-
Tax on transfer to retained earnings	-	-	-	-	-	(30,000)	(30,000)
Capitalisation of share premium	435,923	(435,923)	-	-	-	-	-
Transfer of the revaluation surplus of the property and equipment transferred to investment property	-	-	-	(74,623)	-	74,623	-
Dividends declared – 2014	-	-	-	-	-	(217,966)	(217,966)
Profit for the year	-	-	239,820	-		848,620	1,088,440
Other comprehensive income for the year	-	-	-	87,834	(51,690)	-	36,144
Total comprehensive income for the year	-	-	239,820	87,384	(51,690)	848,620	1,124,584
At 31 December 2014	2,615,578	162,179	970,671	87,834	(53,528)	3,424,706	7,207,440

CIC INSURANCE GROUP LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital KShs'000	Share premium KShs'000	Statutory Reserve KShs'000	Revaluation surplus KShs'000	Fair value reserve KShs'00	Retained Earnings KShs'000	Total KShs'000
At 1 January 2013	2,179,655	598,102	-	-	-	55,554	2,833,311
Dividends declared – 2013	-	-	-	-	-	(217,966)	(217,966)
Profit for the year	-	-	-	-	-	864,194	864,194
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	864,194	864,194
At 31 December 2013	2,179,655	598,102	-	-	-	701,782	3,479,539
At 1 January 2014	2,179,655	598,102	-	-	-	701,782	3,479,539
Dividends declared – 2014	-	-	-	-	-	(217,966)	(217,966)
Profit for the year	-	-	-	-	(3,697)	766,314	762,617
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(3,697)	766,314	762,617
At 31 December 2014	2,179,655	598,102	-	-	-	1,250,135	4,024,195

CIC INSURANCE GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

		2014	2013
		KShs'000	KShs'000
Cash generated from operations	43	1,266,583	1,719,666
Taxation paid	9(b)	(304,812)	(405,155)
Net cash generated from operating activities		961,771	1,314,511
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	11	(478,126)	(792,106)
Purchase of intangible assets	12	(39,658)	(59,076)
Purchase of investment property	13	-	(485,317)
Investment in associate	14	-	(40,320)
Mortgage loans advanced	17	(259,669)	(154,325)
Mortgage loan repaid	17	128,134	80,503
Other staff loans advanced		(208,263)	(108,405)
Other staff loan repaid		114,809	31,822
(Purchase)/Disposal of equity investment at fair value through profit or loss	22	(12,604)	3,300
Purchase of government securities- held to maturity	16	(90,000)	(540,000)
Purchase of government securities-available for sale	19	(210,000)	-
Proceeds from maturity of government securities- available for sale	19	131,382	
Proceeds from maturity of government securities- held to maturity	16	-	231,250
Increase in deposits with non-financial institutions		(1,511,961)	(187,894)
Proceeds of disposal of equipment		-	830
(Decrease)/Increase in fixed deposits with financial institutions		-	
(excluding cash and cash equivalents)		(4,407,015)	705,097
Interest income		864,481	695,127
Dividend income		10,074	43,499
Net cash used in investing activities		(5,968,416)	(575,952)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings	36	5,052,266	-
Dividends paid	35	(217,966)	(217,966)
Net cash used in financing activities		4,834,300	(217,966)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(172,345)	520,593
CASH AND CASH EQUIVALENTS AT 1 JANUARY		2,614,371	2,093,778
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	43	2,442,026	2,614,371

The company does not have cash and cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

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

(a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act. The measurement basis used is the historical cost basis, as modified by the carrying of certain property and equipment, investment property and certain investments at fair value, impaired assets at their recoverable amounts and actuarially determined liabilities at their present value. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, which is also the functional currency.

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

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the Group. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in note (2).

(b) Basis of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

(i) Subsidiaries (continued)

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Subsidiaries are fully consolidated from the date on which control is transferred to the company. They are de-consolidated from the date the control ceases.

All inter-company balances, transactions, income and expenses and profits and losses resulting from inter-company transactions are eliminated in full.

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

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The Group financial statements reflect the result of the consolidation of the financial statements of the Company and its subsidiaries, CIC General Insurance Limited, CIC Life Assurance Limited, CIC Asset Management Limited and CIC Africa Insurance (SS) Limited, details of which are disclosed in note 15, made up to 31 December 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

(ii) Associates

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint arrangement.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity, either directly or through other comprehensive income Profits or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.
The share of profit of the associate is shown on the face of the statement of profit or loss. This is profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates after factoring in other comprehensive income.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring its accounting policies in line with the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associates. The Group determines at each reporting date, whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the statement of profit and loss.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. Any interest in the equity of the associate that was recorded directly in other comprehensive income of the investor is recycled to the profit or loss and is included in the calculation of the gain or loss on disposal.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group’s identifiable assets and liabilities are measured at their acquisition-date fair value.

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's net identifiable assets. Non-controlling interests that are not present ownership interests are measured at fair value. This accounting policy choice can be made on an individual business combination basis.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the amount recognised for non-controlling interests, and any previous interest held, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the of the acquiree are assigned to those units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards, interpretations and improvements

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014. All information disclosed also applies to the company. The nature and the impact of each new standard and amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold,the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards, interpretations and improvements (continued)

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards, interpretations and improvements (continued)

Standards issued but not yet effective (continued)

IFRS 10, IFRS 12 and IAS 28- Amendments to the investment entities – Applying the Consolidation exception
Clarification of the exemption from preparing consolidated financial statements; treatment of a subsidiary that provides services that support the investment entity; and the application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity

Disclosure initiative amendments –IAS 1
Amendments to IAS 1 to further encourage companies to apply professional judgement in determining what information to disclose and how to structure it in their financial statements

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- ☐A performance condition must contain a service condition
- ☐A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- ☐ ☐A performance condition may be a market or non-market condition

If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments
The amendments are applied retrospectively and clarifies that:
☐An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. ☐ The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards, interpretations and improvements (continued)

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
☐Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.☐This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.
The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.
The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards, interpretations and improvements (continued)

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.
For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group’s financial statements.

2014 Annual improvement (2012 -2014 cycle)

IAS 19: Employees Benefits -Discount rate: regional market issue
The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

IAS 34: Interim Financial Reporting -Disclosure of information ‘elsewhere in the interim financial report
The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards, interpretations and improvements (continued)

2014 Annual improvement (2012 -2014 cycle) (continued)

IFRS 7 Financial Instruments Disclosures- Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset that has been transferred.

IFRS 7: Financial Instruments Disclosures -Applicability of the amendments to IFRS 7 to condensed interim financial statements.
In respect of IFRS 7 disclosures required in interims, the amendment clarifies that the IFRS 7 disclosures on offsetting are not required in the condensed interim financial report.

IFRS 5: Non -Current Assets Held for Sale and Discontinued Operations -Changes in methods of disposal.
The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

Amendments to IAS 36 - Impairment of Assets removes the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36. The amendment reduces the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed. The amendment has also introduced an explicit requirement for an entity to disclose the discount rates that have been used in determining the impairment loss if the recoverable amount of the asset is determined using a present value technique. These amendments did not have a material impact on the Group as the Group did not impair any non-financial assets during the year.

For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group’s financial statements.

(e) Revenue recognition

Revenue represents the fair value of consideration received or receivable for the sale of services in the course of the Group’s activities. It is recognised when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably. It is stated net of Value Added Tax, rebates and trade discounts.

When revenue is recognised the group estimates whether rebates or trade discounts will be provided and include this estimate in measuring the revenue at the amount received or receivable. Later changes in estimates are included in the revenue line.

Sale of goods are recognised upon the delivery of the product and customer acceptance, while sale of services are recognised upon performance of the service and customer acceptance based on the proportion of actual service rendered to the total services to be provided.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition (continued)

Gross premiums

Gross recurring premiums on life and investment contracts with discretionary participating features are recognised as revenue when payable by the policyholder. For single premium business revenue is recognised on the date on which the policy is effective. Gross written premiums under short term life insurance contracts comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Gross reinsurance premiums on life and investment contracts with discretionary participation features are recognised as an expense when payable or on the date on which the policy is effective. Gross general written r premiums under short term life and general reinsurance contracts comprise the total premiums payable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Investment income

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

Rental income is on a straight-line basis over the lease term. The excess of rental income on a straight-line over cash received is recognised as an operating lease liability/asset.

Dividends are recognised when the Group's right to receive the payment is established.

Realised / unrealised gains and losses

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

Financial services income

Financial services income includes income from investment management and related activities. This is based on the value of the assets managed on behalf of clients such as fund management fees, collective investment and linked product administration fees. Initial fees that relate to the future rendering of services are deferred and recognised as those future services are rendered.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Deferred acquisition costs

Deferred acquisition costs represent the proportion of commission expense in the periods up to the reporting date which relates to the unexpired terms of policies in force at the end of the reporting period, and are calculated on the $1/365^{th}$ method on net commissions. The $1/365^{th}$ is a time apportionment method of premium whereby the unearned premium reserve is the aggregate of unearned premium calculated on a pro-rata basis, in respect of the premiums relating to the unexpired periods of the respective insurance policies at the end of the reporting period. These commissions are recognised over the period in which the related revenues are earned.

(g) Insurance receivables

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

(h) Claims incurred

Claims incurred comprise claims paid and related expenses in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of the reporting period, but not settled at that date. The reserve for outstanding claims is computed on the basis of the best information available at the time the records for the year are closed, and include additional provisions for claims incurred but not reported ("IBNR") at the end of each reporting period based on the Group's experience but subject to the minimum percentages set by the Commissioner of Insurance. Claims liability on long term contracts is determined through actuarial valuation which is carried out annually.

(i) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the year.

Receivables and payables related to insurance contracts and investment contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Taxation

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. 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. Current income tax assets or liabilities are based on the amount of tax expected to be paid or recovered in respect of the taxation authorities in the future. Tax is recognised in the statement of profit or 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 is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date. The prevailing tax rate and the amount expected to be paid are highlighted in note 9 of these financial statements.

The net amount of current income tax recoverable from, or payable to, the taxation authority is included on a separate line in the statement of financial position of these financial statements.

Deferred Income tax
Deferred income tax is provided on temporary differences except those arising on the initial recognition of goodwill, 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 nor loss. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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.

Deferred income tax is determined using the liability method on 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.

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 income 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 profit will allow the deferred tax asset to be recovered. The accounting of deferred tax movements is driven by the accounting treatment of the underlying transaction that lead to the temporary differences. Deferred tax relating to items recorded in profit or loss is recognised in profit or loss, while deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss in other comprehensive income or equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Taxation (continued)

Income Taxes

Sales taxes and premium taxes

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

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

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

(k) Earnings per share

The Group calculates basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

(i) profit or loss from continuing operations attributable to the parent entity; and
(ii) profit or loss attributable to the parent entity

is the amounts in (i) and (ii) adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

(l) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Group operates), which is Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the end of each reporting period and on date of settlement which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property and equipment

Property and equipment is stated at cost or revaluation less accumulated depreciation and accumulated impairment losses.

Increases in the carrying amount of land and buildings arising on revaluation are dealt with through other comprehensive income and accumulated under a separate heading of revaluation surplus in the statement of changes in equity. Decreases that offset previous increases of the same asset are dealt with through other comprehensive income and reversed from revaluation surplus in the statement of changes in equity; all other decreases are charged to profit or loss for the year. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Depreciation is calculated on the reducing balance basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

Buildings	40 years
Computers	4 years
Motor vehicles	4 years
Furniture, fittings and equipment	8 years

Property and equipment are reviewed for impairment whenever there are any indications of impairment identified.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on derecognition of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.
The residual value, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end are adjusted prospectively, if appropriate.

(n) Investments properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, including interest in leasehold land, 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 to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. The Investment properties are stated at fair value, which has been determined based on valuations performed by Crystal Valuers Limited as at 31 December 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investments properties (continued)

When the Group can reliably determine the fair value of a self constructed investment property under construction or development, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the profit or loss.

