REPUBLIC OF KENYA

Paper laid by Leader of Maj on 16/7/2014

# KENYA NATIONAL AUDIT OFFICE





# REPORT

# OF

# THE AUDITOR-GENERAL

# ON

# THE FINANCIAL STATEMENTS OF KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

# FOR THE YEAR ENDED 31 DECEMBER 2013

# KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

## ANNUAL REPORT & FINANCIAL STATEMENTS

## 31 DECEMBER 2013

KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

# ANNUAL REPORT & FINANCIAL STATEMENTS
31 DECEMBER 2013

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KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

CORPORATE INFORMATION

| | | |
|---|---|---|
| DIRECTORS | A T Kaminchia | - Chairman |
| | Principal Secretary (National Treasury) | |
| | T M Owen-Burke | |
| | A Abass | |
| | J Rarama | |
| | D Mutua | |
| | J Nzembi Mwandoe (Mrs) | |
| PRINCIPAL OFFICER | A T Kaminchia | |
| SECRETARY | T Mwaniki (Mrs)<br>Corner House<br>Mama Ngina Street<br>P O Box 20425 – 00200<br>Nairobi | |
| REGISTERED OFFICE | 10th Floor, Corner House<br>Mama Ngina Street<br>P O Box 20425 – 00200<br>Nairobi | |
| AUDITOR | The Auditor General<br>P O Box 30084 – 00100<br>Nairobi | |
| BANKERS | Kenya Commercial Bank Limited<br>Moi Avenue Branch<br>P O Box 30081 – 00100<br>Nairobi | |
| | National Bank of Kenya Limited<br>Harambee Avenue Branch<br>P O Box 72866 – 00200<br>Nairobi | |

KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

The Directors present their report together with the audited financial statements of Kenya National Assurance Company (2001) limited ( "the company")for the year ended 31 December 2013,which disclose its state of affairs.

PRINCIPAL ACTIVITIES

The company continues to operate as a Closed Life Fund. The company's main activity remains raising of funds through the disposal of properties to settle accumulated insurance liabilities on life policies which were inherited from its predecessor, Kenya National Assurance Company Limited (in liquidation). The company does not underwrite new insurance policies.

As disclosed in Note 5 to the financial statements, the Government of Kenya redefined the Board's mandate to require Directors to facilitate smooth closure of the company by 30 June 2014 in compliance with the Insurance Act Cap 487 of the Laws of Kenya.

The National Treasury has reviewed the mandates of the company as follows:

a) Transfer the unpaid /unclaimed financial assets in possession of the company estimated at Kshs 407 Million to the Unclaimed Financial Assets Authority ("UFAA") by 30th June, 2014.
b) Finalize all outstanding court cases and work out a transfer framework for any cases that may remain unconcluded by 30th June, 2014 to the Attorney General.
c) Work closely with the National Treasury, State Law Office and the National and County Agencies Oversight Office to wind –up the company and transfer any residual assets to the National Treasury.
d) Work closely with the Director General, Kenya National Archives on preservation of company records and transfer of required data to UFAA.

RESULTS

| | Sh'000 |
|---|---|
| Loss before taxation | (12,958) |
| Taxation credit | 20 |
| Loss for the year transferred to the statutory reserve | (12,938) |

DIRECTORS

The current Board of Directors are listed on page 2.

DIVIDEND

The Directors do not recommend the payment of a dividend.

AUDITORS

The Auditor General is responsible for the statutory audit of the company's books of account in accordance with section 14 and section 39(i) of the Public Audit Act, 2003 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf. Deloitte & Touche, who were nominated by the Auditor General, carried out the audit of the financial statements for the year ended 31 December 2013.

BY ORDER OF THE BOARD

Waniki

Secretary

24th April, 2014

Nairobi

KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

# CORPORATE GOVERNANCE STATEMENT

Kenya National Assurance (2001) Limited was incorporated on 26 October 2001 under the provisions of the Kenya Companies Act as an insurance company to take over the assets and liabilities of the Closed Life Fund of the former Kenya National Assurance Company Limited (in liquidation). The company remained dormant until 1 August 2002 when a Board of Directors was appointed to run its affairs.

The Board of Directors is mandated by the Government of Kenya to run off the Life Fund by 30 June 2014 through disposal of all assets and settlement of all liabilities within the framework of the approved Run-off Programme.

At 31 December 2013, the Board had settled cumulative claims amounting to Sh 3.864 billion (2012: Sh 3.849 billion).

The Board has established the following committees to meet the principal requirements of corporate governance:

**(i) Finance and General Purposes Committee**

The Committee's mandate includes advising the Board on various financial decisions such as sourcing and application of funds and advising the Board on Human Resource matters. The Committee also advises the Board on technical and administrative matters.

**(ii) Procurement Oversight Committee**

The Committee oversees the disposal of the Life Fund assets.

**(iii) Audit Committee**

The Audit Committee is responsible for reviewing the company's business practices and accounting principles and policies adopted in the preparation of the annual financial statements. The committee is also charged with ensuring proper corporate governance.

These Committees meet regularly and are chaired by non-executive directors. The Committees report their findings to the Board.

All the non-executive directors on the Board are independent of management and are free from any business or other relationships which could materially interfere with the exercise of their independent judgement.

The Board meets regularly and has a formal schedule of matters reserved to it. All Directors have access to the company's management. Currently, the Board comprises five non-executive directors. The company has a principal officer who has executive authority and reports to the Board on a regular basis.

