APA INSURANCE

2014 ANNUAL REPORT & FINANCIAL STATEMEN

We are a leading insurance provider, touching the lives of millions of people through our many innovative products. We may appear as a tiny string in our customers day to day lives, yet we are an important connection that binds them together, to the things that matter, to the people they love.

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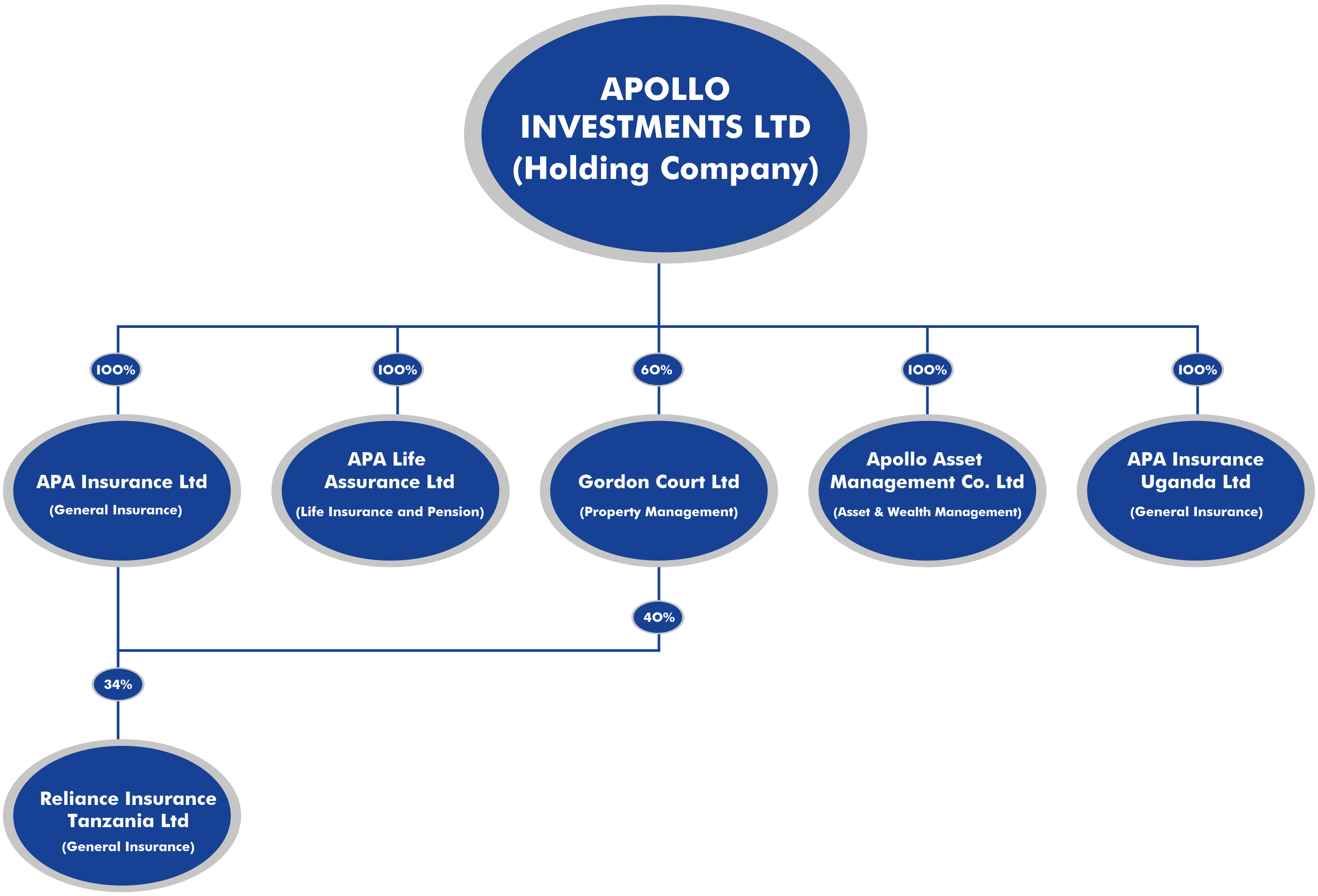
VISION

We are the region's most respected group, creating and protecting wealth

MISSION

We put smiles on the faces of our stakeholders

GROUP STRUCTURE



{ BIMABAMBA }

Would you like a bit more flexibility with your car insurance premiums? Here you go, pay for your car insurance on a quarterly basis.