The difference between the carrying value and the fair value of the properties at the date of reclassification to investment properties is recognised in the 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.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

(o) Borrowing costs

In the instance of specific funding being obtained, the net borrowing cost capitalised is the actual borrowing cost incurred on the amount borrowed specifically to finance the asset less any investment income earned on surplus funds. In the case of general borrowings, the capitalised borrowing cost is determined using the overall weighted average cost of the general borrowings during the year and applying this rate to the costs incurred on the asset. The amount capitalised can never exceed the borrowing costs incurred. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

(p) 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 Group 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 over its estimated useful life (four 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.

Softwares under implementation are recognised as work in progress at historical costs less any accumulated impairment loss. The cost of such softwares includes professional fees and costs directly attributable to the software. The softwares are not amortised until they are ready for the intended use.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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.

(q) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the end of the reporting period is recognised as an expense accrual.

Retirement benefit obligations

The Group operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the Group and employees.

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

The Group's contributions to the defined contribution scheme and NSSF are charged to profit or loss as they fall due.

(r) Provisions

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Segment reporting

An operating segment is a component of an entity:

(i) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)

(ii) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decision about resources to be allocated to the segment and assess its performance, and

(iii) For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues for example start-up operations may be operating segments before earning revenues. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (Board of Directors). Directors allocate resources to and assess the performance of the operating segments of the Group. The operating segments are based on the Group's management and internal reporting structure.

The directors consider the Group to comprise three business segments, general insurance business, long term insurance business and other business, and two geographical segments, in Kenya and Sudan.

(t) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss to the amount of an impairment already taken to profit or loss while the remainder will be a revaluation amount through other comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The recoverable amount for the life insurance business has been determined based on a fair value less costs to sell calculation. The calculation requires the Group to make an estimate of the total of the adjusted net worth of the life insurance business plus the value of in-force covered business. New business contribution represents the present value of projected future distributable profits generated from business written in a period. Growth and discount rates used are suitable rates which reflect the risks of the underlying cash flows.

Goodwill
Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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

Associates
After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investments in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate less costs to sell and the carrying value and recognises this amount in the profit or loss.

(u) Other financial liabilities and insurance payables

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit or loss. Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities at fair value through profit or loss which are carried at fair value.

Borrowings and trade and other liabilities are classified as financial liabilities and are carried at amortised cost.

Gains and losses on financial liabilities at amortised cost are recognised on derecognition and through the amortisation process. Gains and loss on financial liabilities at fair value through profit or loss are recognised in the profit or loss.

Insurance payables are recognised when due and measured on initial recognition at the fair value of the claim payable plus directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Financial and insurance liabilities

Insurance contract liabilities (including investment contracts with discretionary participation features) and reinsurance assets.

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 (for non-market linked insurance contracts this item is excluded) from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the profit or loss.

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. It is assumed that premiums are earned uniformly over the contract period. The group used the 365^{th} method in computing this reserve. The estimate of the incurred claims that have not yet been reported to the Group (IBNR) is computed using the basic chain ladder method. The basic assumption using this method is that claims will emerge in a similar way in each development year.

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

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, net of related PVIF and DAC (deferred acquisition cost –by using an existing liability adequacy test as laid out under the Kenyan Insurance Act.

(w) Fair value measurement

The Group measures financial instruments such as available-for-sale at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2-Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3-Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as property and investment properties. Involvement of external valuers is decided upon annually by the finance and investment manager after discussion with and approval by the group’s audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(x) Financial instruments

Financial assets

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Purchases and sales of financial instruments are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

The Group classifies its financial assets into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans and receivables; held to maturity financial assets; and available for sale financial assets. Management determines the appropriate classification of its financial instruments at initial recognition.

Financial assets are initially recognised at fair value plus, in the case of all financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Financial assets (continued)

The fair values of quoted securities are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are substantially the same.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling it in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments are recognised in profit or loss in the period that they arise.

Financial assets at fair value through profit or loss comprise quoted equity investments and investment in collective investment scheme i.e CIC Unit Trust.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include loans receivables, receivables arising from direct insurance arrangements, receivable arising from reinsurance arrangements, due from related parties, reinsurer share of liabilities and reserve and other receivables.

After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income 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.

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 Group'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 effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Financial assets held to maturity comprise government securities held under lien by the central bank of Kenya for the commission of insurance, fixed deposit with financial institutions, other deposits, commercial papers and corporate bonds.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets (continued)

Subsequent to initial recognition, these investments are re-measured at fair value unless their value cannot be reliably measured in which case they are carried at cost less provision for impairment.

Unrealised gains and losses arising from changes in the fair value of available-for-sale are recognised in other comprehensive income and accumulated under the heading of fair value reserve in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss for the year as net realised gains/losses on financial assets.

Unquoted investments and government securities (those not under lien) are classified as available-for-sale investments.

Impairment of financial assets

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Impairment of financial assets (continued)

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

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

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

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

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Financial liabilities and equity instruments issued by the Group

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Classification as debt or equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, payables and financial guarantee contracts, net of directly attributable transaction costs. The Group's financial liabilities include long term bond(borrowing), other payables and due to related parties.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Financial liabilities (continued)

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include 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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group 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. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings and payables
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings and payable are subsequently measured at amortised cost using the EIR method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the carrying amount on initial recognition. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

This category generally applies to interest-bearing borrowings and payables.

Financial guarantee contracts

Financial guarantee contracts issued by the Group or held by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Financial liabilities (continued)

Derecognition

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current and legally enforceable 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 liability simultaneously. Income and expenses will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

(y) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the statement of financial position.

(z) Dividends

Dividends on ordinary shares are charged directly to equity in the period in which they are declared and approved. Dividend distributions to the shareholders are recognised as a liability in the financial statements in the year in which the dividends are declared and approved by the shareholders.

(aa) 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.

(ab) Share capital and share premium

Ordinary shares are recognised at par value and classified as ‘share capital’ in equity. Any amounts received over and above the par value of the shares issued are classified as ‘share premium’ in equity.
Incremental costs attributable to the issue or cancellation of equity instruments are recognised directly in equity, net of tax if applicable.

(ac) Statutory fund

The Group matches the assets to liabilities, after which there is a surplus/deficit that is transferred to the statutory fund. The Insurance Act regulations stipulate that only a maximum 30% of this can be transferred to the shareholders. The statutory actuary advices on the amount to be transferred to the shareholders. When a transfer is made to the shareholders, tax at the prevailing corporation rate 2014: 30% (2013:30%) is incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) Expenses

Expenses are recognised in the statement of profit or loss when a 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 and is independent from transactions with equity participants. 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).

i) When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognised in the statement of profit or loss on the basis of systematic and rational allocation procedures. This is often necessary in recognising the equipment associated with the using up of assets such as property 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.

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

(ae) Accounting for leases

Determination

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

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the profit or loss. The Group currently does not have any finance lease. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the period of the lease. The amortisation is recognised as an operating expense in profit or loss.

Group as a lessor

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

When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination took place.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S AND COMPANY'S ACCOUNTING POLICIES

In the process of applying the accounting policies adopted by the Group, the directors make certain judgements and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

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

(i) The key areas of judgment in applying the Group's accounting policies are dealt with below:

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

a. Whether it is probable that that future taxable profits will be available against which temporary differences can be utilised; and
b. Whether the Group has the ability to hold 'held-to maturity' investments until they mature. If the Group were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.
c. Whether the Group has control over investee in view of the criteria set out under IFRS 10. These are;
    - 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 investor's returns

(ii) Key sources of estimation uncertainty

Valuation of insurance contract liabilities

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

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

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.
Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S AND COMPANY'S ACCOUNTING POLICIES (continued)

(ii) Key sources of estimation uncertainty (continued)

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Held -to-maturity financial assets

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such assets to maturity. If the Group fails to keep these financial assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost.

Impairment losses

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for coming years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

In assessing whether there is any indication that the tangible and intangible assets may be impaired, the Group considers the following indications:

a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
d) the carrying amount of the net assets of the entity is more than its market capitalisation.
e) evidence is available of obsolescence or physical damage of an asset.
f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S AND COMPANY'S ACCOUNTING POLICIES

(ii) Key sources of estimation uncertainty (continued)

g) Property and equipment
Critical estimates are made by the Group's management, in determining depreciation rates for property and equipment. The rates used are set out in accounting policy in note (m) above.

h) Receivables
Critical estimates are made by the directors in determining the recoverable amount of receivables. The directors make their estimate as described in note (g) above.

i) Income taxes
The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Equity investment impairment
In assessing whether equity investments classified as available-for-sale has had a 'significant or prolonged' decline in the fair value of the investment below its cost, the Group would benchmark the performance of the investment against its peers, review three years strategic plan and perform in-depth analysis on key identified ratios.

Fair value of financial instruments
When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 48 (d) for further discussion.

Revaluation of property and equipment and investment properties
The Group carries certain classes of property and equipment at fair value, with changes in fair value being recognised in the other comprehensive income. Land and buildings were valued on the basis of open market value by independent valuers, Crystal Valuers Limited. Refer to note 11&13 where detailed assumptions have been disclosed.

Contingent liabilities
The Group is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The Directors evaluate the status of these exposures on a regular basis to assess the probability of the Group incurring related liabilities. However, provisions are only made in the financial statements where, based on the Directors' evaluation, a present obligation has been established. Judgement and assumptions are required in:

- assessing the existence of a present obligation (legal or constructive) as a result of a past event,
- assessing the probability that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- Estimating the amount of the obligation to be paid out.

3. SEGMENT INFORMATION

The Group had adopted IFRS 8 Operating Segments. In accordance with IFRS 8, operating segments, the information presented hereafter by operating segment is the same as that reported to the Chief Operating Decision Maker (the Group Managing Director) for the purposes of making decisions about allocating resources to the segment and assessing its performance.

Under IFRS 8 the Group's reportable segments are long term business, short term business and other. Long term insurance business comprises the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a long term dependent on the termination or continuance of the life of an insured person. General insurance relates to all other categories of insurance business written by the Group and is analysed into several sub-classes of business based on the nature of the assumed risks. Other business comprises non insurance related businesses. The Group's main geographical segment of business is in Kenya.

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. There are no intersegment revenues and no single customer accounts for more than 10% of the revenue.

Factors that management uses to identify the entity's reportable segments

CIC Insurance Group Limited segments are strategic companies that offer different products and are managed separately based on regulatory requirements.

Description of the types of products and services from which each reportable segment derives its revenues.

CIC Insurance Group Limited has reportable segments; general insurance business, long term insurance business and other business.

Group management internally evaluates its performance based upon:

- Reportable segment profits after tax.
- Capital employed (defined as the total of intangible and tangible assets and working capital).

3. SEGMENT INFORMATION (continued)

The various products and services that the reporting segments derive their revenues from have been described as follows.