.........................................
Chairman

.................................
Director

24th April, 2014

Nairobi

KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act Cap 486 of the Laws of Kenya requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of operating results for that year. It also requires the Directors to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

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

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 Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors acknowledge that the Government has given them a mandate to run off the Life Fund by disposing of all the company's assets and settling all the company's liabilities by 30 June 2014 and to facilitate winding up of the company and transfer of surplus assets to the National Treasury. The unpaid /unclaimed financial assets will be transferred to the Unclaimed Financial Assets Authority ("UFAA")

| | |
|---|---|
| ………………………………… | ………………………………… |
| Chairman | Director |

24th April, 2014

**Nairobi**

# REPUBLIC OF KENYA

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NAIROBI

# KENYA NATIONAL AUDIT OFFICE

## REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED FOR THE YEAR ENDED 31 DECEMBER 2013

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya National Assurance Company(2001) Limited set out on pages 8 to 37, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte & Touche, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

**Management's Responsibility for the Financial Statements**

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

**Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

**Emphasis of Matter**

Without qualifying my opinion, I draw attention to note 5 which indicates that the Government of Kenya renewed the mandate of the current Board of Directors on 19 December 2013 which requires the directors to ensure smooth closure of the Company by 30 June 2014 in compliance with the Insurance Act and the renewed mandate. The financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, restating the Company's assets to net realisable value. My opinion is not qualified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on my audit, that;

i) I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit;

ii) In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books and,

iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

**Edward R.O. Ouko, CBS**
**AUDITOR-GENERAL**

**Nairobi**

**17 June 2014**

KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|
| Investment income | 7 | 50,826 | 93,851 |
| Rental income | | - | 728 |
| Movement in claims | 8 | (1,605) | (5,834) |
| Other operating income | 9 | 788 | 2,773 |
| Expenses of management | 10 | (62,967) | (58,409) |
| (Loss)/ profit before taxation | | (12,958) | 33,109 |
| Taxation credit/ (charge) for the year | 12(a) | 20 | (5,125) |
| (Loss)/ profit for the year | | (12,938) | 27,984 |
| Other comprehensive gain | | | |
| Gain on revaluation of available for sale investments | 14 | 13,782 | 10,204 |
| Total other comprehensive gain for the year | | 13,782 | 10,204 |
| Total comprehensive income for the year | | 844 | 38,188 |

KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

| | Note | 2013<br>Sh'000 | 2012<br>Sh'000 |
|---|---|---|---|
| **EQUITY AND RESERVES** | | | |
| Share capital | 13 | 50,000 | 50,000 |
| Investment revaluation surplus | 14 | 137,418 | 123,636 |
| Statutory reserve | 15 | 170,238 | 183,176 |
| **Total shareholders' funds** | | 357,656 | 356,812 |
| **REPRESENTED BY** | | | |
| **ASSETS** | | | |
| Intangible assets | 16 | 128 | 192 |
| Equipment | 17 | 300 | 461 |
| Unquoted equity investments | 18 | 101,063 | 101,063 |
| Mortgage loans | 19 | 4,280 | 4,280 |
| Short term deposits | 20 | 587,779 | 567,077 |
| Rent and other receivables | 21 | 46,931 | 82,175 |
| Quoted equity investments | 22 | 37,210 | 23,456 |
| Bank and cash balances | | 3,004 | 12,607 |
| **Total assets** | | 780,695 | 791,311 |
| **LIABILITIES** | | | |
| Liabilities under insurance contracts | 24 | 405,483 | 418,658 |
| Contingency reserve | 15 | 5,000 | 5,000 |
| Current taxation payable | 12(c) | - | 5,441 |
| Payables and accruals | 25 | 12,556 | 5,400 |
| **Total liabilities** | | 423,039 | 434,499 |
| **Net assets** | | 357,656 | 356,812 |

The financial statements on pages 8 to 37 were approved and authorised for issue by the Board of Directors on 24th April, 2014 and were signed on its behalf by:

| | | |
|---|---|---|
| Director | Director | Principal Officer |

KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

# STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 31 DECEMBER 2013

| | Share capital Sh'000 | Investments revaluation surplus Sh'000 | Statutory reserve Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| At 1 January 2012 | 50,000 | 113,432 | 155,192 | 318,624 |
| Profit for the year | - | - | 27,984 | 27,984 |
| Other comprehensive gain for the year | - | 10,204 | - | 10,204 |
| Total comprehensive income for the year | - | 10,204 | 27,984 | 38,188 |
| At 31 December 2012 | 50,000 | 123,636 | 183,176 | 356,812 |
| At 1 January 2013 | 50,000 | 123,636 | 183,176 | 356,812 |
| Loss for the year | - | - | (12,938) | (12,938) |
| Other comprehensive gain for the year | - | 13,782 | - | 13,782 |
| Total comprehensive gain for the year | - | 13,782 | (12,938) | 844 |
| At 31 December 2013 | 50,000 | 137,418 | 170,238 | 357,656 |

The investment revaluation surplus includes gains or losses recognised on revaluation of financial instruments classified as available for sale. On disposal or derecognition of an available for sale financial instrument, the related gain or loss carried in the revaluation surplus is transferred to profit or loss. The revaluation surplus is non distributable, except when realised.

KENYA NATIONAL ASSURANCE COMPANY (2001) LIMITED

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net cash generated from operations | 26(a) | 16,431 | 95,644 |
| Taxation paid | | (5,421) | (650) |
| Net cash generated from operating activities | | 11,010 | 94,994 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from disposal of quoted equity investments | | 134 | 11,654 |
| Proceeds from disposal of equipment | | - | 48 |
| Purchase of assets | | (45) | (256) |
| Net cash generated from investing activities | | 89 | 11,446 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 11,099 | 106,440 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 579,684 | 473,244 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 26(b) | 590,783 | 579,684 |

1 ACCOUNTING POLICIES

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards.