BOARD OF DIRECTORS

B.M. Shah

Director

S.M. Shah

Director

Sara Marti

Swiss Re Board Observer

James Gitoho

Chairman

BOARD OF DIRECTORS

Daniel Ndonye
Director

Reto Schnarwiler
Director

Pratul Shah
Company Secretary

Ashok Shah
Director

SENIOR MANAGEMENT

Sheila Gichuhi

Head of Health Business Development

Nelson Bachia

Head of Branches

Kenneth Ndura

Group Head of Internal Audit

Michael Oduor

Chief Executive Officer

Lucy Kuria

Head of Care Team

Moses Mbuciri

Reinsurance and Technical Manager

Fidelis Mbagara

Group Head of Human Resources

S J Njoroge

Chief Operations Officer

SENIOR MANAGEMENT

Parul Khimasia

Chief Business Development Officer

Carol Kamau

Director of Business Development

Shalini Goswami

Head of Health Claims

Henry Malmqvist

Group Chief Information Officer

John Kigochi

Chief Finance Officer

COMPANY INFORMATION

BOARD OF DIRECTORS

J N Gitoho	Chairman
D M Ndonye	
A K M Shah*	
S M Shah	
B M Shah	
R Schnarwiler	(Appointed on 29 October 2014)**
Dr. J P N Simba	(Resigned on 22 December 2014)
D N Lacey	(Resigned on 26 September 2014) ***

British* Swiss** South African***

SECRETARY

P H Shah

Certified Public Secretary (Kenya)

SENIOR MANAGEMENT

M Oduor	Chief Executive Officer
J Kigochi	Chief Finance Officer
P Khimasia	Chief Business Development Officer
SJ Njoroge	Chief Operations Officer
C Kamau	Director of Business Development
S Gichuhi	Head of Health Business Development
M Mbuciri	Reinsurance and Technical Manager
S Goswami	Head of Health Claims
L Kuria	Head of Care Team
N Bachia	Head of Branches
K Ndura	Group Head of Internal Audit
H Malmqvist	Group Chief Information Officer
F Mbagara	Group Head of Human Resources

REGISTERED OFFICE

Apollo Centre,

07 Ring Road, Parklands, Westlands

P O Box 30065 - 00100

Nairobi

PRINCIPAL BANKERS

Commercial Bank of Africa Limited

P O Box 30437- 00100

Nairobi

Standard Chartered Bank Kenya Limited

P O Box 30001- 00100

Nairobi

INDEPENDENT AUDITOR

PricewaterhouseCoopers

Certified Public Accountants (Kenya)

PwC Tower, Waiyaki Way/Chiromo Road,

Westlands

P.O. Box 43963 – 00100

Nairobi

APPOINTED ACTUARY

Alexander Forbes Financial Services (East Africa) Limited

Landmark Plaza, ArgwingsKodhek Road

P O Box 52439 – 00200

Nairobi

When you’re let go from your job, cushion the fall with Linda Salo.

{ MOTOR ADD+ADVANTAGE }

If your vehicles are your business then you need to ensure nothing happens to them. That's where we come in. This cover is an insurance solution for commercial vehicles with Add + vantages like, political violence and terrorism, fleet management, personal accident among others.

{ CHAIRMAN'S STATEMENT }

CHAIRMAN'S STATEMENT

It is my great pleasure to present the 2014 annual report and financial statements for APA Insurance Limited. This being my inaugural statement, let me at the forefront humbly acknowledge the trust and confidence bestowed upon me by the board of directors.

Economy

The most significant event was the rebasing of the Kenyan economy which led Kenya to be a middle income economy and took it to the top ten of the African economies. Despite the extensive decline in tourism sector, the economy exhibited great resilience expanding by 5.5% by end of third quarter. The growth was driven by activities across all sectors. The economy also received a timely boost from the falling energy costs emanating from the plummeting international crude oil prices.

Inflation was well contained within single digit in the year and closed at 6.88%. The Central Bank maintained a moderate stance on the interest rates with the Central Bank rate (CBR) maintained at 8.5% throughout the year and introduced the Kenya Bank's Reference Rate (KBRR) aimed at enhancing transparency in the costs and pricing of banking products in the market. All banks and mortgage finance institutions are expected to disclose their respective charges with reference to this rate.

For the third year running, the stock market continued to blossom with the Nairobi Securities Exchange 20 shares index touching the pre-2008 level of 5,000 and closed the year at 5,112.65. This was a 3.8% increase over December 2013 index of 4,926.97. This growth was mainly buoyed by a good macro-economic environment and strong company fundamentals.

Despite these positive developments, insecurity and terrorism threats continue to impede the level of growth. The Government has to seriously tackle these twin threats that are core to the economy and indeed the society. While the envisaged benefits of devolution are yet to be felt, there are signs despite the recurrent expenditure weighing heavily on the populace that the economic activity at county levels is rapidly expanding.

Kenyan insurance industry

During the year, the Insurance Regulatory Authority (IRA) embarked on several initiatives geared towards Risk Based Supervision (RBS) and Electronic Regulatory System (ERS). On the RBS, every insurer has established a risk matrix and a risk function that is monitored regularly by the regulator. Risk management therefore forms a pivotal role in the day to day operations of insurers. The ERS on the other hand is a web based system that enables regulated insurance entities log into the system using a portal. This is a paradigm shift where the Authority is moving into a new era of digital reporting. In the course of the year, several returns were moved into the ERS. This will now entail in better availability of the data and earlier reaction by both the regulator and the industry.

The industry witnessed entry into the market by several international players, which shows that the industry has now come of age. We expect innovativeness and transfer of best practices to the industry from these players. There were also several strategic realignments and shareholding structural changes in the year. These will no doubt change the competitive landscape and deepen the market penetration that still remains at low level of 3.44%.

In a surprise move, the government extended Kenya Reinsurance Corporation's mandatory cession to 20% (from 18%) of all reinsurance treaties by underwriters. This creates an uneven playing field as there are several established reinsurers in the market and giving an undue advantage to one privatised reinsurer does not help the others.