	2014 KShs'000	2013 KShs'000
Gross earned premiums		
General insurance business		
Motor	4,134,937	3,443,999
Medical	3,013,158	1,847,401
Fire	634,453	557,898
Personal accident	188,471	182,606
Theft	454,653	370,549
Liability	190,420	171,387
Engineering	140,854	123,874
Others	504,611	366,821
	9,261,557	7,064,535
Life assurance business		
Ordinary life	574,101	437,912
Group life	3,476,908	2,540,549
Annuities	51,376	24,669
	4,102,385	3,003,130
Total gross earned premiums	13,363,942	10,067,665
Reinsurance premiums		
General insurance business		
Engineering	78,289	76,312
Fire	322,929	321,489
Liability	108,706	100,106
Medical	47,950	74,872
Others	265,701	170,733
	823,575	743,512
Life assurance business		
Group credit	68,226	20,666
Employee group life	99,095	94,092
Group Mortgage	35,676	28,140
Individual Life	27,046	25,573
	230,043	168,471
Total reinsurance premiums	1,053,618	911,983

3. SEGMENT INFORMATION (continued)

Investment income: General insurance business	2014 KShs'000	2013 KShs'000
Interest from Government securities	205,763	165,968
Amortisation/discount on Government securities held to maturity	10,356	(26,021)
Bank deposit interest	190,233	179,166
Interest on staff loan receivables	11,840	19,818
Dividend income	8,586	31,181
Rental income from investment properties	90,473	-
Fair value gain on equity investment at fair value through profit or loss	23,326	-
	540,577	370,112
Life assurance business		
Interest from Government securities held to maturity	183,459	146,423
Amortisation/discount on Government securities held to maturity	3,345	(8,401)
Bank deposit interest	137,098	141,405
Interest on staff loan receivables	7,342	4,963
Dividend income	1,397	12,257
Rental income from investment properties	8,660	18,262
Fair value gain on equity investment at fair value through profit or loss	25,791	-
	367,092	314,909
Other business		
Interest from government securities held to maturity	4,375	4,475
Interest receivable on fixed deposits	122,921	31,902
Interest on staff loan receivables	1,450	1,008
Dividend income	91	60
Fair value on equity investment at fair value through profit or loss	15,310	-
	144,147	37,445
Total investment income	1,051,816	722,466

3. SEGMENT INFORMATION (continued)

Other disclosures:	General Insurance business KShs'000	Life Assurance business KShs'000	Other business KShs'000	Total 2014 KShs'000
31-Dec-14				
Reportable segment profits after tax	603,352	239,820	245,268	1,088,440
Reportable segment total assets	10,605,178	6,706,712	10,409,320	27,721,210
Less:				
: Related party balances	(709,599)	(286,251)	(223,973)	(1,219,823)
: Investment in subsidiaries	(1,700,000)	(800,000)	(311,000)	(2,811,000)
Reportable segment total assets-Net	8,195,579	5,620,461	9,874,347	23,690,387
Reportable segment total liabilities	6,817,485	4,772,563	5,976,605	17,566,653
Less: related party balances	-	(242,955)	(840,751)	(1,083,706)
Net	6,817,485	4,529,608	5,135,854	16,482,947
Fees and commission income	239,876	59,761	86,060	385,697
Depreciation of property and equipment	62,365	51,777	15,386	129,528
Amortisation of intangible assets	12,497	19,000	84	31,581
Property and equipment additions	142,337	223,657	112,132	478,126
Intangible assets additions	18,970	20,426	262	39,658
Investment properties transfer	-	300,000	-	300,000
31-Dec-13				
Reportable segment profits after tax	727,876	437,815	240,213	1,405,904
Reportable segment total assets	10,428,522	5,326,892	4,092,254	19,847,668
Less:				
: Related party balances	(619,511)	(160,074)	9,222	(770,363)
: Investment in subsidiaries	-	-	(2,011,000)	(2,011,000)
: movement in investment in associate	-	-	(30,488)	(30,488)
Reportable segment total assets-Net	9,809,011	5,166,818	2,059,988	17,035,817
Reportable segment total liabilities	7,653,211	3,139,784	429,346	11,222,341
Less: Related party balances	(179,545)	(264,875)	(429,005)	(873,425)
Net	7,473,666	2,874,909	341	10,348,916
Fees and Commission Income	250,012	-	53,341	303,353
Depreciation of property and equipment	53,832	28,970	340	83,142
Amortisation of intangible assets	10,340	18,525	25	28,890
Property and equipment additions	261,696	134,105	396,305	792,106
Intangible assets additions	23,600	35,376	100	59,076
Investment properties additions	100,852	621,954	-	722,806

4. INVESTMENT INCOME

GROUP

	2014 KShs'000	2013 KShs'000
Interest from government securities held to maturity	393,597	316,865
Bank deposit interest	450,252	352,473
Interest on staff loan receivables	20,632	25,789
Dividend income	10,074	43,499
Rental income from investment properties	99,133	18,262
Amortisation/discount on government securities classified as held to maturity	17,334	(34,422)
Accrued interest income on government securities classified as available for sale	60,794	-
	1,051,816	722,466
Investment income earned on financial assets, analysed by category of asset is as follows:		
Held to maturity investments	861,183	634,916
Accrued interest income on government securities classified as available for sale	60,794	-
Dividend income	10,074	43,499
Loans and receivables	20,632	25,789
Investment income earned on non-financial assets	99,133	18,262
Total investment income	1,051,816	722,466

Fair value gains relating to financial assets classified as fair value through profit or loss is included in other gains and losses in note 5.

COMPANY

	2014 KShs'000	2013 KShs'000
Interest from government securities	103,601	4,475

5. OTHER GAINS/(LOSSES) - GROUP

	2014	2013
Fair value gains on investment properties (note 13)	639,000	617,211
Fair value gains on quoted equity investments at fair value through profit or loss (note 22)	65,317	81,955
Loss on disposal of property and equipment	-	(210)
Miscellaneous income	67,721	6,642
	772,038	705,598

COMPANY

	2014	2013
Fair value gains on investment properties (note 13(b))	400,000	300,000

No other gains or losses have been recognised in respect of loans and receivables or held to maturity investments, other than as disclosed in this note and note 4 above and impairment losses recognised in respect of premium receivable (see note 7).

6. CLAIMS AND POLICYHOLDERS BENEFITS EXPENSES

	2014 KShs'000	2013 KShs'000
Claims and policyholders benefits payable:		
- Gross	8,911,801	6,291,635
- Reinsurer's share	(1,147,798)	(645,536)
Actuarial adjustment of policyholder's liability	877,872	373,960
	8,641,875	6,020,059

7. OPERATING AND OTHER EXPENSES

	2014 KShs'000	2013 KShs'000
The following items have been charged in arriving at profit before taxation:		
Staff costs (note 8)	900,707	712,804
Auditors' remuneration	6,470	5,200
Directors' fees	35,202	43,048
Directors' emoluments	29,350	20,465
Depreciation (note 11(a))	129,528	83,143
Amortisation (note 12(a))	31,581	28,890
Impairment charge for doubtful premium receivables	120,705	38,494
Premium tax	100,417	87,234
Staff welfare	312,332	310,385
Utilities	274,515	183,643
Printing and stationery	124,752	100,530
Direct operating expense (utilities) arising on rental earning investment property	25,906	14,678
Business advertising and promotion	679,838	515,311
Professional fees	217,061	159,428
Statutory returns	29,229	22,920
Premium collection cost	78,476	8,864
Other	110,456	16,462
	3,206,525	2,351,499
COMPANY		
Directors allowances	9,200	9,186
Audit fee	512	465
AGM expenses	829	2,154
Professional fees	46,961	-
Others	4,785	5,976
	62,287	17,781

8. STAFF COSTS

	2014 KShs'000	2013 KShs'000
Staff costs include the following:		
- Salaries	828,930	651,859
- Pension costs	56,968	47,918
- Leave pay	14,809	13,027
	900,707	712,804

9. TAXATION

GROUP

(a) Statement of profit or loss and other comprehensive income

	2014 KShs'000	2013 KShs'000
Current taxation charge	250,799	278,247
Prior year under provision	-	43
Deferred tax credit (note 21(a))	51,075	88,246
	301,874	366,536

(b) Statement of Financial Position

	2014 KShs'000	2013 KShs'000
At 1 January	(22,309)	74,556
Taxation charge	250,799	278,247
Prior year under provision	-	43
Tax charge on transfer to retained earnings	30,000	30,000
Tax paid	(304,812)	(405,155)
At 31 December	(46,322)	(22,309)

9. TAXATION (continued)

c) Reconciliation of taxation expense to expected tax based on accounting profit

	2014 KShs'000	2013 KShs'000
Profit before taxation	1,390,314	1,671,095
Tax calculated at a tax rate of 30%	417,094	501,328
Prior year adjustment	-	101,345
Tax effect of expenses not deductible for tax	19,491	29,608
Prior year tax under-provision	545	43
Tax effect of income not subject to tax	(135,256)	(265,788)
Taxation charge for the year	301,874	366,536

COMPANY

(a) Statement of comprehensive income

Current taxation charge	-	-

(b) Statement of financial position

At 1 January	2,000	2,000
Paid during the year	-	-
At 31 December	2,000	2,000

c) Reconciliation of taxation expense to expected tax based on accounting profit

Profit before taxation	766,314	864,194
Tax calculated at a tax rate of 30%	229,894	259,258
Tax effect of expenses deductible for tax		
Tax effect of income not subject to tax	(229,824)	(259,258)
Taxation charge for the year	-	-

10. EARNINGS PER SHARE – BASIC AND DILUTED

Basic earnings per share is calculated based on the profit attributable to shareholders divided by the weighted average number of ordinary shares in issue in each period as follows:

	GROUP		COMPANY	
	2014	2013	2014	2013
Profit attributable to ordinary shareholders' (KShs'000)	1,088,440	1,304,559	766,314	864,194
Weighted average number of shares (in thousands)	2,615,578	2,615,578	2,615,578	2,615,578
Earnings per share (KShs) – Basic and diluted (KShs)	0.42	0.50	0.29	0.33

There were no dilutive shares during the year (2013: Nil).

11. PROPERTY AND EQUIPMENT – GROUP

2014	Buildings	Motor vehicles	Computers	Furniture fittings & equipment	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST OR VALUATION					
At 1 January	695,814	62,800	194,073	402,958	1,355,645
Additions	16,352	9,694	19,568	432,512	478,126
Revaluation gains	87,834	-	-	-	87,834
Transfer to investment property	(300,000)	-	-	-	(300,000)
At 31 December	500,000	72,494	213,641	835,470	1,621,605
COMPRISING:					
Cost	412,166	72,494	213,641	835,470	1,533,771
Valuation –	87,834	-	-	-	87,834
	500,000	72,494	213,641	835,470	1,621,605
ACCUMULATED DEPRECIATION					
At 1 January	-	32,606	103,844	98,606	235,056
Charge for the year	-	9,972	27,449	92,107	129,528
At 31 December	-	42,578	131,293	190,713	364,584
CARRYING AMOUNT					
At 31 December	500,000	29,916	82,348	644,757	1,257,021
CARRYING AMOUNT - COST BASIS					
At 31 December	500,000	24,372	81,997	611,511	940,068

11. PROPERTY AND EQUIPMENT – GROUP (continued)

2013	Buildings KShs'000	Motor vehicles KShs'000	Computers KShs'000	Furniture fittings & equipment KShs'000	Total KShs'000
COST OR VALUATION					
At 1 January	142,980	52,785	134,539	172,220	502,524
Additions	489,354	12,480	59,534	230,738	792,106
Disposals	-	(2,465)	-	-	(2,465)
Revaluation gains	63,480	-	-	-	63,480
At 31 December	695,814	62,800	194,073	402,958	1,355,645
COMPRISING:					
Cost	632,334	62,800	194,073	402,958	1,292,165
Valuation	63,480	-	-	-	63,480
	695,814	62,800	194,073	402,958	1,355,645
ACCUMULATED DEPRECIATION					
At 1 January	-	24,441	73,771	55,128	153,340
Charge for the year	-	9,590	30,073	43,478	83,141
Eliminated on disposals	-	(1,425)	-	-	(1,425)
At 31 December	-	32,606	103,844	98,606	235,056
CARRYING AMOUNT					
At 31 December	695,814	30,194	90,229	304,352	1,120,589
CARRYING AMOUNT - COST BASIS					
At 31 December	632,334	32,659	90,229	304,352	1,059,574

11. PROPERTY AND EQUIPMENT – GROUP (continued)

An independent valuation of the buildings was carried out at 31 December 2014 by Crystal Valuers Limited, registered valuers, on open market value basis. The resultant revaluation surplus has been dealt with through other comprehensive income and accumulated in revaluation surplus as a separate component of equity.
The fair value of property and equipment are assessed every year.
No borrowing costs have been capitalised in the additions to property and equipment. None of the above assets was pledged as collateral for liabilities.

12. INTANGIBLE ASSETS

	2014 KShs'000	2013 KShs
COST		
At 1 January	225,476	166,400
Additions	39,658	59,076
At 31 December	265,134	225,476
ACCUMULATED AMORTISATION		
At 1 January	138,806	109,916
Charge for the year	31,581	28,890
At 31 December	170,387	138,806
CARRYING AMOUNT		
At 31 December	94,747	86,670

The intangible assets relate to costs incurred in the acquisition of various software in use by the Group. The cost is amortised on a straight-line basis over their estimated useful lives of four years.