For the Companies Act Cap 486 of the Laws of Kenya reporting purposes, in these financial statements the balance sheet is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit and loss and other comprehensive income.

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

*i) New standards and amendments to published standards effective for the year ended 31 December 2013*

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

| | |
|---|---|
| Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities | The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.<br><br>The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place. |
| New and revised standards on consolidation and joint arrangements, associates and disclosures | In May 2011, a package of five standards in consolidation and joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.<br><br>The application of the amendment had no effect on the company's financial statements as the company did not have any subsidiaries, joint arrangements or associates as at 31 December 2013. |
| IFRS 13 Fair Value Measurement | IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.<br><br>The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes). |

1 ACCOUNTING POLICIES (Continued)

**Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)**

*i) New standards and amendments to published standards effective for the year ended 31 December 2013(Continued).*

| | |
|---|---|
| IFRS 13 Fair Value Measurement (Continued) | IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.<br><br>IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.<br><br>Other than the additional disclosures the application of IFRS 13 had no significant impact on the amounts recognized in the company's financial statements as at 31 December 2013. |
| Amendments to IAS 1 Presentation of Items of Other Comprehensive Income | The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.<br><br>However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The new terminologies have been adopted in these financial statements. |

1 ACCOUNTING POLICIES (Continued)

**Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)**

*i) New standards and amendments to published standards effective for the year ended 31 December 2013(Continued).*

| | |
|---|---|
| Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012) | The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position. |
| IAS 19 Employee Benefits (as revised in 2011) | IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.<br><br>This amendment had no effect on the company's financial statements as the company does not operate a defined benefit plan. |

*(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2013*

| *New and Amendments to standards* | *Effective for annual periods beginning on or after* |
|---|---|
| IFRS 9 | 1 January 2018 |
| Amendments to IFRS 9 and IFRS 7 | 1 January 2015 |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | 1 January 2014 |
| Amendments to IAS 32 | 1 January 2014 |

1 ACCOUNTING POLICIES (Continued)

**Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)**

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

- **IFRS 9, Financial Instruments**

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

  Key requirements of IFRS 9:

  - All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

  - With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The Directors of the company anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities (e.g. the company's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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

  The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

  The Directors do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the company's financial statements.

1 ACCOUNTING POLICIES (Continued)

***(iv) Early adoption of standards***

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

The principal accounting policies adopted are set out below:

**Basis of preparation**

The financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the company's assets to net realisable value and its liabilities to the amounts payable. The financial statements do not include any provision for future costs of terminating the business of the company, except to the extent that such were committed at the reporting date.

**Revenue recognition**

- Interest on treasury bonds, short term deposits, mortgages and policy loans is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or when appropriate, a shorter period to net carrying amount of the financial asset.
- Dividends are recognised as income in the period in which the right to receive payment is established.
- Rental income is recognised per the policy under leases below.
- All other income is recognised on the accruals basis.

**Taxation**

Tax expense/ (income) comprises of current taxation and deferred taxation.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the reporting date are used to determine deferred taxation.

Deferred taxation 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.

**Claims incurred**

Claims include maturities, annuities, surrenders, death and disability claims. Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

*The company as lessor*

Rental income in respect of operating leases is recognised in the profit or loss in the period to which it relates.

*The company as a lessee*

Rental payments in respect of operating leases are charged to the profit or loss in the period to which they relate.

1 ACCOUNTING POLICIES (Continued)

**Investment revaluation surplus**

Gains or losses arising from changes in the fair value of financial instruments classified as available-for-sale are recognised in other comprehensive income and accumulated in the investment revaluation reserve with exception of impairment losses which are recognised in the profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

**Statutory reserve**

The statutory reserve relates to the surplus on the long term business which is not distributable as per the requirements of the Insurance Act.

**Equipment**

Equipment has been written down to its realisable amounts.

**Intangible assets**

Intangible assets include cost of purchase or development of computer software, which are stated at the lower of their carrying amounts and fair values less estimated selling costs. The costs are amortised over the intangible assets expected useful lives on a straight-line basis at an annual rate of 25%. The useful life and mode of amortisation are reviewed at each end of the reporting period and any significant changes are accounted for prospectively.

**Provisions**

The major provisions outstanding as at the reporting date include liabilities under insurance contracts, staff gratuity provision and leave pay provision. 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.

**Financial instruments**

Financial instruments are recognized in the company's statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

*Financial assets*

For the purpose of financial reporting, the financial assets are classified into the following categories:

(a) At fair value through profit or loss;
(b) Held-to-maturity;
(c) Loans and receivables; and
(d) Available-for-sale 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 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.

*Held-to-maturity instruments*

Held to maturity instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the company has the positive intention and ability to hold to maturity.

1 ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

*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 arise when the company provides money, services directly to a debtor with no intention of trading.

*Available for sale financial instruments*

This category covers financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

***Recognition***

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the profit and loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit and loss. In particular these are accounted for as follows:

*Quoted and unquoted equity instruments*

Investments in shares of other entities that give the company a residual interest in the assets of that enterprise after deducting all of its liabilities are classified as equity instruments. Investment in equity instruments quoted on the Nairobi Securities Exchange or other equity markets are stated at market values ruling as at the reporting date. Unquoted investments are reported at their acquisition costs, less any accumulated impairment losses. All equity investments are classified as available for sale financial instruments.

*Mortgage and policy loans*

Mortgage and policy loans are classified as loans and receivables and are carried at amortised cost, less accumulated impairment losses, where applicable.

*Premiums, rent and other receivables*

Premiums, rent and other receivables are non interest bearing and are carried at their original invoiced amount less an estimate made for bad and doubtful receivables based on the review of all outstanding amounts on, an account by account basis, at the year end. Bad debts are written off in the year in which they are identified as irrecoverable. They are classified as loans and receivables.