Financial performance

APA registered a 19% growth in gross premium income to Shs 7.8 billion from Shs 6.55 billion in 2013. The growth extended over all the classes with the health business growing by 57% to Shs 2.38 billion, surpassing the Shs 2 billion mark for the first time. The overall growth was achieved against a backdrop of quality check of the book and portfolio re-balancing aimed at ensuring a sustainable profitable growth.

Despite having paid several large claims (including Shs1.97 billion for the Jomo Kenyatta International Airport fire), we continue to show underwriting profit. The continuing underwriting loss under private motor and health experienced by most players has become a major threat. The very heavy competition on rates, despite there being a regulated minimum rate for motor does not help curb the losses.

The technical performance declined from an underwriting profit of Shs 54.1 million in 2013 to Shs 38.7 million in 2014 mainly due to adoption of enhanced actuarial reserves in the second year of these statutory valuations.

CHAIRMAN'S STATEMENT (continued)

The profit before taxation for the year is Shs 837.9 million from Shs 609 million in 2013, a 37.6% increase mainly attributed to higher investment income.

Other comprehensive income

During the year, the company recognised other comprehensive income amounting to Shs 237.6 million (2013: Shs 720.4 million) mainly due to another successive (third) year of quoted equities performance. The quoted equities fair value gain in 2014 was Shs 173.9 million (2013: Shs 708.3 million).

The total comprehensive income stands at Shs 1.01 billion (2013: Shs 1.21 billion). Consequently, the shareholders' funds grew by 24.4% to Shs 4.74 billion with a return on equity of 23% (2013: 38%). This remarkable growth will no doubt bolster the company's financial strength and provide adequate buffer under the risk based capital model.

Bonus issue and dividends

The Board of Directors has recommended a bonus issue of two ordinary shares for every three shares from the retained earnings of the company. This recommendation seeks to increase the share capital of the company to Shs 1.25 billion, making it one of the highest capitalised with adequate surpluses over the statutory minimum. This, indeed is a testimony of our commitment to us being a strong player in this market.

The Board of Directors has also recommended a dividend of Shs 100 million for the year (2013: Shs 80 million), a 25% growth.

Structural changes

As was enumerated in the 2011 annual report, LeapFrog Investments invested in Apollo Group and has offered strong support over the past three years particularly in the development of a range of micro-insurance products targeting broader financial inclusion. LeapFrog exited at the end of 3rd quarter. Their shareholding were taken over by Swiss Re Direct Investment Company Ltd (Swiss Re), a subsidiary of Swiss Re Group.

Swiss Re is the world's second largest reinsurer. Through its investment arm it has invested in many companies in the world, however, Apollo Group is their first investment in Sub Saharan Africa. Swiss Re's aim is to be a long term shareholder that will help build a strong shareholder value. To attract a stable and long term shareholder of this size, calibre and reputation marks a coming of age for Apollo Group. We will continue to pursue our strategic ambition to build East Africa's premier insurance brand and indeed meet our stakeholder's expectations as we leverage on the new investor's experience and innovation throughput.

Changes to the board and senior management

In December 2014, Dr. John P N Simba resigned as a director of the company. Dr. Simba is the founding chairman of the company and has immensely contributed to it's growth and development. The board appreciates and acknowledges the invaluable contribution by Dr. Simba as director and chairman of the board over the years since the formation of APA in 2003.

Following the changes in shareholding at the holding company, Mr. Douglas Noel Lacey (Leapfrog Investments representative) resigned as a director.

Mr. Reto Schnarwiler, was appointed to the board as a representative of Swiss Re. Mr. Schnarwiler leads Swiss Re's business activities with governments, development and non-governmental organisations in America, Europe, Middle East and Africa. He drives micro insurance activities and innovative insurance solutions. I warmly welcome him to the board and look forward to his contribution and advice.

The board is also pleased to report that Mr. Michael Oduor joined the company in September 2014 as the CEO and Principal Officer and look forward to his stewardship in fulfilment of our mission and vision.

Outlook

The confidence in the economy and fundamentals remain strong. This is also underpinned by increased infrastructure spending, structural reforms and general consumption coupled with the low crude oil prices. Recent discoveries of natural resources in various parts of the country are likely to trigger an increased foreign direct investments. A stable monetary policy stance, fiscal discipline, enhanced security and real fight against corruption will be vital for the enhanced growth of the economy and attraction of foreign investors.

On the global scene, the strong performance of the US economy, lower international oil prices and the lowering of interest rates in the Eurozone should provide some economic stimulus. The global growth rate is expected to pick up from 3.4% in 2014 to 3.5% in 2015.

IRA has partnered with the college of insurance to train, examine and issue certificates for executive certificate of proficiency (ECOP) in insurance in all the 47 counties. The ECOP programme aims to train one hundred residents in each county with a view to impart insurance knowledge to all the counties. This programme is geared for non-insurance personnel and will have a great multiplier effect in deepening insurance knowledge and expectedly enhance the insurance penetration.

Appreciation

On behalf of the Board, I wish to express our sincere gratitude to our clients, insurance intermediaries, reinsurers, business partners, suppliers, service providers, shareholders and the regulatory authorities for the business and support throughout the year.