13. INVESTMENT PROPERTIES

GROUP

	CIC plaza I&II KShs'000	Kamiti Land KShs'000	Kajiado Land KShs'000	Work in progress KShs'000	Total KShs'000
At 1 January 2013	322,020	1,200,000	500,000	532,452	2,554,472
Additions	458,257	-	559,512	(532,452)	485,317
Fair value gains	194,723	300,000	122,488	-	617,211
At 31 December 2013	975,000	1,500,000	1,182,000	-	3,657,000
At 1 January 2014	975,000	1,500,000	1,182,000	-	3,657,000
Transfer from property and equipment	300,000	-	-	-	300,000
Fair value gains (note 5)	125,000	400,000	114,000	-	639,000
At 31 December 2014	1,400,000	1,900,000	1,296,000	-	4,596,000

13. INVESTMENT PROPERTIES (continued)

	2014	2013
	KShs'000	KShs'000
The movement in the year is as shown below:		
At 1 January	3,657,000	2,554,472
Additions: Cash paid	-	485,317
Transfer from property and equipment	300,000	-
Fair value gains (note 5)	639,000	617,211
At 31 December	4,596,000	3,657,000

(b) COMPANY

	2014	2013
At 1 January	1,500,000	1,200,000
Fair value gains	400,000	300,000
At 31 December	1,900,000	1,500,000

All investment properties were re-valued by Crystal Valuers Limited, registered valuers at 31 December 2014 on the basis of open market value. Crystal Valuers Limited are industry specialists in valuing these types of investment properties. In arriving at the value of the of the investment property, the valuer used capitalization of the rental income using the year purchase method. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Generally, a change in the assumption made for the estimated rental value is accompanied by:
☐i) a directionally similar change in the rent growth per annum and discount rate (and exit yield)
☐ii) an opposite change in the long term vacancy rate

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable Inputs	average
Capitalized rent income (year purchase) method		
	Net annual rent	25,000,000
	Annual rent growth rate	5%
	Discounting rate	13%

Considering the physical economic parameters in the country and the trends in property markets, management is of the opinion that there will not be significant change in the inputs to the valuation method during the year. The valuation takes into account recent prices of similar properties with adjustments made to reflect any changes in economic conditions since the date of the transactions at those prices.

13. INVESTMENT PROPERTIES (continued)

Valuations are performed on an annual basis and the fair value gains and losses are recorded within the profit or loss.

The fair valuation basis takes into account the existing use and the tendencies and also considers the normal lease structure for similar buildings.

14. INVESTMENT IN ASSOCIATE

The holding in Takaful Insurance of Africa Limited represents 24% (2013 – 24%) of the issued ordinary share capital. The associate is a limited liability company incorporated and domiciled in Kenya. Its principal activity is transaction of general insurance business and the financial year end is 31 December. The company is not listed on any stock exchange.

	GROUP		COMPANY	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Takaful Insurance of Africa Limited				
At 1 January	109,872	70,447	140,320	100,000
Additional investment during the year	-	40,320	-	40,320
Share of profit/(loss) after taxation	7,682	(895)	-	-
At 31 December	117,554	109,872	140,320	140,320

Summarised financial information in respect of the associate is set out below:

	2014	2013
	KShs'000	KShs'000
Total assets	1,212,879	841,338
Total liabilities	693,320	407,561
Equity	519,559	433,777
Cash and cash equivalents	118,125	115,304
Depreciation	21,614	29,214
Amortisation	-	-
Interest income	-	-
Interest expense	-	-
Income tax expense	-	-
Group's carrying amount of the investment	124,694	103,230
Net earned premiums	519,977	432,817
Investment and other income	30,242	31,273
Net claims and policy holder benefits payable	(194,700)	(130,345)
Operating and commissions expense	(323,239)	(337,507)
Profit/(loss) for the year	32,280	(3,762)
Group's share of profit/(loss) of associate	7,682	(895)
Group's share of associate's contingent liabilities	Nil	Nil

14. INVESTMENT IN ASSOCIATE (continued)

The extent to which an outflow of funds will be required on the Group's share of associate's contingent liabilities is dependent on the future operations of the associate being more or less favourable than currently expected. In common practice with the insurance industry in general, the associate is subjected to litigation arising in the normal course of insurance business.

15. INVESTMENT IN SUBSIDIARIES - COMPANY

	2014	2013
	KShs'000	KShs'000
CIC Asset Management Limited:		
550,000 ordinary shares of KShs 20 each at cost	311,000	311,000
CIC General Insurance Limited:		
85,000,000 (2013: 45,000,000) ordinary shares of KShs 20 each at cost	1,700,000	900,000
CIC Life Assurance Limited:		
40,000,000 ordinary shares of KShs 20 each at cost	800,000	800,000
Total	2,811,000	2,011,000

Company	*Share capital KShs '000*	*Country of Incorporation*	*Principal activity*	*Percentage Holding*
CIC Asset Management Limited	311,000	Kenya	Funds and assets management as regulated by the Capital Markets Authority.	100%
CIC General Insurance Limited	1,700,000	Kenya	Underwriting general insurance business.	100%
CIC Life Assurance Limited	800,000	Kenya	Underwriting life assurance business.	100%

16. GOVERNMENT SECURITIES CLASSIFIED AS HELD TO MATURITY

	2014	2013
	KShs '000	KShs '000
(a) GROUP		
At 1 January	2,375,683	2,101,355
Reclassification of government securities to available for sale	(1,770,383)	-
Additions	90,000	540,000
Maturities	-	(231,250)
Amortisation/(discount)	13,702	(34,422)
At 31 December	709,002	2,375,683
Treasury bills and bonds maturing		
- within 90 days	20,390	7,290
- after 90 days	688,612	2,368,393
At 31 December	709,002	2,375,683

Treasury bonds amounting to KShs 695 million (31 December 2013: KShs 605 million) are held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Kenyan Insurance Act.

16. GOVERNMENT SECURITIES HELD TO MATURITY (continued)

	2014	2013
	KShs '000	KShs '000
(b) COMPANY		
At 1 January	36,757	36,700
Reclassification of government securities as available for sale	(36,757)	-
Amortisation/discount	-	57
At 31 December	-	36,757
Treasury bills and bonds maturing		
- after 90 days	-	36,757

17. LOANS AND RECEIVABLES

	2014	2013
MORTGAGE LOANS: GROUP		
At 1 January	314,691	240,869
Loans advanced	259,669	154,325
Loan repayments	(128,134)	(80,503)
At 31 December	446,226	314,691
Mortgage loans		
Maturity profile of mortgage loans:		
Within 1 year	5,462	36
In 1-5 years	28,476	28,306
In over 5 years	412,288	286,349
	446,226	314,691

18. OTHER LOANS

	2014	2013
(a) GROUP		
Staff loans	367,984	297,850
Policy loans	57,751	34,431
	425,735	332,281
(b) COMPANY		
Staff loans	130,639	41,729
Movement:		
At 1 January	41,729	39,018
Loans advanced	88,910	7,738
Loan repayments	-	(5,027)
At 31 December	130,639	41,729

19. GOVERNMENT SECURITIES CLASSIFIED AS AVAILABLE FOR SALE

(a) GROUP	2014 KShs'000	2013 KShs'000
At 1 January	-	-
Reclassification from government securities held to maturity	1,770,383	-
Additions	210,000	-
Maturities	(131,382)	-
Fair value loss on available for sale investments	(54,990)	-
At 31 December	1,794,011	-

20. EQUITY INVESTMENTS CLASSIFIED AS AVAILABLE FOR SALE

GROUP	2014	2013
(b) COMPANY		
At 1 January	-	-
Reclassification from government securities held to maturity	36,757	-
Amortisation/discount	3,243	-
Fair value (loss)/gain on available for sale investment	(3,697)	-
At 31 December	36,303	-
Treasury bills and bonds maturing		
- after 90 days	36,303	-
At 31 December	36,303	-

	KShs'000	KShs'000
Unquoted shares:		
Shares held in Co-op Holding Co-operative Society Limited	16,994	13,694
Shares held in Allnations, Inc. – at cost	673	673
	17,667	14,367

The movement in available-for-sale investments is as follows:

At 1 January	14,367	19,844
Fair value gains/(losses)	3,300	(5,477)
At 31 December	17,667	14,367

Shares in Co-op Holding Co-operative Society Limited and were acquired before the initial public offer (IPO) in 2009 and are not listed on the Nairobi Securities Exchange Limited (NSE). These shares are usually valued at the higher of 40% of the monthly average quoted price of Co-operative Bank of Kenya Limited shares at NSE or Kenya Shillings Eleven (KShs 11/=) per the shareholders' agreement.As at 31 December 2014, the shares were valued at KShs 11.17 which approximates their fair value.

The fair value of the shares held in Allnations, Inc. has not been disclosed as their fair value cannot be measured reliably.

21. DEFERRED TAXATION

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2013: 30%).

GROUP

2013 – RESTATED	At 1 January- Restated	Recognised in Profit or loss	At 31 Decemb
Arising from:			
Accelerated depreciation for tax purposes	98	1,902	2,000
Provision and accruals	1,211	11,197	12,408
Tax losses	6,800	-	6,800
Deferred tax on life fund surplus	(254,734)	(101,345)	(356,079)
	(246,625)	(88,246)	(334,871)
Deferred tax asset	8,109	13,099	21,208
Deferred tax liability	(254,734)	(101,345)	(356,079)
2014			
Arising from:			
Accelerated depreciation for tax purposes	2,000	2,314	4,314
Provision and accruals	12,408	6,533	18,941
Tax losses	6,800	-	6,800
Deferred tax on life fund surplus	(356,079)	(59,922)	(416,002)
	(334,871)	(51,075)	(385,,946)
Deferred tax asset	21,208	8,847	30,055
Deferred tax liability	(356,079)	(59,922)	(416,001)

COMPANY

The deferred tax asset is attributable to the following items:		
Tax losses	6,800	6,800
Net deferred tax asset	6,800	6,800
The movement in the deferred tax account is as follows:		
At 1 January	6,800	6,800
Profit or loss credit	-	-
At 31 December	6,800	6,800

In the current year, no deferred tax asset arising from tax losses amounting to KShs 44 million, has been recognised as it is not expected that the company will have taxable profits in the foreseeable future against which the temporary differences and tax losses can be utilised. The tax losses can only be carried forward for four years as per the requirement of the Kenya Income Tax Act.

21. DEFERRED TAXATION (continued)

PRIOR YEAR ADJUSTMENT

The Group's actuarial surplus arising from the re-measurement of assets and liabilities held in the life fund to their fair value is transferred to the statutory reserve. Under the Income Tax Act, the statutory reserve(life fund) is not subject to income tax until such time when a portion of the surplus (or deficit) as determined by the actuary, has been recommended for "distribution" to the shareholders' fund or the shareholder are required to inject more capital in case of deficit. The actuarial surplus (deficit) in substance represents profits or losses recognised in the income statement of the life insurance business which have not been recommended for transfer for the benefit of shareholders or shareholders required to inject cash and therefore not taxed. Even though the profits and losses were recognised from an accounting perspective, they only affect taxable profits once recommended for transfer for benefit of shareholders by an actuary. Therefore the difference between the tax base of the statutory life fund and its carrying amount is a taxable temporary difference that gives rise to a deferred income tax liability.

In the previous years, life insurers in Kenya generally did not compute deferred tax on life fund based on previous application of the definition and recognition principles of deferred tax as contained in IAS 12. The life insurers accounted for the assets and liabilities of the life business in the life fund since life insurance entities split their business within a legal entity into two components - the Life Fund (for policyholders) and the shareholders' fund. The previous accounting treatment adopted by the Group was based on the interpretation of what constituted the re-measurement of the assets and liabilities of the life fund. At the time, the life fund was seen as distinct non-tax paying entity from the shareholders fund. As the life fund was exempt from taxation, the re-measurement of an asset that would give rise to potential deferred taxation was that of the life fund as a whole which was triggered by the distribution of the surplus to the shareholders fund by the actuary. As any such distribution is fully taxable immediately on distribution, this re-measurement of the life fund as a whole did not give rise to any deferred taxation.