*Short term deposits*

Short term deposits are interest bearing and are expected to mature within three months from the date of acquisition. Short term deposits are carried at nominal values plus any accrued interest. They are classified as held-to-maturity instruments.

*Bank and cash balances*

Bank and cash balances are non interest bearing and are carried at their nominal values, which approximate to their fair values.

1 ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

*Financial liabilities*

All financial liabilities are classified as other liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. 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.

***Impairment and uncollectibility of financial assets***

The company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the statement of profit or loss.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

***De-recognition of financial instruments***

Financial assets (or a portion thereof) are de-recognised when the company's rights to the cash flows expire or when the company transfers substantially all the risks and rewards related to the financial asset or when the entity losses control of the financial asset. On de-recognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been accumulated in equity are included in the statement of comprehensive income. Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expires. On de-recognition, the difference between the carrying amount of the financial liability, including related un-amortised costs and amounts paid for it are included in the statement of profit or loss.

1 ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

**Impairment of tangible and intangible assets**

At each end of the reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the losses are recognised as an expense in the statement of profit or loss in the period in which they are identified. Impairment gains, however, are recognised only to the extent that they represent a reversal of an impairment loss previously incurred on the same asset.

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value.

**Contingent liabilities**

Contingent liabilities arise if there is a possible obligation; or present obligations that may, but probably will not, require an outflow of economic resources; or there is a present obligation, but there is no reliable method to estimate the monetary value of the obligation.

**Retirement benefits**

*Statutory defined contribution scheme*

The company contributes to a statutory defined contribution scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Sh 200 per employee per month. The employer's contribution to the retirement benefit scheme is recognised in the statement of profit or loss when they fall due.

*Service gratuity provision*

Management and other staff are entitled to a service gratuity of 31% per month in service. The service gratuity is provided for in the financial statements as it accrues to each employee.

**Employee benefits**

The estimated monetary liability for employees' accrued annual leave at the end of the reporting period is charged to the profit or loss in the year to which it relates.

**Comparatives**

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the accounting policies, the Directors have made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

The key areas of judgement, key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period in applying the entity's accounting policies are dealt with below:

*The ultimate liability arising from claims made under insurance contracts*

The ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the company. Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The company bases these estimates on standard mortality tables that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

*Impairment losses*

At each end of the reporting period, the company reviews the carrying amounts of its 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. Determining whether assets are impaired requires an estimation of the value of the assets.

*Equipment*

Critical estimates are made by the Directors in determining useful lives of equipment and intangible assets. Equipment has been written down to the realisable amounts to 31 December 2013 when the company is expected to be closed.

*Receivables*

Critical estimates are made by the Directors in determining the recoverable amount of receivables.

3 RISK MANAGEMENT

The company's activities expose it to a variety of financial and insurance risks. The company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance.

The disclosures below summarises the way the company manages key risks:

**Insurance risk**

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

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

3 RISK MANAGEMENT (Continued)

**Insurance risk (Continued)**

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be.

*(a) Frequency and severity of claims*

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics such as AIDS or widespread changes in lifestyle, such as eating, smoking, exercise habits resulting in earlier or more claims than expected.

For contracts that survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

The Company does not have in place any reinsurance arrangements because all liabilities are maturities.

*Life insurance contracts sensitivity analysis*

The actuarial assumptions used as at 31 December 2013 are unlikely to change significantly to result in material variation in actuarial liabilities.

*(b) Actuarial valuations*

The company did not carry out actuarial valuation of the life fund because all inforce policies were converted into maturities and paid in 2010.

The following tables disclose the concentration of insurance liabilities by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the carrying amounts of the insurance liabilities arising from insurance contracts:

| 31 December 2013 | Carrying amount Sh'000 | 0-1 yr Sh'000 | 1-3 yrs Sh'000 | 3-5 yrs Sh'000 | > 5 yrs Sh'000 |
|---|---|---|---|---|---|
| **Short term insurance liabilities:** | | | | | |
| Liabilities under insurance contracts | 405,770 | 405,770 | - | - | - |
| | ======= | ======= | ====== | ====== | ====== |
| **31 December 2012** | | | | | |
| **Short term insurance liabilities:** | | | | | |
| Liabilities under insurance contracts | 418,658 | 418,658 | - | - | - |
| | ======= | ======= | ====== | ====== | ====== |

3 RISK MANAGEMENT (Continued)

**Financial risk**

The company is exposed to a range of financial risks through its financial assets and liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from insurance policies as they fall due. However the proceeds from its financial assets are 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. The obligations arising from insurance contracts are fully provided.

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

An increase/decrease of 5 percentage points in interest yields would result in increase/decrease in the profit before tax of Sh 2.5 million (2012: Sh 4.6 million).

**(ii) Equity price risk**

The company is exposed to equity securities price risk as a result of its holdings in quoted equity investments, classified as available for sale. Investments held are listed and traded on the Nairobi Securities Exchange.

If equity market indices had increased/decreased by 5% for the quoted equity investments, with all other variables held constant, the total comprehensive income for the year would increase/decrease by Sh 0.6 million (2012: Sh 0.5 million).

**(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 company primarily transacts in Kenya shilling and its assets and liabilities are denominated in the same currency. The company is therefore not exposed to currency risk.

**(b) Credit risk**

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

- Mortgage loans;
- Receivables arising from rental properties and
- Short term deposits
- Bank balances

3 RISK MANAGEMENT (Continued)

**Financial risk (Continued)**

**(b) Credit risk (Continued)**

The company has no significant concentrations of credit risk.