I recognise and appreciate the management and staff of the company for the loyalty, dedication and hard work that have made these results possible.

Finally, to my fellow directors, thank you for your commitment, support and considered advice that is so essential in this extremely competitive and specialised industry.

James Gitoho
Chairman

17 March 2015

CHIEF EXECUTIVE OFFICER'S STATEMENT

It is my pleasure to present the 2014 operational review for APA Insurance Limited. Equally, this being my inaugural statement since joining the company in September 2014, I would like to firstly thank the board of directors for granting me the opportunity to steward this great company.

Operating environment

The economic and political landscape was quite volatile in early 2014 especially with political issues around the then two high profile Kenyan cases at the international criminal court, the memory of Westgate and Lamu terrorist attacks still live and anxiety around the need for a referendum advocated by the opposition for review of certain parts of the constitution. This placed pressure to the new government and eroded the investor confidence in the early part of the year. The year therefore started on a slow pace for insurance decisions and general uptake. According to the Insurance Regulatory Authority (IRA) quarterly report, the non-life industry premium grew by 15.9% for the first quarter and this was lowest quarter on quarter performance in the year. The industry achieved a 16.9% growth rate for the non-life premium and a 20.4% on overall.

The economy remained fairly resilient and increasing investment in infrastructure and human capital strengthened prospects for higher growth powered by aggregate demand and fuelled by strong consumption. Key challenges in the year remained the heightened pressure on the gross domestic product (GDP) due to wage and debt burden, draught, insecurity and implementation of devolution.

The key milestones for the economy included the rebasing index which enabled Kenya to join the league of middle income nations and the 9th largest economy in Africa. Inflation on the other hand recorded a decline amidst rise in food prices. According to the 2014 economic survey, real estate, transport and communication recorded a rise in GDP contribution. The prospect in the start-up of the proposed Lamu Port Southern Sudan-Ethiopia Transport (LAPSSET) project will open up a new economic corridor. The proposed expansion of Jomo Kenyatta International Airport (JKIA), the prospects arising out of discovery of oil, gas and coal, and the fact that the construction of standard gauge railway (SGR) is already started for completion to Nairobi in 2017 present's new growth opportunities for the economy and the insurance sector at large.

APA Insurance has built strong internal and external fundamentals to benefit from the macro economic opportunities that are presented in our economic environment. In addition, we have put in place systems and structures to cope with the new IRA digital requirement for electronic supervision (ERS) and initiatives towards risk based supervision (RBS) as part of our risk management framework.

Key performance highlights

Some of the key financial indicators on the company's performance are as enumerated hereunder:-

- Gross premium income increased by 19% from Shs 6.55 billion to Shs 7.80 billion
- Profit before tax was up by 37.6% from Shs 609 million to Shs 838 million
- Total assets increased by 8% from Shs 13.3 billion to Shs 14.4 billion
- Shareholders' funds increased by 24.5% from Shs 3.81 billion to Shs 4.74 billion
- Return on equity was 23%

The increase in performance is as a result of the robust strategic platform dubbed power of alignment (POA) which drives the company's operational initiatives to the overall group strategy in line with the group vision, mission and values.

The company recorded an impressive growth of 57% in medical business to Shs 2.38 billion crossing the Shs 2 billion mark for the first time. The overall growth was however hampered by heightened underwriting controls and focus to balance the portfolio. Despite the good performance of motor commercial class of business, motor private still negatively tempered the underwriting result, like with most players in the industry. The statutory adoption of the actuarial incurred but not reported (IBNR)

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

valuation in setting up the reserves also meant that we had to adjust our technical results and in overall, our underwriting profit declined to Kshs 38 million from Kshs 54 million recorded in 2013.

Operational initiatives

In our mission to put smiles in the faces of our stakeholders, we currently have a set-up of 12 branches and 18 liaison offices across the 47 counties. These networks are strategically identified and located in areas with potential reach for our customers and intermediaries. The spread of these offices have also made us position ourselves for the economic prosperity arising out of the devolution of the government and to be able to quickly respond to our customer's product requirements. We opened up three liaison offices in the fourth quarter in Ongata Rongai, Nakuru central business district and Isiolo. We have already noted good bearings in these recent set ups. We have plans to bolster liaison offices that will have surpassed our threshold of maturity into fully fledged branch offices.

The trailblazer's team champions our innovation strategy. This is a self-driven team of champions that generates, collates and transforms new ideas into business. In 2014, this team revamped our home advantage plus product to create relevance into the common needs of householders and we have seen significant interests from our customers in view of new partnerships. The team is currently reviewing ideas on new products and services in response to our customer's needs, areas of process improvement and waste reduction and how best to enhance our customer satisfaction. We expect this to upscale our way of doing business in the competitive space.

The business service teams (BST) concept has been a great success in driving our customer centricity. The concept has created a culture of focus, dedication and responsiveness to customer service. In 2014, we introduced the framework in our health business and have rolled this to our branch offices in Nairobi city center and Mombasa branches. We are reviewing our group-wide customer service charter and will embed this to benchmark our BST framework. This, with the planned insight on customer feedback surveys will confidently enhance our overall customer experience.