However, there is a timing difference between the recording of accounting and taxable profit and the profit is merely deferred for tax purposes in the actuarial surplus (statutory reserve). IAS 12.IN2 sets out that all timing differences are also temporary differences and since there are no exemptions from recognising deferred income tax for taxable temporary differences on profit then deferred tax should therefore be recognised. Further, there has been a shift in thinking when considering the life fund as being distinct from the shareholders' funds. This thinking has been further emphasised by the IFRS 10 which provides further guidance as to what constitutes a silo. Without this distinction between the different components, the tax consequences of what is now viewed as co-mingled assets in a single entity are taken into account immediately and the allocation of profit by the actuary no longer becomes the triggering event for a re-measurement.

In the light of current IFRS requirement, the group has decided to account for deferred tax retrospectively. Having measured the total policyholders' assets and liabilities, the surplus represents an expectation of how the assets/ liabilities of the entity would be realised at the reporting date. Thus the surplus on re-measurement of the assets and liabilities of the Group creates a potential temporary difference – that is, an amount that will ultimately be subject to taxation once it is allocated.

With now no distinction being seen between the life fund and the shareholders' fund in the same entity, any surplus creates potential temporary differences which are now considered for the purposes of deferred taxation. As the assets and liabilities at reporting date are realised or crystallise, the full surplus will ultimately be fully allocated to shareholders. Hence deferred taxation is now being provided on the full re-measurement i.e. surplus.

The Group has restated the surplus fund given the background outlined above. The effect of the restatement has been disclosed from the perspective of this Group in the note below:

21. DEFERRED TAXATION (continued)

PRIOR YEAR ADJUSTMENT (continued)

Statutory fund	2012	2013	2014
	KShs '000	KShs '000	KShs '000
	Restated	Restated	
Fund balance as at 01 January	-	594,381	830,851
Surplus arising on transfer of assets	651,418	-	-
Deferred tax on surplus arising on transfer of assets	(195,425)	-	-
Profit for the year	297,697	437,851	299,742
Transfer to retained earnings (shareholders)	(100,000)	(100,000)	(100,000)
Profit for the year after transfer to shareholders	197,697	337,851	199,742
Deferred tax on profit for the year after transfer to shareholders	(59,309)	(101,345)	(59,923)
Fund balance as at 31 December	594,381	830,851	970,671
Fund balance before restatement	(849,115)	(1,186,930)	-
Restatement	(254,734)	(356,079)	-
Deferred tax cumulative fund balance	195,425	254,734	356,079
Deferred tax on surplus	59,309	101,345	59,923
	254,734	356,079	416,001

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	2013
	KShs'000	KShs'000
Quoted investments:		
At 1 January	282,031	203,376
Additions/(disposal)	12,604	(3,300)
Fair value gain (note 5)	65,317	81,955
At 31 December	359,952	282,031

At year end, these are valued at the weighted average price on the Nairobi Securities Exchange Limited on the last day of trading in that year.

23. DEPOSITS AND COMMERCIAL PAPER

(a) GROUP

	2014 KShs'000	2013 KShs'000
OTHER DEPOSITS		
Nawiri Co-operative Society Limited	22,403	21,200
K'Unity Finance Limited	-	24,813
CIC SACCO Society Limited	44,523	64,399
Investment in collective investment scheme (CIC Unit Trust)	1,834,795	608,801
COMMERCIAL PAPER:		
Nakumatt Holdings Limited	57,005	48,922
Kenya Electricity Generating Company Limited	11,754	29,939
TPS Serena Limited	20,198	20,198
UAP corporate bond	32,698	-
Athi River Mining	306,857	-
	2,330,233	818,272
Maturity analysis		
Maturing within three months	57,005	48,922
Maturing after 3 months	2,273,228	769,350
Total deposits and commercial paper	2,330,233	818,272

(b) COMPANY

	2014 KShs'000	2013 KShs'000
OTHER DEPOSITS		
Investment in collective investment scheme (CIC Unit Trust)	758,307	-
COMMERCIAL PAPER:		
Athi River Mining	306,857	-
	1,065,164	-
Maturity analysis		
Maturing after 3 months	1,065,164	-
Total deposits and commercial paper	1,065,164	-

24. DEFERRED ACQUISITION COSTS

GROUP	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
At 1 January 2013	343,776	(23,846)	319,930
Increase in the year	41,597	-	41,597
At 31 December 2013	385,373	(23,846)	361,527
At 1 January 2014	385,373	(23,846)	361,527
New acquisition costs deferred	46,311	(3,824)	42,487
Amortisation	39	(3)	36
At 31 December 2014	431,723	(27,673)	404,050

25. DIRECT INSURANCE AND REINSURERS RECEIVABLES

Receivables arising out of direct insurance arrangements relate to premiums earned as a result of risks underwritten but whose amounts have not been received as at year end. Receivables arising out of reinsurance arrangements relate to reinsurers portion of claims incurred which had not been recovered from reinsurers' as at year end.

26. OTHER RECEIVABLES

	2014	2013
(a) GROUP	KShs'000	KShs'000
(b)		
Staff advances	20,863	18,112
Other receivables	91,278	128,295
VAT recoverable	37,063	71,979
Medical fund administration scheme	113,954	56,972
Motor vehicle benefits recoverable	56,823	27,344
Interest receivable – financial assets available for sale	49,407	-
Prepayments	76,652	-
Total receivables	446,040	302,702

(b) COMPANY		
Other receivables	38,642	13,225
Dividend receivable	-	175,644
Interest receivable – financial assets available for sale	290	-
Total receivables	38,932	188,869

27. RELATED PARTIES

GROUP

Due from related company:		
Co-operative Insurance Society Limited	16,718	16,595
Due from regional offices	255,730	-
	272,448	16,595

The Group has various related parties, most of whom are related by virtue of being shareholders, and partly due to common directorships.

	2014	2013
	KShs'000	KShs'000
(a) Transaction with related parties during the year		
The following transactions were carried out with related parties during the year:		
Net earned premium	987,793	987,793
Net claims incurred	247,346	247,346
Interest earned on bank deposits	187,242	187,242

Transactions with related parties are in the ordinary course of business and on terms and conditions similar to those offered to other clients.

27. RELATED PARTIES (continued)

(b) Outstanding balances with related parties

	2014 KShs'000	2013 KShs'000
(i) Term deposits and bank balances		
Fixed deposits	1,166,045	491,555
Cash balance	558,768	404,559
	1,724,813	896,114
(ii) Insurance balances		
Premiums receivable from related parties	49,394	49,394

(c) Key management personnel remuneration

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

	2014 KShs'000	2013 KShs'000
Short-term employment benefits:		
Directors		
Directors 'emoluments - fees	20,123	14,165
Others	46,897	22,819
Leave allowance	721	456
Key management staff:		
Salary	83,724	81,554
Leave allowance	692	763
Car allowance	11,835	10,713
Post-employment benefits:		
NSSF	209	43
Pension	7,805	7,309
	172,006	137,822

COMPANY		
Due from related company:		
Co-operative Insurance Society Limited	16,718	16,595
Due from regional offices	255,730	-
CIC Africa Insurance (SS) Limited	91,568	-
	352,786	16,595

27. RELATED PARTIES (continued)

	2014	2013
	KShs'000	KShs'000
Due to- Company		
CIC Asset Management Limited	7,594	2,649
CIC General Insurance Limited	329,554	298,308
CIC Life Assurance Limited	269,404	128,048
	606,552	429,005

The company has various related parties, most of whom are related by virtue of common directorships.

(a) Transaction with related parties during the year

	2014	2013
	KShs'000	KShs'000
The following transactions were carried out with related parties during the year:		
Interest earned on bank deposits	69,210	-
Interest earned on unit trusts	2,912	-
	72,122	-

Transactions with related parties are in the ordinary course of business and on terms and conditions similar to those offered to other clients.

(b) Outstanding balances with related parties

	2014	2013
	KShs'000	KShs'000
Term deposits and bank balances		
Fixed deposits	3,249,210	-

(c) Loans to directors of the Company

The Company did not advance loans to its directors in the year ended 31 December 2014 and 31 December 2013.

(d) Key management personnel remuneration

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

	2014	2013
	KShs'000	KShs'000
Directors 'emoluments – fees	9,200	9,186

28. DEPOSITS WITH FINANCIAL INSTITUTIONS

(a) GROUP

	2014 KShs'000	2013 KShs'000
The Co-operative Bank of Kenya Limited	4,331,452	491,555
Housing Finance Company of Kenya Limited	356,550	261,296
K-Rep Bank Limited	360,265	453,134
Bank of Africa Limited	212,862	204,609
Barclays Bank of Kenya Limited	16,814	15,498
PTA Bank	-	2,059
Consolidated Bank of Kenya Limited	129,301	271,614
Equitorial Commercial Bank	20,623	-
Kenya Commercial Bank Limited	86,283	-
Development Bank of Kenya Limited	218,475	290,100
National Bank of Kenya Limited	324,744	120,973
Chase Bank Limited	466,753	387,390
ABC Bank Kenya Limited	428,392	431,310
Transnational Bank Limited	194,392	224,216
Family Bank Limited	182,238	23,639
Jamii Bora Bank Limited	121,302	166,014
Commercial Bank of Africa	26,494	-
	7,476,940	3,343,407
Maturity analysis:		
Maturing within three months	1,882,951	2,156,433
Maturing after 3 months	5,593,989	1,186,974
	7,476,940	3,343,407

(b) COMPANY

	2014 KShs'000	2013 KShs'000
The Co-operative Bank of Kenya Limited	3,249,635	-
Maturity analysis:		
Maturing after 3 months	3,249,635	-

29. SHARE CAPITAL

	2014		2013	
	Number of shares '000	Share capital KShs'000	Number of shares '000	Share capital KShs'000
Authorised ordinary shares of KShs 1 each (2013: KShs 1 each):				
At 1 January	3,000,000	3,000,000	3,000,000	3,000,000
At 31 December	3,000,000	3,000,000	3,000,000	3,000,000
Issued and fully paid up share capital:				
At 1 January	2,179,655	2,179,655	2,179,655	2,179,655
Bonus issue by capitalisation of share premium	435,923	435,923	-	-
At 31 December	2,615,578	2,615,578	2,179,655	2,179,655

30. SHARE PREMIUM

	2014 KShs'000	2013 KShs'000
Share premium	598,102	598,102
Capitalisation by issuance of bonus shares	(435,923)	-
	162,179	598,102

31. STATUTORY RESERVE

The statutory reserve represents the surplus on the life assurance business which is not distributable as dividends as per the requirements of the Kenyan Insurance Act.

Transfer from statutory reserve relates to the proportion of the life assurance business surplus which is distributable as dividends and therefore transferred to retained earnings. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated surplus of the long term business.

32. REVALUATION SURPLUS

The revaluation surplus represents the surpluses on the revaluation of buildings and is not distributable as dividends.

33. FAIR VALUE RESERVE

The fair value reserve represents fair value gains arising from available for sale financial instruments and is not distributable as dividends.

34. RETAINED EARNINGS

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the Company.

Retained earnings include fair value gains on revaluation of investment properties which are unrealised and whose distribution is subject to restrictions imposed by the Kenya Insurance Act.

35. BORROWINGS- CORPORATE BOND

	2014 KShs'000	2013 KShs'000
At start of year	-	-
Issue during the year	5,000,000	-
Accrued interest	150,000	-
Bond related expenses	(101,147)	-
Amortisation of bond expenses	3,413	-
At end of year	5,052,266	-

The principal amount of the corporate bond is KShs 5 billion with a maturity date of 2 October 2019. Interest rate is at 13% per annum, payable semi -annually, with the principal amount payable on maturity of the bond after five years.

36. OTHER PAYABLES

	2014 KShs'000	2013 KShs'000
(a) GROUP		
Sundry payables	173,880	467,017
Advance premiums	346,003	46,602
Leave pay provision	5,889	739
Rent deposits	20,413	3,357
	546,185	517,715☐
(b) COMPANY		
Sundry payables	15,904	465

37. DIVIDENDS

In respect of the current year, the directors propose a first and final dividend of KShs 261,557,800 (2013: KShs 217,965,500) which represents 10% of the paid up share capital (2013 – 10%) be paid to shareholders. This is subject to approval by shareholders at the Annual General Meeting and has not been recognised as a liability in these financial statements.

Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence of the shareholders.

	2014 KShs'000	2013 KShs'000
At 1 January	23,151	2,357
Declared during the year	217,966	217,966
Paid during the year	(201,770)	(197,172)
Withholding tax	(4,685)	-
At 31 December	34,662	23,151

38. REINSURERS' SHARE OF INSURANCE LIABILITIES AND RESERVES

	2014	2013
	KShs'000	KShs'000
GROUP		
Reinsurers' share of:		
- General insurance contract liabilities (note 42)	274,163	1,272,069
- Life assurance contract liabilities	19,747	52,532
Total	293,910	1,324,601
- unearned premium and unexpired risks (note 40)	345,304	370,749
Total	639,214	1,695,350

Amounts due from reinsurers in respect of claims already paid by the Group on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the Statement of Financial Position. Movements in the above reinsurance assets are shown in notes 40 and 41.

39. ACTUARIAL VALUE OF POLICYHOLDER LIABILITIES

The actuarial valuation of the policyholder benefit and of the life fund was carried out by The Actuarial Services Company Limited who are statutory actuaries and consultants. Their valuation resulted to an actuarial liability for policyholder benefits of KShs 3,288,325,000 as at 31 December 2014 (2013 - KShs 2,334,927,000). Further, the statutory actuaries recommended a transfer of KShs 100 million (2013- KShs 100 million) from the life fund to the retained earnings.

40. PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS

The unearned premiums reserve represents the portion of the premium written in years up to the accounting date which relates to the unexpired terms of policies in force at the end of each reporting period. The movement in the reserve is shown below:

GROUP

	Gross	Reinsurance	Net
	KShs'000	KShs'000	KShs'000
2013			
At 1 January	3,092,113	(385,815)	2,706,298
Increase in the year (net)	978,582	15,066	993,648
At 31 December	4,070,695	(370,749)	3,699,946
2014			
At 1 January	4,070,695	(370,749)	3,699,946
Increase in the year (net)	326,264	25,445	351,709
At 31 December	4,396,959	(345,304)	4,051,655

41. INSURANCE CONTRACTS LIABILITIES

GROUP	2014 KShs'000	2013 KShs'000
Claims reported and claims handling expenses:		
At 1 January		
- General insurance	1,484,134	1,332,454
- Life assurance	294,565	285,723
	1,778,699	1,618,177
Claims incurred in the year	5,695,732	5,594,753
Payments for claims and claims handling expenses	(5,083,618)	(5,434,231)
At 31 December	2,390,813	1,778,699
Comprising:		
- General insurance (note 42)	1,994,158	1,484,134
- Life assurance	396,655	294,565
At 31 December	2,390,813	1,778,699
Comprising:		
At 31 December:		
Gross amounts	2,684,723	3,103,300
Reinsurers share (note 38)	(293,910)	(1,324,601)
	2,390,813	1,778,699

Movement in general insurance contract liabilities is shown in note 42.

42. MOVEMENTS IN GENERAL INSURANCE LIABILITIES AND REINSURANCE ASSETS

GROUP

General (short term) insurance business
2014

	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
Notified claims	2,479,591	(1,272,069)	1,207,522
Incurred but not reported	276,612	-	276,612
At 1 January	2,756,203	(1,272,069)	1,484,134
Cash paid for claims settled in year	(6,106,021)	2,801,944	(3,304,077)
Increase in liabilities arising from:			
Current year claims	4,192,951	(1,650,638)	2,542,313
Prior year claims	1,425,188	(153,400)	1,271,787
At 31 December	2,268,321	(274,163)	1,994,158
Notified claims	1,606,170	(274,163)	1,332,007
Incurred but not reported	662,151	-	662,151
At 31 December	2,268,321	(274,163)	1,994,158

42. MOVEMENTS IN GENERAL INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

GROUP

General (short term) insurance business (continued)
2013

	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
Notified claims	2,570,565	(1,486,683)	1,083,882
Incurred but not reported	248,572	-	248,572
At 1 January	2,819,137	(1,486,683)	1,332,454
Cash paid for claims settled in year	(4,468,286)	506,905	(3,961,381)
Increase in liabilities arising from:			
Current year claims	3,300,479	(67,403)	3,233,076
Prior year claims	1,104,873	(224,888)	879,985
At 31 December	2,756,204	(1,272,069)	1,484,134
Notified claims	2,479,591	(1,272,069)	1,207,522
Incurred but not reported	276,612	-	276,612
At 31 December	2,756,204	(1,272,069)	1,484,134

43. NOTES TO THE STATEMENT OF CASH FLOWS – GROUP

Reconciliation of profit before taxation to cash generated from operations:

	2014 KShs'000	2013 KShs'000
Profit before taxation	1,390,314	1,671,095
Adjustments for:		
Depreciation (note 11)	129,528	83,141
Amortisation of intangible assets (note 12)	31,581	28,890
Fair value gains on revaluation on investment property (note 13)	(639,000)	(617,211)
Interest income	(864,481)	(695,127)
Dividend income	(10,074)	(43,499)
Share of (profit)/ loss of associate (note 14)	(7,682)	895
Loss on disposal of property and equipment (note 5)	-	210
Amortisation/(discount) on Government securities held to maturity (note 16)	(13,702)	34,422
Fair value gain on equity investment at fair value through profit or loss (note 22)	(65,317)	(81,955)
Increase in deferred acquisition costs (note 26)	(42,523)	(41,597)
Increase in provision for unearned premium (note 40)	326,264	978,582
Increase in insurance contracts liabilities (note 41)	(418,577)	(94,499)
Working capital changes;		
Increase/(decrease) in receivables arising out of direct insurance arrangements	38,158	(358,056)

43. NOTES TO THE STATEMENT OF CASH FLOWS – GROUP (continued)

	2014 KShs'000	2013 KShs'000
Increase in receivables arising out of reinsurance arrangements	(2,928)	(190,551)
Decrease in share of reinsurance liabilities and reserves	1,056,136	270,087
Increase in other receivables	(143,338)	(168,435)
increase in other payables	28,470	349,102
Increase in actuarial value of policyholders liabilities	953,398	409,023
(Decrease)/Increase in payables arising from reinsurance arrangement and other insurance bodies	(235,302)	164,329
Increase in dividends payable	11,511	20,794
(increase)/ decrease in related party balances	(255,853)	26
Cash generated from operations	1,266,583	1,719,666
Cash and cash equivalents comprises of:		
Bank and cash balances	559,075	457,938
Deposits with banks maturing within 3 months (note 28)	1,882,951	2,156,433
	2,442,026	2,614,371

44. CONTINGENT LIABILITIES

Bank guarantees	157,349	164,809

In common practice with the insurance industry in general, the Group is subjected to litigation arising in the normal course of insurance business. The directors are of the opinion that any pending litigations will not have a material effect on the financial position or performance of the Group.

The Company does not have any contingent liabilities.

45. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

The table below summarises the weighted average effective interest rates realised during the year on the principal interest-bearing investments:

	2014 %	2013 %
Government securities	12	12
Mortgage loans	4	4
Policy loans	4	4
Deposits with financial institutions	11	11
Other deposits and commercial papers	10	10

46. CAPITAL COMMITMENTS

Capital expenditure committed at the end of the reporting period but not recognised in the financial statements is as follows:

	2014	2013
	KShs'000	KShs'000
Committed and contracted for	-	-
Committed but not contracted for	3,003,000	3,003,000

The company does not have any capital commitments.

47. OPERATING LEASE COMMITMENTS

Group as a lessee

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

	2014	2013
	KShs'000	KShs'000
Not later than one year	31,799	17,016
Later than 1 year but not later than 5 years	70,317	31,974
	102,116	48,990

Group as a lessor

Net rental income earned during the year was KShs 99,133,000 (2013: KShs 18,222,000). At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

	2014	2013
	KShs'000	KShs'000
Not later than one year	68,893	14,350
Later than 1 year but not later than 5 years	405,987	28,119
	474,980	42,469

Leases are for a period of six years.

48. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The disclosures below summarise the way the Group manages key risks:

(1) Insurance risk

The risk under any one insurance contract arises from 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 Group 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.

Insurance risk in the Group arises from:

(a) Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
(b) Unexpected claims arising from a single source;
(c) Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
(d) Inadequate reinsurance protection or other risk transfer techniques; and
(e) Inadequate reserves

(a), (b) and (c) can be classified as the core insurance risk, (d) relates to reinsurance planning, while (e) is about reserving.

Core insurance risk

This risk is managed through:

- Diversification across a large portfolio of insurance contracts;
- Careful selection guided by a conservative underwriting philosophy;
- Continuous monitoring of the business performance per class and per client and corrective action taken as deemed appropriate;
- A minimum of one review of each policy at renewal to determine whether the risk remains within the acceptable criteria;
- Having a business acceptance criteria which is reviewed from time to time based on the experience and other developments; and
- Having a mechanism of identifying, quantifying and accumulating exposures to contain them within the set underwriting limits.

Reinsurance planning

Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the Group. The bases of these purchase is underpinned by the Group's experience, financial modelling by and exposure of the reinsurance broker.

The reinsurance is placed with providers who meet the Group's counter party security requirements.

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance risk (continued)

Claims reserving

The Group's reserving policy is guided by the prudence concept. Estimates are made of the estimated cost of settling a claim based on the best available information on registration of a claim, and this is updated as and when additional information is obtained and annual reviews done to ensure that the reserves are adequate. Management is regularly provided with claims settlement reports to inform on the reserving performance.

Long term insurance contracts

Life insurance contracts offered by the Group include term assurance, endowment, anticipated endowments, credit life insurance, Group life insurance, Group mortgage insurance and pension administration.

Term assurance contracts are conventional regular premium products where lump sum benefits are payable on death or permanent disability.

The endowments pay a sum assured either on death or maturity of the contract. The anticipated endowment pay a sum assured on death or maturity, but also have partial maturities payable to the client in regular installments during the contract based on survival. The endowments contracts have a surrender value. Death benefits of endowment products are subject to a guaranteed minimum amount. The maturity value usually depends on the investment performance of the underlying assets. For contracts with discretionary participation features (DPF), the guaranteed minimum may be increased by the addition of bonuses. These are set at a level that takes account of expected market fluctuations, such that the cost of the guarantee is generally met by the investment performance of the assets backing the liability. However, in circumstances when there has been a significant fall in investment markets, the guaranteed maturity benefits may exceed investment performance and these guarantees become valuable to the policyholder.

Group credit life insurance is a contract that is provided to financial institutions that provides protection against death or permanent and total disability of a borrower. The contract pays a sum assured equivalent to the outstanding loan on death or permanent and total disability of the borrower. Group mortgage is a contract designed for long term borrowing to finance for assets such as houses, land or cars. The policy pays the outstanding loan in case of death or permanent and total disability of the borrower. Group life insurance is a contract that provides a life cover to a Group of people and pays a sum assured on death. The most common Group life cover is the employee Group life which is taken up by the employer for its employees and it provides life insurance as a multiple of an employee's annual remuneration.

Pension administration provides an avenue for saving for clients. The Group acts as a pension administrator and has appointed a fund manager to invest the pension fund. Retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the value of the fund accumulated or premiums. Most contracts give the policyholder the option at retirement to take a cash sum at guaranteed conversion rates allowing the policyholders the option of taking the more valuable of the two.

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

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected
- Investment return risk – risk of loss arising from actual returns being different than expected
- Expense risk – risk of loss arising from expense experience being different than expected
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance risk (continued)

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

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

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Group wide reinsurance limits of KShs. 3,000,000 on any single life are in place.

For contracts with DPF, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party. For contracts without DPF the Group charges for death and disability risks on a quarterly basis. Under these contracts the Group has the right to alter these charges to take account of death and disability experience, thereby mitigating the risks to the Group.

The insurance risk described above is also affected by the contract holder's right to pay reduced premiums or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behaviour.

Key assumptions

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

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

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

An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.

Longevity
Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Group's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.
An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits for the shareholders.