The exposure to individual counterparties is managed by obtaining charges on mortgage securities. Management information reported to the Directors include details of provisions for impairment on receivables and subsequent write offs. Internal audit makes regular reviews to assess the degree of compliance with the company's procedures on credit.

**Maximum exposure to credit risk**

Debt that is past due but not impaired continues to be paid. The debt that is impaired has been fully provided for.

The credit risk on short term deposits and bank balances is considered low because counterparties are banks with high credit rating.

| | Total amount 31.12.2013 Sh' 000 | Fully Performing Sh' 000 | Past due but not impaired Sh' 000 | Impaired Sh' 000 |
|---|---|---|---|---|
| **31 December 2013** | | | | |
| Rent and other receivables | 248,294 | - | - | 248,294 |
| Mortgage loans | 4,280 | - | 4,280 | - |
| Short term deposits | 587,779 | 587,779 | - | - |
| Bank and cash balances | 2,926 | 2,926 | - | - |
| | 843,279 | 590,705 | 4,280 | 248,294 |
| **31 December 2012** | | | | |
| Rent and other receivables | 248,322 | - | - | 248,322 |
| Mortgage loans | 4,280 | - | 4,280 | - |
| Short term deposits | 567,077 | 567,077 | - | - |
| Bank and cash balances | 12,570 | 12,570 | - | - |
| | 832,249 | 579,647 | 4,280 | 248,322 |

3 RISK MANAGEMENT (Continued)

**Financial risk (Continued)**

**(b) Credit risk (Continued)**

The table below shows the ageing profile of past due but not impaired receivables:

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Within 30 days | - | - |
| 31 - 60 days | - | - |
| 61 - 90 days | - | - |
| Above 90 days | 38,280 | 4,280 |
| | 38,280 | 4,280 |

**(c) Liquidity risk**

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities as they fall due.

The key objective of the Board in managing liquidity risk is to ensure that the closed fund is able to pay off its liabilities with the existing assets of the company.

The table below includes the weighted average effective interest rate and the cash flows payable by the company under financial liabilities and cash flows receivable under financial assets by remaining contractual maturities at the end of the reporting period.

| | Weighted average effective Interest Rate | 1-3 months Sh'000 | 3-12 months Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **31 December 2013** | | | | |
| **Financial assets** | | | | |
| Mortgage loans | | - | 38,280 | 38,280 |
| Quoted equity investments | | 37,210 | - | 37,210 |
| Short term deposits | | 587,779 | - | 587,779 |
| Bank and cash balances | | 2,955 | - | 2,955 |
| **Total financial assets** | | 627,944 | 38,280 | 666,224 |
| **Financial liabilities** | | | | |
| Liabilities under insurance contracts | | 405,770 | - | 405,770 |
| **Total financial liabilities** | | 405,770 | | 405,770 |
| **Liquidity gap** | | 222,174 | 38,280 | 260,454 |

3 RISK MANAGEMENT (Continued)

**Financial risk (Continued)**

**(c) Liquidity risk (Continued)**

| 31 December 2012 | Weighted average effective Interest Rate | 1-3 months Sh'000 | 3-12 months Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Mortgage loans | | - | 4,280 | 4,280 |
| Quoted equity investments | | - | 23,452 | 23,452 |
| Short term deposits | 15.3% | 567,077 | - | 567,077 |
| Bank and cash balances | | 12,606 | - | 12,606 |
| **Total financial assets** | | 579,683 | 27,732 | 607,415 |
| **Financial liabilities** | | | | |
| Liabilities under insurance contracts | | 418,658 | - | 418,658 |
| **Total financial liabilities** | | 418,658 | - | 418,658 |
| **Liquidity gap** | | 161,025 | 27,732 | 188,757 |

4 CAPITAL MANAGEMENT

The company's objectives when managing capital are:

- to comply with the capital requirements as set out in the Insurance Act Cap 487 of the Laws of Kenya; and
- to comply with regulatory solvency requirements as set out in the Insurance Act.

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

| | Current Sh'000 |
|---|---|
| Composite insurance companies | 450,000 |
| General insurance companies | 300,000 |
| Long-term insurance companies | 150,000 |

The company will not increase its share capital to be in line with the new requirements because it operates as a closed life fund and is not writing new business.

## 5 GOING CONCERN ASSUMPTION

The Government of Kenya renewed the mandate of the current Board of Directors on 19 December 2013. The new mandate requires the Directors to facilitate smooth closure of the company by 30 June 2014

The National Treasury has reviewed the mandates of the company as follows:

(a) Transfer the unpaid /unclaimed financial assets in possession of the company estimated at Kshs 407 million to the Unclaimed Financial Assets Authority ("UFAA") by 30th June, 2014.
(b) Finalize all outstanding Court cases and work out a transfer framework for any cases that may not be concluded by 30th June, 2014 to the Attorney General.
(c) Work closely with the National Treasury, State Law Office and the National and County Agencies Oversight Office to wind –up the company and transfer any residual assets to the National Treasury.
(d) Work closely with the Director General, Kenya National Archives on preservation of company records and transfer of required data to the Unclaimed Financial Assets Authority ("UFAA").