The company has developed a risk management framework in line with the compliance requirement from the insurance regulatory authority (IRA). In 2014, we created a dedicated resource to support the identification, monitoring and control of corporate risks. We report to the board on a quarterly basis on any exposures and levels of management accountability in mitigating the risks. In addition, insurance is about managing risks and we also have on board, insurance business risk manager to support in the underwriting prudence and controls. In 2014, this section carried out over 100 risk inspection surveys and advised our clients, through recommendations, seminars and training on the best measures to manage and improve their risks. This has directly enhanced our relationship with clients who see us not only as insurers but as risk partners.

Big or small, we pay all valid claims quick and fair. We have received recognition in two consecutive years from the 'Think Business' insurance award for "Best Company of the Year in Claims Settlement" and have received accolades and positive feedback from our customers and insurance intermediaries. This is an emblem that differentiates us from competition and has enabled us retain many of our customers who may not be influenced by the rampant premium undercutting. It is our intention to continue exploring ways to enhance our customer satisfaction when they suffer a loss.

Our competency lies in the capacity of our staff. We invest every year in the training and development of our staff. In 2014, under the auspices of APA Excellence Academy initiatives; we developed a training calendar and curriculum to guide both technical and soft training skills for our staff and direct sales force. We invited professional speakers to motivate and impart professional knowledge and customer service skills so that the staff and salesforce can represent our brand satisfactorily to clients. We also extended the training to our service providers as they are part of our brand ambassadors and a strong representation of service delivery to customers. Our graduate management trainee program has worked well for us and forms a core pillar of development to our key staff who are absorbed in their areas of competency in the group after undertaking a 2 year intensive on the job training program. In 2014, we had 5 staff on this program across the group.

The robust information technology solution implemented for our health business went live in 2014 and the projected closure is expected in second quarter of 2015. The system has enabled reliable storage and retrieval of data thus improving our responsiveness to customers.We have seen great improvement in the efficiency and faster processing of claims and it has facilitated better health care and service delivery. We are in the process of enhancing the system capabilities to support the management of our health business.

Corporate social responsibility (CSR) supports our association with the community that builds our business. The company has continued to undertake CSR activities in long term and sustainable projects that enhances the livelihood of communities that we support. The activities undertaken in 2014 were in the areas of sand dam building to provide clean and reliable water supply to communities in arid and semi-arid areas, the bursary fund for education of deserving students from poor backgrounds, tree planting for environmental conservation and youth empowerment through sports recreation.

Outlook

We expect the economy to grow by 5.9% in 2015. In line with current government manifesto and vision 2030, the growth projection is expected to continue toward double digit.This growth in the economy is expected to present opportunities for insurance premium growth and investments. We expect inflation to continue with the recent downward trend.

The insurance regulatory authority has shown strong commitments and guidelines to facilitate growth and reform the industry. These commitments present good opportunities for companies that value prudence and corporate governance. We are committed to benefit from these opportunities .In our endeavor to enhance customer experience, we shall in 2015, implement A state of the art customer contact center and initiate customer insight surveys to enhance customer centricity. We shall in the process review our customer charter to deliver exceptional service to customers. We are in the process enhancing of customer relationship module (CRM) to support customer loyalty and retention plans.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

We will continue with branch expansion plans and have earmarked to set up 5 liaison offices across the counties to increase our distribution network and easy access to customers where they require us most. Our trail blazer teams are reviewing new product developments in response to the demands of our new distribution network and to this end,our focus on micro insurance and agriculture business remains paramount.

We are aware about the need to enhance our IT capability and will in 2015 embark in the identification and implementation of a new integrated general insurance system. It will also be time to review our five year strategy and this will be a good opportunity to visualize our group position in the new space of growth in line with our vision and mission.

We have implemented a robust IT system driven performance management framework and will in 2015 fully embed a smart scorecard policy which is expected to enhance efficiency, levels of strategy execution and delivery of service to our customers. We are in the process establishing an entrepreneurial and performance driven culture that will upscale APA in the competitive space.

Appreciation

I would like to thank all our staff for the commitment and effort in achieving the good performance. I also recognize and appreciate the entire board members for their input, guidance and stewardship in running our business.
I pay special tribute to our business partners and in particular our customers and the intermediaries who continue to support us in a great way.

And finally, I thank all our shareholders for your continued support.

Michael Oduor
Chief Executive Officer
17 March 2015

{ HOME ADVANTAGE }

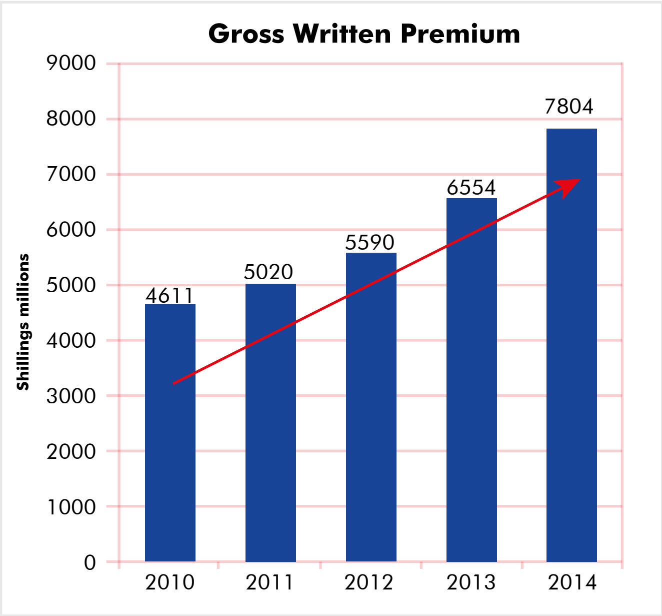
There is no place like home. This is all the reason you need to cover your house and those who live there.