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(1) Insurance risk (continued)

Long term insurance contracts (continued)

Investment return
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long–term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

Expenses
Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate. An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

Lapse and surrender rates
Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sales trends.
An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

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

Life assurance contracts sensitivity analysis
The actuarial assumptions used as at 31 December 2014 are unlikely to change significantly to result in material variation in actuarial liabilities. Shown in the table below are the sensitivities of the value of insurance liabilities disclosed in this note to various changes in assumptions used in the estimation of insurance liabilities. Each value is shown with only the indicated variable being changed and holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

	Policyholder's Liabilities (Net of Reinsurance)			
	31 December 2014		31 December 2013	
	Shs'000	% change	Shs'000	% change
Main basis	3,242,790	-	2,334,927	-
Expenses plus 10%	3,422,481	5.54%	2,481,596	6.28%
Mortality and other claims experience plus 10%	3,329,585	2.68%	2,385,028	2.15%
Interest rate less 1%	3,265,720	0.71%	2,348,188	0.57%
Expense inflation plus 1%	3,333,702	2.80%	2,409,132	3.18%
Withdrawals plus 10%	3,242,395	-0.01%	2,334,642	-0.01%

The Group has not changed the processes used to manage its risks from previous years. The notes below explain how financial risks are managed using the categories utilised in the Group's ALM framework.

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(1) Insurance risk (continued)

Short term insurance contracts

The Group engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk. During the year, the Group increased the portion of financial assets invested in debt securities to mitigate the impact of the volatility of equity prices experienced in recent years. An analysis of the Group's financial assets designated to mitigate the impact the impact of the volatility of equity prices experienced in recent years is presented below;

	2014	2013
	KShs'000	KShs'000
Financial assets		
Government securities classified as held to maturity	709,002	2,375,683
Government securities classified as available for sale	1,794,011	-
Quoted equity investments at fair value through profit or loss	359,952	282,031
Unquoted equity investments classified as available for sale	17,667	14,367
Loans – mortgage and other staff loans	871,961	646,972
Receivables from insurance and reinsurance contracts	1,668,095	1,703,325
Fixed and other deposits	9,807,173	4,161,679
Cash and bank balances	559,075	457,938
Total	15,786,936	9,641,995
Short – term insurance liabilities		
Payables arising from reinsurance arrangements and insurance bodies	63,826	299,128
Insurance contracts - short term	2,684,723	3,103,300
Less: assets arising from reinsurance contracts held-short term	(639,214)	(1,695,350)
Total	2,109,335	1,707,078

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non- interest bearing. However, due to the time value of money and the impact of interest rates on the level of bodily injury incurred by the Group's policyholders (where a reduction of interest rate would normally produce a higher insurance liability), the Group matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from the insurance contracts in force at the statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the statement of financial position date). The mean durations are:

	2014	2013
Net short term insurance liabilities- life risk	0.2 years	0.2 years
Net short term insurance liabilities-property risk	2.0 years	2.0 years
Net short term insurance liabilities-casualty risk	5.0 years	5.0 years
Financial assets (excluding equity securities)	3.0 years	3.0 years

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(1) Insurance risk (continued)

General insurance business

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the Group's ALM framework for management of short term insurance contracts as of 31 December 2014:

Financial assets	Carrying Amount 31.12.2014 KShs'000	No stated Maturity KShs'000	Contractual cash flows (undiscounted) 0-1 yr KShs'000	1-2 yrs KShs'000	2-3 yrs KShs'000	3-4 yrs KShs'000	> 5 yrs KShs'000
Government securities classified as available for sale	765,409	-	6,837	10,349	76,460	41,244	630,519
Government securities classified as held to maturity	430,657				25,703		404,954
Equity investments at fair value through profit or loss	279,779	279,779	-	-	-	-	-
Equity investments classified as available for sale	17,667	17,667	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	1,866,921	1,866,921	-				
Fixed and other deposits	2,963,383	369,168	2,458,925	-	21,144	44,523	69,623
Cash and bank balances	322,324	322,324	-	-	-	-	-
Total	6,646,140	2,855,859	2,465,762	10,349	123,307	85,767	1,105,096
Short term insurance liabilities:							
Insurance contracts-short term	2,264,015	2,264,015	-	-	-	-	-
Payables arising from reinsurance arrangements	52,382	52,382	-	-	-	-	-
Less: assets arising from reinsurance contracts	(619,467)	(619,467)	-	-	-	-	-
Total	1,696,930	1,696,930	-	-	-	-	-
Difference in contractual cash flows	4,949,210	1,158,929	2,465,762	10,349	123,307	85,767	1,105,095

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(1) Insurance risk (continued)

General insurance business (continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the Group's ALM framework for management of short-term insurance contracts as of 31 December 2013:

Financial assets	Carrying Amount 31.12.2013 KShs'000	No stated Maturity KShs'000	0-1 yr KShs'000	1-2 yrs KShs'000	Contractual cash flows (undiscounted) 2-3 yrs KShs'000	3-4 yrs KShs'000	> 5 yrs KShs'000
Government securities classified as held to maturity	1,209,845	-	76,629	26,212	14,469	160,515	932,020
Equity investments at fair value through profit or loss	223,731	223,731	-	-	-	-	-
Equity investments classified as available for sale	14,367	14,367	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	1,794,546	1,794,546	-				
Fixed and other deposits	2,223,949	214,920	1,852,919	51,929	41,029	30,794	32,358
Cash and bank balances	322,914	322,914	-	-	-	-	-
Total	5,789,352	2,570,478	1,929,548	78,141	55,498	191,309	964,378
Short term insurance liabilities:							
Insurance contracts-short term	2,756,203	2,756,203	-	-	-	-	-
Payables arising from reinsurance arrangements	277,535	277,535	-	-	-	-	-
Less: assets arising from reinsurance contracts	(1,642,818)	(1,642,818)	-	-	-	-	-
Total	1,390,920	1,390,920	-	-	-	-	-
Difference in contractual cash flows	4,398,432	1,179,558	1,929,548	78,141	55,498	191,309	964,378

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(1) Insurance risk (continued)

Life assurance business

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the Group's ALM framework for management of long-term insurance contracts as of 31 December 2014:

Financial assets	Carrying Amount 31.12.2014 KShs'000	No stated maturity KShs'000	Contractual cash flows (undiscounted) 0-1 yr KShs'000	1-2 yrs KShs'000	2-3 yrs KShs'000	3-4 yrs KShs'000	> 5 yrs KShs'000
Government securities classified as available for sale	992,299	-	21,224	20,594	53,310	61,203	835,968
Government securities classified as held to maturity	278,345		-	-	20,118	36,817	221,410
Quoted equity investments classified as available for sale	77,601	77,601	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	504,874	504,874	-	-	-	-	-
Fixed and other deposits	1,488,938	-	1,331,276	-	31,716	59,116	66,830
Cash and bank balances	212,006	212,006	-	-	-	-	-
Total	3,554,063	794,481	1,352,500	20,594	105,144	157,136	1,124,208
Long- term insurance liabilities:							
Insurance contracts -Long term	416,402	416,402	-	-	-	-	-
Payables arising from reinsurance arrangements	7,532	7,532	-	-	-	-	-
Less: assets arising from reinsurance contracts	(19,747)	(19,747)	-	-	-	-	-
Total	404,187	404,187	-	-	-	-	-
Difference in contractual cash flows	3,149,876	390,294	1,352,500	20,594	105,144	157,136	1,124,208

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(1) Insurance risk (continued)

Life assurance business (continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the Group's ALM framework for management of long-term insurance contracts as of 31 December 2013:

Financial assets	Carrying Amount 31.12.2013	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
			Contractual cash flows (undiscounted)				
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Government securities classified as held to maturity	1,129,081	-	85,897	38,879	-	103,918	900,387
Quoted equity investments classified as available for sale	55,962	55,962	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	484,980	484,980	-	-	-	-	-
Fixed and other deposits	1,161,677	-	900,532	34,434	-	45,510	181,201
Cash and bank balances	131,187	131,187	-	-	-	-	-
Total	2,962,887	672,129	986,429	73,313	-	149,428	1,081,588
Long- term insurance liabilities:							
Insurance contracts -Long term	347,097	347,097	-	-	-	-	-
Payables arising from reinsurance arrangements	21,593	21,593	-	-	-	-	-
Less: assets arising from reinsurance contracts	(4,853)	(4,853)	-	-	-	-	-
Total	363,837	363,837	-	-	-	-	-
Difference in contractual cash flows	2,599,050	308,292	986,429	73,313	-	149,428	1,081,588

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(2) Financial risk –Group and Company

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

(a) Market 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 Group's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 10 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Group's overall exposure to interest rate sensitivities included in the Group's ALM framework and its impact in the Group's profit or loss by business.

An increase/decrease of 5 % in interest yields would result in an increase/decrease of the Group's profit for the year and equity by KShs 22,512,000 (2013: KShs 17,624,000), and on the company's profit for the year and equity by KShs 4,779,000 (2013 - KShs 3,700,000).

(ii) Equity price risk

The Group is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss and available for sale investments. Exposure to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Securities Exchange.

The Group has a defined investment policy which sets limits on the Group's exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

Investment management meetings are held monthly. At these meetings, senior managers meet to discuss investment return and concentration of the equity investments.

Quoted equity securities represent 95% (2013: 95%) of total equity investments. If equity market indices had increased/ decreased by 5%, with all other variables held constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by KShs 3,265,850 (2013: KShs 4,097,750) and equity would increase/decrease by KShs 17,997,600 (2013: KShs 14,101,550).

(iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group primarily transacts in Kenya shilling and its assets and liabilities are denominated in the same currency. The Group is therefore not exposed to currency risk.

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(2) Financial risk- Group and Company (continued)

(b) Credit risk

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from corporate bond issuers
- Cash and cash equivalents (including fixed deposits)

The Group manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of any contract.

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

Maximum exposure to credit risk is represented by the carrying amounts of receivables in the Statement of Financial Position

The table below indicates the carrying amounts of assets bearing credit risk:

	2014	2013
	KShs'000	KShs'000
General insurance business		
Government securities classified as available for sale	765,409	-
Government securities classified as held to maturity	430,657	1,209,845
Quoted equity investments at fair value through profit or loss	279,779	223,731
Unquoted equity investments classified as available for sale	17,667	14,367
Loans and receivables from insurance and reinsurance contracts**	1,866,921	1,794,546
Fixed and other deposits*	2,486,306	1,863,238
Cash and bank balances	322,324	322,914
Total	6,169,063	5,428,641

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(2) Financial risk- Group and Company (continued)

(b) Credit risk (continued)

	2014	2013
	KShs'000	KShs'000
Long term insurance business		
Financial assets		
Government securities classified as available for sale	992,299	-
Government securities classified as held to maturity	278,345	1,129,081
Quoted equity investments classified as available for sale	77,601	55,962
Loans and receivables from insurance and reinsurance contracts**	504,874	484,980
Fixed and other deposits*	1,488,938	1,161,677
Cash and bank balances	212,006	131,187
Total	3,554,063	2,962,887
Other business		
Financial assets		
Government securities classified as available for sale	36,303	-
Government securities classified as held to maturity	-	36,758
Quoted equity investments classified as available for sale	2,572	2,339
Loans	25.050	70,770
Fixed and other deposits*	4,553,239	321,914
Cash and bank balances	424	3,837
Total	4,592,563	435,618

**Loans and receivables from insurance and reinsurance contracts include loans receivables, receivables arising from direct insurance and reinsurance contracts and reinsurers share of liabilities.*
***Fixed and other deposits include deposits and commercial paper and deposits with other financial institutions.*

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs.

The analysis of financial assets past due and impaired is made up as follows:

At 31 December 2014	Fully performing	Past due	Impaired
	KShs'000	KShs'000	KShs'000
General insurance business			
Agents	374,785	125,063	74,341
Brokers	295,236	204,904	121,800
Direct	472,515	121,550	72,253
Total	1,142,536	451,517	268,394
Long term insurance business	135,105	-	-

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(2) Financial risk- Group and Company (continued)

(b) Credit risk (continued)

At 31 December 2013	Fully performing KShs'000	Past due KShs'000	Impaired KShs'000
General insurance business			
Agents	376,032	125,479	70,075
Brokers	296,218	205,586	114,811
Direct	474,087	121,955	68,107
Total	1,146,337	453,020	252,993
Long term insurance business	156,326	-	-

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The credit control department is actively following this debt. In addition, the Group also owes most of the reinsurance debtors hence any default would be offset from the payables arising from reinsurance contracts.