## 6 GROSS AND NET EARNED PREMIUM

The company operates as a closed life fund and is not writing new business. There was no recorded premium in 2013 (2012: Nil) as there are no policies still in force. Any premium received after maturity or surrender is refundable to the policyholder.

| | 2013<br>Sh'000 | 2012<br>Sh'000 |
|---|---|---|
| **7 INVESTMENT INCOME** | | |
| Interest on short term deposits at fair value through profit or loss | 49,150 | 86,792 |
| Dividend income on available for sale securities | 1,570 | 2,060 |
| Gain on disposal of shares | 106 | 4,999 |
| | 50,826 | 93,851 |
| **8 CLAIM EXPENSE** | | |
| Benefits to policy holders | 1,605 | 5,834 |
| **9 OTHER OPERATING INCOME** | | |
| Sundry income | 788 | 2,599 |
| Bad and doubtful debts | - | 174 |
| | 788 | 2,773 |

| | | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|
| 10 | EXPENSES OF MANAGEMENT | | |
| | Staff costs – (note 11) | 26,855 | 25,606 |
| | Legal and professional fees | 10,571 | 3,746 |
| | Office rent and water expenses | 8,440 | 7,818 |
| | Directors' remuneration -fees | 3,271 | 3,000 |
| | -other emoluments | 2,894 | 2,411 |
| | Auditors' remuneration - current | 2,180 | 2,179 |
| | Office expenses | 2,218 | 5,010 |
| | Advertising | 1,030 | 1,083 |
| | Telephone and postage | 568 | 871 |
| | Travel and accommodation | 734 | 985 |
| | Property rent and rates | 273 | 1,843 |
| | Electronic data processing costs | 771 | 1,291 |
| | Insurance costs | 1,650 | 1,128 |
| | Depreciation (Note 16) | 206 | 244 |
| | Printing and stationery | 352 | 243 |
| | Training | 538 | 28 |
| | Bank charges | 126 | 168 |
| | Repairs and maintenance | - | 165 |
| | Motor vehicle expenses | 121 | 307 |
| | Amortisation (Note 17) | 64 | 91 |
| | Sundry Expenses | 105 | 90 |
| | Loss on disposal of assets | - | 2 |
| | Donations | - | 100 |
| | | 62,967 | 58,409 |
| 11 | STAFF COSTS | | |
| | Salaries and allowances | 19,758 | 18,996 |
| | Gratuity | 5,132 | 4,872 |
| | Leave pay | 1,922 | 1,678 |
| | NSSF contributions | 43 | 60 |
| | | 26,855 | 25,606 |
| 12 | TAXATION | | |
| | (a) Taxation credit/(charge) | | |
| | Current taxation based on the taxable profit at 30% | - | 10,306 |
| | Prior year tax overprovision | (20) | (5,181) |
| | | (20) | 5,125 |

12 TAXATION (Continued)

(b) Reconciliation of expected taxation charge based on accounting profit/ (loss) to taxation charge

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Accounting profit before taxation | (12,958) | 33,109 |
| Tax at the applicable rate of 30% | (3,888) | 9,932 |
| Tax effect of non-taxable income | - | (2,729) |
| Tax effect of expenses and losses not allowable for tax | 548 | 389 |
| Deferred tax not recognised | 3,340 | - |
| Taxation based on separate source income | - | 2,714 |
| Prior year tax overprovision | (20) | (5,181) |
| | (20) | 5,125 |

(c) Current taxation payable

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| At 1 January | (5,441) | (966) |
| Charge for the year | - | (10,306) |
| Paid during the year | 5,421 | 650 |
| Prior year tax overprovision | 20 | 5,181 |
| At 31 December | - | (5,441) |

13 SHARE CAPITAL

Authorised, issued and fully paid:

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| 50,000 ordinary shares of Sh 1,000 each | 50,000 | 50,000 |

14 INVESTMENT REVALUATION SURPLUS

| | Quoted equity investments Sh'000 | Unquoted equity investments Sh'000 | Total 2013 Sh'000 | Total 2012 Sh'000 |
|---|---|---|---|---|
| At 1 January | 22,573 | 101,063 | 123,636 | 113,432 |
| Net gain | 13,782 | - | 13,782 | 10,204 |
| At 31 December | 36,355 | 101,063 | 137,418 | 123,636 |

15 STATUTORY RESERVE

**Reconciliation of statutory fund to the actuarial surplus**

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Life fund | 175,218 | 188,176 |
| Less: | | |
| - Contingency reserve | (5,000) | (5,000) |
| Statutory reserve | 170,218 | 183,176 |

16 INTANGIBLE ASSETS – COMPUTER SOFTWARE

| | 2013 | 2012 |
|---|---|---|
| COST | | |
| At 1 January and 31 December | 1,260 | 1,004 |
| Additions | - | 256 |
| | 1,260 | 1,260 |
| AMORTISATION | | |
| At 1 January | 1,068 | 977 |
| Charge for the year | 64 | 91 |
| At 31 December | 1,132 | 1,068 |
| NET BOOK VALUE | | |
| 31 December | 128 | 192 |

At 31 December 2013, computer software with a total cost of Sh 1,003,555 (2012: Sh 1,003,555) were fully depreciated. The notional depreciation charge in respect of these assets amount to Sh 250,888 (2012: Sh 250,888).

## 17 EQUIPMENT

| | Furniture fittings and equipment Sh'000 | Motor vehicles Sh'000 | Computer hardware Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2012 | 1,949 | 1,867 | 3,775 | 7,591 |
| Disposals | (232) | - | (299) | (531) |
| At 31 December 2012 | 1,717 | 1,867 | 3,476 | 7,060 |
| At 1 January 2013 | 1,717 | 1,867 | 3,476 | 7,060 |
| Additions | - | - | 45 | 45 |
| At 31 December 2013 | 1,717 | 1,867 | 3,521 | 7,105 |
| **DEPRECIATION** | | | | |
| At 1 January 2012 | 1,315 | 1,867 | 3,654 | 6,836 |
| Charge for the year | 187 | - | 57 | 244 |
| Eliminated on disposal | (182) | - | (299) | (481) |
| At 31 December 2012 | 1,320 | 1,867 | 3,412 | 6,599 |
| At 1 January 2013 | 1,320 | 1,867 | 3,412 | 6,599 |
| Charge for the year | 166 | - | 40 | 206 |
| At 31 December 2013 | 1,486 | 1,867 | 3,452 | 6,805 |
| **NET BOOK VALUE** | | | | |
| At 31 December 2013 | 231 | - | 67 | 300 |
| At 31 December 2012 | 397 | - | 64 | 461 |

At 31 December 2013, motor vehicles and equipment with a total cost of Sh 3,447,255(2012: Sh 1,867,025) were fully depreciated. The notional depreciation charge in respect of these assets amount to Sh 1,221,729(2012: Sh 373,415).