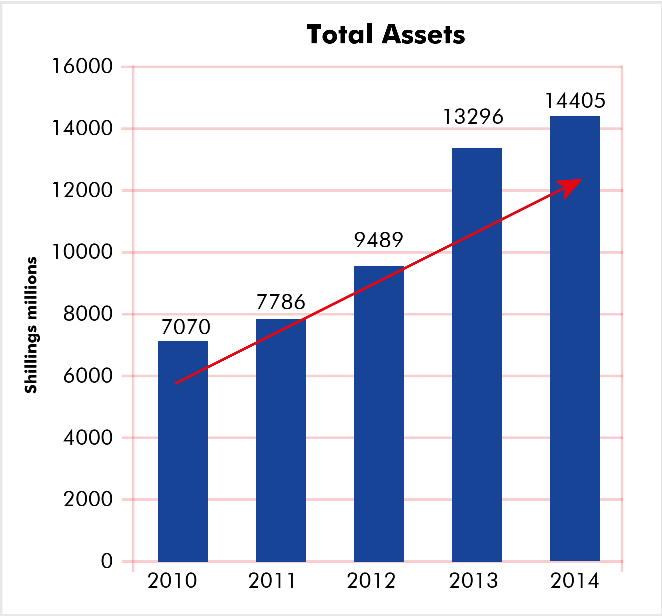
{JAMII PLUS}

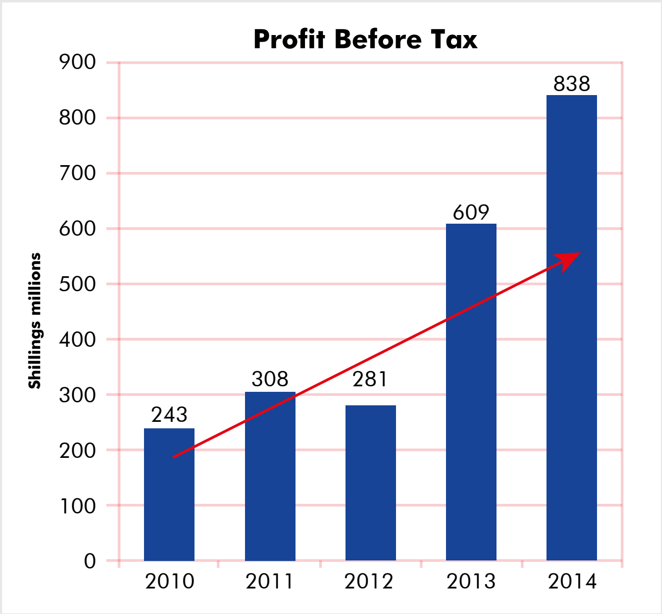
Family is everything. Cover your entire family with Jamii plus from APA, the comprehensive health insurance that covers even the elderly members of your family.

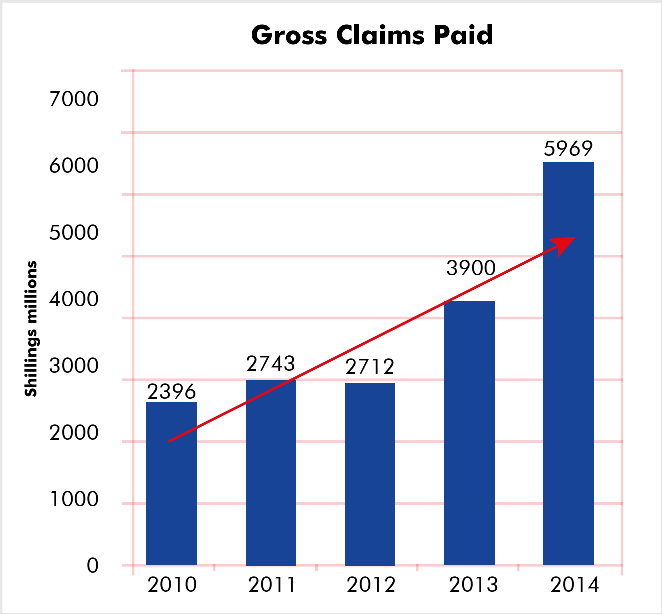
FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS









{AFYA NAFUU}

When you are hospitalized you are losing your income and we understand that. We will pay you KShs 1000 for each day you are hospitalized whether due to an accident or illness.

CORPORATE GOVERNANCE STATEMENT

Introduction

Good corporate governance is key to the integrity of corporations, financial institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The Board of APA Insurance Limited follows principles of openness, integrity and accountability in its stewardship of the company's affairs. It recognises the developing nature of corporate governance and assesses the company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its Board committees and Management. The role of the Board is to ensure conformance by focusing on and providing the company overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The Board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to both safeguard the company's assets and ensure the reliability of financial information.