The debt that is impaired has been fully provided for. However, debt collectors as well as management are following up on the impaired debt.

Management makes regular reviews to assess the degree of compliance with the Group's procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the management.

(c) 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 Group 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.

The table below provides a contractual maturity analysis of the Group's financial liabilities:

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(2) Financial risk- Group and Company (continued)

	31 December 2014				31 December 2013			
	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
General insurance business								
Equity investments classified as available for sale	-	-	16,994	16,994	-	-	13,694	13,694
Insurance contract liabilities	2,268,321	-	-	2,268,321	2,756,203	-	-	2,756,203
Payables arising from reinsurance arrangements	56,294	-	-	56,294	277,535	-	-	277,535
Other payables	104,129	-	-	104,129	369,233	-	-	369,233
Bank Guarantees	156,791	-	-	156,791	310,980	-	-	310,980
Dividend payable	-	-	-	-	179,545	-	-	179,545
Long term insurance business								
Insurance contract liabilities	416,402	-	-	416,402	347,097	-	-	347,097
Payables arising from reinsurance arrangements	7,532	-	-	7,532	21,593	-	-	21,593
Other payables	396,500		-	396,500	164,014	-	-	164,014
Bank Guarantees	558	-	-	558	38,312	-	-	38,312
Actuarial value of policyholder benefits	743,654	324,347	2,214,603	3,282,604	426,731	257,490	1,650,706	2,334,927
Other business								
Other payables	34,991	-	-	34,991	260,264	-	-	437,810
Borrowings	75,000	75,000	4,902,266	5,052,266	-	-	-	-
Dividend payable	34,662	-	-	34,662	23,151	-	-	23,151

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(2) Financial risk (continued)

(d) Fair value hierarchy

The Group specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components, property and equipment and investment properties.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

For assets where the fair value cannot be measured reliably, cost basis has been used.

The table below shows an analysis of assets recorded at fair value by level of the fair value hierarchy.

GROUP

	Level 1	Level 2	Level 3	Total
31 December 2014	Shs'000	Shs'000	Shs'000	Shs'000
Equity investments classified as available for sale	16,994	-	-	16,994
Quoted equity investments classified as available for sale	359,952	-	-	359,952
Government securities classified as available for sale	1,794,011	-	-	1,794,011
Investment properties	-	-	4,896,000	4,896,000
Property and equipment	-	-	955,987	955,987
	2,170,957	-	5,851,987	8,022,944
31 December 2013				
Equity investments classified as available for sale	13,694	-	-	13,694
Quoted equity investments at fair value through profit or loss	282,031	-	-	282,031
Investment properties	-	-	3,657,000	3,657,000
Property and equipment	-	-	1,120,589	1,120,589
	295,725	-	4,777,589	5,073,314

COMPANY

	Level 1	Level 2	Level 3	Total
31 December 2014				
Investment properties	-	-	1,900,000	1,900,000
Government securities classified as available for sale	36,303	-	-	36,303
	36,303	-	1,900,000	1,936,303
31 December 2013				
Investment properties	-	-	1,500,000	1,500,000
	-	-	1,500,000	1,500,000

48. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(2) Financial risk (continued)

(e) Unit-linked contracts

For unit-linked contracts the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Company on these contracts.

49. CAPITAL RISK MANAGEMENT

The Group maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the Group's risk profile and the regulatory and market requirements of its business.

The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

An important aspect of the Group's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Group is focused on the creation of value for shareholders.

The Group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Group considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Group manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The Group is regulated by the Kenya Insurance Regulatory Authority and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The Group manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. The Group has complied with all externally imposed capital requirements throughout the year.

The constitution of capital managed by the Group is as shown below:

	2014 KShs'000	2013 KShs'000
Share capital	2,615,578	2,179,655
Share premium	162,179	598,102
Statutory reserve	970,671	830,851
Revaluation surplus	87,834	74,623
Fair value reserve	(53,528)	(1,838)
Retained earnings	3,424,706	2,649,429
Total equity	7,207,440	6,330,822

The Group had external borrowings at 31 December 2014 of KShs 5,052,266 (2013 - Nil).

The operations of the subsidiaries are also subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

49. CAPITAL RISK MANAGEMENT (continued)

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

	2014
	KShs'000
Composite insurance companies	450,000
General insurance companies	300,000
Long-term insurance companies	150,000

All subsidiaries were in compliance with the capital requirements as at 31 December 2014.

The subsidiary, CIC Asset Management Limited is regulated by the Kenyan Capital Markets Authority which prescribes a minimum share capital of KShs 10 Million. The other regulatory requirement is that working capital shall not fall below 20% of the minimum required share capital or three times minimum monthly operating costs, whichever is higher.

The subsidiary met the minimum capital requirement as detailed below:

	2014	2013
	KShs'000	KShs'000
Minimum capital requirement	10,000	10,000
Capital held at 31 December:		
Share capital	311,000	311,000
Retained earnings	23,220	23,079
	334,220	334,079
Working capital:		
Net working capital	275,005	326,688
20% of the minimum share capital	2,000	2,000

The capital structure of the subsidiary consists of, issued share capital and retained earnings. The net working capital is above 20% of the minimum share capital. The subsidiary had no external financing at 31 December 2014 and 31 December 2013.

50. INCORPORATION

The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

51. HOLDING COMPANY

The holding Company is Co-operative Insurance Society Limited which is incorporated and domiciled in Kenya.

52. CURRENCY

The financial statements are presented in Kenya shillings thousands (KShs '000') which is also the functional currency of the Company and the Group.

53. EVENTS AFTER REPORTING DATE

There were no events after the reporting date which could have a material impact on the financial statements for the Group or the company which have not been adequately adjusted for.

APPENDIX I

CIC LIFE ASSURANCE LIMITED

REVENUE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Ordinary Life KShs '000	Group life KShs '000	Total 2014 KShs '000	Total 2013 KShs '000
Gross written premium	625,476	3,476,908	4,102,384	3,003,130
Less: Reinsurance payable	(27,046)	(202,997)	(230,043)	(168,471)
Net premium income	598,430	3,273,911	3,872,341	2,834,659
Policyholders' benefits:				
Life and health claims	(18,673)	(1,803,767)	(1,822,440)	(1,439,273)
Maturities	(108,884)	-	(108,884)	(87,086)
Surrenders	(22,722)	-	(22,722)	(6,680)
Actuarial adjustment of policyholders' liability	(242,626)	(635,246)	(877,872)	(373,960)
Net policyholders' benefits	(392,905)	(2,439,013)	(2,831,918)	(1,906,999)
Commissions paid	(103,539)	(83,106)	(186,645)	(176,661)
Management expenses	(118,080)	(1,001,612)	(1,119,692)	(883,031)
Premium tax	(5,343)	-	(5,343)	(3,945)
Total expenses and commissions	(226,962)	(1,084,718)	(1,311,680)	(1,063,637)
Investment income	92,825	482,239	575,064	586,069
Increase in life fund before tax	71,388	232,419	303,807	450,092
Tax charge on transfer to shareholders	-	(63,987)	(63,987)	(12,278)
Increase in life fund after tax	71,388	168,432	239,820	437,814
Increase in life fund for the year	71,388	168,432	239,820	437,814

The revenue account was approved by the board of directors on .... 2015 and was signed on its behalf by:

Director Director Principal Officer

CIC GENERAL INSURANCE LIMITED
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014
APPENDIX II

	C.A.R & Engin-eering	Fire Domestic	Fire Industrial	Liability Insurance	Marine & Transit	Motor Private	Motor Com-mercial	Motor Pool	Medical insurance	Personal Accident	Theft Insurance	Work men's Comp.	Misc. Accident	Micro solutions	Total 2014
	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000		Shs.'000
Gross premium written	155,021	98,937	554,637	192,000	84,205	1,834,219	2,513,924	-	3,083,556	186,490	415,848	208,065	173,269	52,424	9,552,595
Unearned premium	22,421	28,813	74,359	63,194	29,574	749,739	1,082,003	-	1,415,083	46,252	92,781	70,584	15,806	9,322	3,699,941
Unearned premium c/f	(42,284)	(34,225)	(90,909)	(65,798)	(38,002)	(841,226)	(1,204,226)	-	(1,485,481)	(44,182)	(99,996)	(78,980)	(25,811)	-	(4,051,656)
Gross earned premium	135,158	93,525	538,087	189,396	75,777	1,742,732	2,391,701	-	3,013,158	188,560	408,633	199,669	163,264	61,746	9,200,880
Reinsurance premium	(78,289)	(4,267)	(318,662)	(108,706)	(10,758)	(20,602)	(28,186)	-	(47,950)	(21,288)	(32,079)	(7,524)	(141,351)	-	(819,662)
Net earned premium	56,869	89,258	219,425	80,690	65,019	1,722,130	2,363,515	-	2,965,208	167,272	376,554	192,145	21,913	61,746	8,381,218
Gross claims paid	95,766	22,178	101,240	117,881	32,065	1,410,258	1,277,849	-	2,701,230	94,990	156,007	52,180	79,221	15,157	6,106,021
Outstanding claims c/f	15,791	4,848	110,615	248,243	18,280	580,619	655,271	2,092	375,378	38,924	131,887	63,532	12,753	5,962	2,264,015
Outstanding claims transferred in	(5,770)	(7,637)	(30,033)	(114,475)	(8,956)	(513,501)	(411,475)	(2,092)	(130,473)	(46,809)	(136,786)	(68,353)	(6,516)	(1,248)	(1,484,124)
Gross claims incurred	105,787	19,389	181,822	251,649	41,389	1,477,376	1,521,645	-	2,946,135	87,105	151,108	47,359	85,458	19,871	6,885,912
Recoveries	(76,778)	(58)	(100,291)	(186,754)	(19,381)	(219,099)	(294,791)	-	(39,030)	(24,726)	(59,418)	(3,281)	(56,689)	-	(1,080,295)
Net claims incurred	29,009	19,331	81,531	64,895	22,008	1,258,277	1,226,854	-	2,907,105	62,379	91,690	44,078	28,769	19,871	5,805,617
Commission receivable	(36,968)	(872)	(136,160)	(28,018)	(1,133)	-	-	-	(5,366)	(5,298)	(575)	(1,298)	(24,188)	-	(239,876)
Commissions payable	28,668	14,745	131,675	36,077	14,690	150,836	218,963	-	151,247	29,527	54,200	33,505	12,349	9,063	885,543
Net commission	(8,300)	13,873	(4,485)	8,059	13,557	150,836	218,963	-	145,881	24,229	53,625	32,207	(11,839)	9,063	645,667

CIC GENERAL INSURANCE LIMITED
REVENUE ACCOUNT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2014
APPENDIX II

	C.A.R & Engin-eering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Com-mercial Shs.'000	Motor Pool Shs.'000	Medical insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Work men's Comp. Shs.'000	Misc. Accident Shs.'000	Micro solutions	Total 2014 Shs.'000
Management Expenses	28,461	18,247	94,391	41,115	21,576	357,051	520,097	-	438,349	39,877	79,996	41,953	7,460	21,154	1,709,727
Premium Tax	1,543	985	5,520	1,911	838	18,255	5,020	-	30,690	1,856	4,139	2,071	1,724	522	95,073
Total	30,004	19,232	99,911	43,026	22,414	375,306	545,117	-	469,039	41,733	84,135	44,024	9,184	21,676	1,804,800
Total claims, expenses and commissions	50,713	52,436	176,957	115,980	57,979	1,784,419	1,990,934	-	3,522,025	128,341	229,450	120,309	26,114	50,610	8,256,084
Underwriting profit/(loss)	**6,156**	**36,822**	**42,468**	**(35,290)**	**7,040**	**(62,289)**	**372,581**	**-**	**(556,817)**	**38,931**	**147,104**	**71,836**	**(4,201)**	**11,136**	**125,134**

The revenue account was approved by the board of directors on .... 2015 and was signed on its behalf by:

Director

Director

Principal Officer