## 18 UNQUOTED EQUITY INVESTMENTS-AVAILABLE FOR SALE

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| **At cost less accumulated impairment losses** | | |
| 3,958,300 4% preference shares in the Consolidated Bank of Kenya Limited - at acquisition cost | 79,192 | 79,192 |
| 1,094,487 ordinary shares in the Consolidated Bank of Kenya Limited - at acquisition cost | 21,871 | 21,871 |
| | 101,063 | 101,063 |

The company's share of Consolidated bank's net assets is now above the amount initially invested in the shares of the bank. The cost of the shares has been used as the best estimate of the recoverable amount for the investment in the bank's shares.

## 19 MORTGAGE LOANS

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Maturing within one year | 367,641 | 367,641 |
| Less: Provision for impairment losses | (363,361) | (363,361) |
| | 4,280 | 4,280 |

Mortgage loans were advanced at the rate of 23% per annum for commercial clients, 6% per annum for staff and 21% per annum for non-commercial clients.

## 20 SHORT TERM DEPOSITS

**Kenya Commercial Bank Limited**

| | Principal Sh'000 | Accrued interest Sh'000 | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|---|
| On call | 36,077 | 107 | 36,184 | 61,111 |
| Fixed deposit | 150,677 | 41 | 150,718 | 105,179 |
| Fixed deposit | 400,000 | 877 | 400,877 | 400,787 |
| | 586,754 | 1,025 | 587,779 | 567,077 |

The weighted average interest rate on short term deposits during the year was 11.4% (2012 – 11.4%).

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| **21 RENT AND OTHER RECEIVABLES** | | |
| Rent and other debtors | 248,294 | 248,322 |
| Proceeds due from sale of non current assets held for sale* | 35,548 | 70,039 |
| Prepayments and deposits | 11,412 | 12,136 |
| | 295,254 | 330,497 |
| Less: provision for rent and other debtors | (248,323) | (248,322) |
| | 46,931 | 82,175 |

* Included in the sales proceeds from the sale of non-current assets held for sale is Sh.35,145,000 relating to sale of plot number MN/397/1 of Mombasa Municipality. The Company sold plot number MN/397/1 of Mombasa Municipality in 2005 for Sh 43,945,000. 20% deposit amounting to Sh 8,800,000 was paid in 2005 and the buyer provided a Bank Guarantee for the balance of Sh 35,546,716 to the company. This amount is payable to the company when vacant possession is handed over to the buyer. The property has been the subject of a Court case Civil Suit number 110 of 2006, in which the company was the respondent. In a judgment dated 23 February 2009 the suit was dismissed in favour of the company. The company filed Civil Suit 123 of 2009 before the High Court Mombasa seeking eviction orders against the squatters. Judgment was delivered on 12th October, 2012 and eviction orders issued. The Administration Police and the Officer Commanding Station (OCS) Bamburi Station were directed by Court to supervise the eviction. They have failed to comply with the Court Order. The company applied to court for amendment of the eviction order which application was allowed by court on the 4th March,2014 and the eviction order has been amended directing the County Commissioner of Mombasa, the Inspector General of Police and Secretary to the County Government of Mombasa to supervise the eviction of the squatters. The Court order is being served on the relevant officers and if they default in implementing the order contempt proceedings shall be instituted.

## 22 QUOTED EQUITY INVESTMENTS

**Available for sale investments**

| Investment | No of shares | Market value 1 January 2013 Sh'000 | Disposal of shares Sh'000 | Revaluation gain Sh'000 | Market value 31 December 2013 Sh'000 |
|---|---|---|---|---|---|
| Kenya Commercial Bank Limited | 787,500 | 23,428 | - | 13,782 | 37,210 |
| Unga Group Limited | 923 | 12 | (12) | - | - |
| NIC | 418 | 16 | (16) | | - |
| | | 23,456 | (28) | 13,782 | 37,210 |

At year end 787,500 Kenya Commercial Bank Limited shares with a market value of Sh 37,209,375 (2012: Sh 23,456,159) were held by the High Court of Kenya as lien in respect of a litigation case. The case relates to the predecessor company's general business. The company, through its lawyers, has petitioned the Court of Appeal to allow the company repossess the shares in a case which is yet to be heard and determined. The company received dividends amounting to Sh 1,570,266 (2012 – Sh 2,060,288).

## 23 DEFERRED TAXATION

Deferred income taxes are calculated on all temporary differences under the liability method using the currently enacted tax rate of 30%. The net deferred taxation liability is attributable to the following items:

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| **Deferred tax liabilities:** | | |
| Accelerated capital allowances | - | (10) |
| **Deferred tax assets:** | | |
| Tax losses available for offset against future profits | 3,128 | - |
| Gratuity provision | 131 | - |
| Leave pay provision | 33 | - |
| Bad debt provision | - | 9 |
| Accelerated capital allowances | 48 | - |
| | 3,340 | 9 |
| Net deferred taxation asset | 3,340 | (1) |
| Net deferred taxation asset not recognised | (3,340) | 1 |
| | - | - |

The movement on the deferred tax account is as follows:

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| At 1 January | - | - |
| Deferred taxation credit - current year | 3,340 | (1) |
| Deferred taxation credit not recognised - current year | (3,340) | 1 |
| At 31 December | - | - |

The company is no longer transacting life business and the deferred tax asset has not been recognised as the company will not be able to generate operating profits relating to this line of business in future to be able to recover the deferred tax asset.