A senior management team, comprising executive directors, divisional directors and senior managers meets regularly to consider issues of operational and strategic importance to the company.

Below are the key features of the existing corporate governance practices within the company which are reviewed and improved on a regular basis:

1. Board of Directors

The Board of Directors consists of six directors out of which two are independent non-executive directors. The Chairman of the Board is a non-executive director and the Board meets formally at least four times a year.

The Board is responsible for setting the direction of the company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The directors are actively involved in and bring strong independent judgement on Board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All directors have access to the advice and services of the Company Secretary and are entitled to obtain independent professional advice on the company's affairs. The Board meets regularly and retains full and effective control over the company in all strategic, financial, operational and compliance areas. In 2014, five board meetings were held and the attendance by the directors was as follows:

Director	Total board meetings in the year that the director was eligible to attend	Number of board meetings attended
JN Gitoho (Chairman)	5	4
DM Ndonye	5	4
AKM Shah	5	5
BM Shah	5	5
SM Shah	5	4
R Schnarwiler (Appointed on 29 October 2014)	1	1
Dr. J P N Simba (Resigned on 22 December 2014)	5	5
D N Lacey (Resigned on 26 September 2014)	4	4

To assist the Board in the discharge of its responsibilities, Board committees have been established. All the Board committees meet at least four times a year. The committees are as follows:-

CORPORATE GOVERNANCE STATEMENT (continued)

(a) Audit Committee

The audit committee comprises three non-executive directors. The committee is responsible for, inter alia, developing and advising on audit and financial controls and compliance issues of the company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee are JN Gitoho, SM Shah and DM Ndonye.

(b) Information and Communication Technology (ICT) Committee

The ICT committee comprises one non-executive director, the professional nominated under shareholders agreement and the executive director. The committee provides guidance to the Board on ICT requirements for the company, provide assurance that the ICT systems in place are able to generate accurate and timely management reports and also review ICT budgets and recommend for their adoption by the Board. The committee also ensures that there are business continuity plans in place for the company. The current members of the committee are PH Shah (Chairman) and AKM Shah.

(c) Investment Committee

The Board has an investment committee comprising three non-executive directors, the Board Chairman and the Executive Director. This committee is responsible for determining the company's overall investment strategy and monitoring its implementation. The current members of the committee are DM Ndonye (Chairman), SM Shah and AKM Shah.

(d) Remuneration Committee

The remuneration committee currently consists of three non-executive directors and the Executive Director. Its primary objective is to ensure that the right calibre of management is recruited and retained and set guidelines for remuneration of staff. The non-executive directors on the committee are responsible for agreeing the terms of service in respect of the executive directors.

The committee is also responsible for ensuring that the terms and conditions of service for management and staff is fair, appropriate and reflect the market conditions. The current members of the committee are JN Gitoho (Chairman), DM Ndonye, BM Shah and AKM Shah.

2. Internal Controls

The company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit function, operational meetings and the annual external audit.

3. Related Party Transactions and Directors' Remuneration

The related parties' transactions with the group companies during the year ending, 31 December 2014 are detailed under note 35 of these annual report and financial statements.

The remuneration for non-executive directors consists of fees and sitting allowances for their services in connection with the Board and committee meetings. These fees and allowances are approved by the members at the annual general meetings.

The aggregate amount of directors remuneration for services rendered during the year ending 31 December 2014 are contained under note 35 of these annual report and financial statements.

4. Social and Environmental Responsibilities

The Board is conscious of the company's social and environmental responsibilities. Particular attention is given to projects with a long time positive impact to the society and environment. These include employees' welfare programmes, education and health activities, empowering the youth and provision of clean and safe drinking water. The company encourages staff to participate and actively supports them in various causes.