## 24 LIABILITIES UNDER INSURANCE CONTRACTS

| | Maturities Sh'000 | Death claims Sh'000 | Surrenders Sh'000 | Institutions and Annuities Sh'000 | Refundable premiums Sh'000 | Total Sh'000 |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 279,313 | 87,009 | 8,870 | 20,114 | 23,352 | 418,658 |
| Adjustment to claim values | 250 | 24 | (34) | - | 193 | 433 |
| Benefits to policyholders | 3,053 | (2,288) | (82) | (1,340) | 2,939 | 2,282 |
| Premiums refundable | - | - | - | - | 43 | 43 |
| Claims paid during the year | (9,962) | (1,483) | (245) | (1,272) | (2,972) | (15,934) |
| At 31 December 2013 | 272,654 | 83,262 | 8,509 | 17,501 | 23,925 | 405,483 |
| At 31 December 2012 | 279,313 | 87,009 | 8,870 | 20,114 | 23,352 | 418,658 |

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| **25 PAYABLES AND ACCRUALS** | | |
| Accruals | 10,398 | 3,387 |
| Prepaid rent | 2,158 | 2,013 |
| | 12,556 | 5,400 |

## 26 NOTES TO THE CASH FLOW STATEMENT

**a) Reconciliation of profit before taxation to cash used in operations**

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| (Loss)/ Profit before taxation | (12,958) | 33,109 |
| Adjustments for ; | | |
| Amortisation of intangible assets (Note 16) | 64 | 91 |
| Depreciation of equipment (Note 17) | 206 | 244 |
| Loss on disposal of equipment | - | 2 |
| Gain on disposal of shares | (106) | (4,999) |
| Working capital changes: | | |
| (Increase) /decrease in mortgage loans | - | 16,669 |
| Decrease in rent and other receivables | 35,244 | 93,232 |
| Decrease in liabilities under insurance contracts | (13,175) | (11,502) |
| Increase/(decrease) in payables and accruals | 7,156 | (31,202) |
| Cash used in operations | 16,431 | 95,644 |

**b) Analysis of cash and cash equivalents**

| | 2013 | 2012 |
|---|---|---|
| Bank and cash balances | 3,004 | 12,607 |
| Short term deposits | 587,779 | 567,077 |
| | 590,783 | 579,684 |

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|

## 28 RELATED PARTY DISCLOSURES

### a) Nature of related party relationships

Companies and other parties related to Kenya National Assurance Company (2001) Limited include those parties who have ability to exercise control or significant influence over its financial and operating decisions. These include the Government of Kenya, its agencies and close associates.

### b) Details of related party balances

The following balances arise from transactions carried out with related parties:

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Short term deposits placed with Kenya Commercial Bank Limited | 587,779 | 567,077 |
| Equity shares in Kenya Commercial Bank Limited | 37,210 | 23,965 |
| Shares in Consolidated Bank of Kenya Limited | 101,063 | 101,063 |
| Bank accounts at parastatal banks | 2,926 | 12,570 |
| | 728,978 | 704,675 |

### c) Details of related party transactions

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| **(i) Investment income** | | |
| Interest on short term deposits placed with Kenya Commercial Bank Limited | 49,150 | 86,792 |
| Dividends from Kenya Commercial Bank Limited | 1,570 | 2,060 |
| | 50,720 | 88,852 |
| **(ii) Expenses of management** | | |
| Property rent and rates to Local Authorities | 273 | 1,843 |
| Telkom Kenya and Postal Corporation of Kenya | 568 | 871 |
| | 841 | 2,714 |
| **(iii) Key management personnel remuneration** | 15,93 | 17,096 |
| **(iv) Directors' remuneration** | | |
| Fees | 3,271 | 3,000 |
| Other emoluments | 2,894 | 2,411 |
| | 6,165 | 5,411 |

## 29 FUTURE OPERATING LEASE COMMITMENTS

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| *Company as lessee* | | |
| Amounts payable by the company under lease agreement negotiated with landlord at end of the reporting period: | | |
| Within one year | 8,440 | 7,818 |

## 30 CONTINGENT LIABILITIES

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Pending litigation claims | 6,940 | 1,262 |

The pending litigation claims relate to cases instituted by third parties against the company. Judgment in respect of these cases had not been determined as at 31 December 2013. Based on the advice by the company's lawyers, the Directors are of the opinion that no liabilities will crystallize.

## 31 CONTINGENT ASSET

The Company owned a plot in Malindi which was discovered to be part of the old Malindi Municipal Stadium. The plot carried a nil value in the books. The Commissioner of Lands has allocated the company another plot to replace the one that was repossessed by the Municipal Council of Malindi. The lease for the plot is being processed at the Lands Office Nairobi.

## 32 CAPITAL EXPENDITURE COMMITMENTS

The company had no capital commitments at year end (2012 – Sh Nil).

## 33 COUNTRY OF INCORPORATION AND DOMICILE

The company is domiciled and incorporated in Kenya under the Companies Act, Cap 486 of the Laws of Kenya and is wholly owned by the Government of Kenya. The company's operations are controlled and regulated under the Kenyan State Corporations Act.

## 34 CURRENCY

The financial statements are prepared in thousands of Kenya Shillings (Sh'000).