5. Going Concern

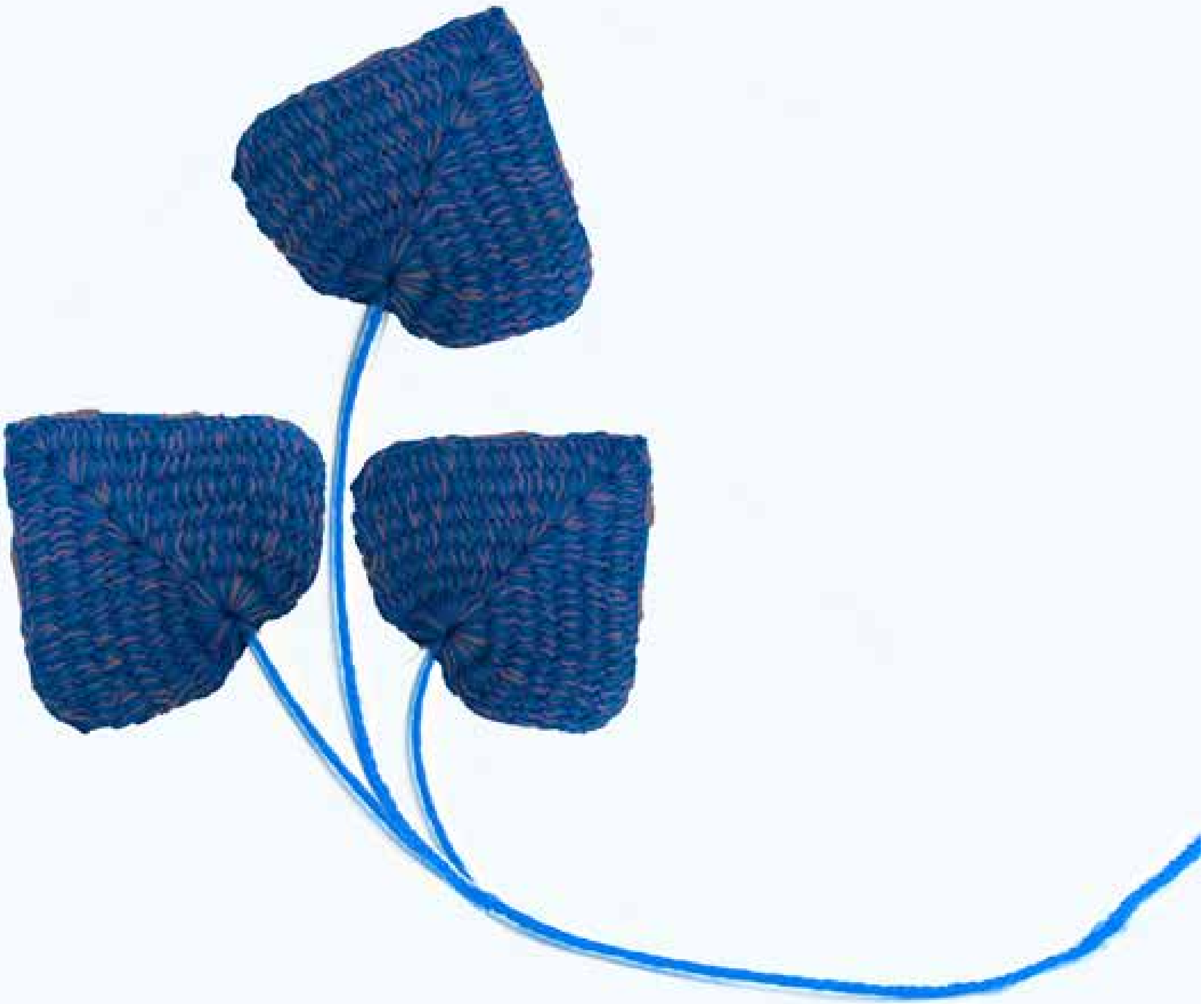
The directors confirm that the company has adequate resources to continue in business for the foreseeable future and therefore the continued use of going concern as a basis of preparing the financial statements is appropriate.

Director **Director**

17 March 2015

STUDENT PERSONAL ACCIDENT

This policy is specifically designed to provide compensation to students in case of an accident. The policy covers students 24/7 anywhere in the world.



CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Overview

APA Insurance strives to achieve success in ways that honour ethical values, comply with legal requirements and respect people, communities where we operate and the natural environment.

Corporate Social Responsibility (CSR) is NOT a series of activities: donations to society, paying taxes and observing regulations, giving back to society, subscribing to a code of ethics or social investment. CSR is A SET OF VALUES that guide the way we do business.

Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

The Group's corporate social responsibility programmes focus on four key pillars:

1. Sustainable water supply to communities
2. Empowering the youth
3. Education and health activities
4. Environment conservation.

APA Apollo Foundation

APA Apollo Foundation, previously called 'Amini Poa Maji Maisha,' is the umbrella trust that is funded by APA/Apollo Group and contributes towards the construction of sand dams. The trust has been in existence since 2006.

The strategic goal is to enhance food security for all in society by providing communities in semi-arid areas, accessibility to reliable water supply. This is achieved by the construction of sand dams on dry river beds to harness the water that only flows during rainy seasons. The water is retained in the sand that is deposited behind the dam. An artisan well with a hand pump is provided for easy access by the community. The natural filtration through the sand gives clean drinkable water that is used both for agriculture and household use.

The beneficiaries of three sand dams in the year 2014 were Ngwatanio Self-help group, Pionner Self-help group in Machakos County and Kwakika Self-help group in Makueni County.

With over 1,500 households that require water, the communities partnered with APA staff members and the Utooni Development Organization; a non government organisation that specializes in the construction of sand dams and built three dams that will support these households.

Some of the key objectives that this project has met include:

- Enhancing water security for all in the society
- Increasing accessibility to clean water
- Increase in food supply
- Reducing commuting long distance to fetch water for women and the children
- Ensuring that the community in large is able to participate in other income generating activities as long hours spent in fetching water have been cut

APA /Apollo team during a dam building exercise

Youth Initiative Programmes

APA / Apollo Bursary Fund

The APA bursary scheme was created to educate the top achieving boy and girl from Cheleta Primary School and hailing from Githongoro slums in the outskirts of Runda.

The bursary fund currently in its 8th year has eight students in high school with the recent two being admitted to Limuru Girls High School and Kiambu Boys High School. Three of the alumni of the Cheleta school are now in various universities.

CORPORATE SOCIAL RESPONSIBILITY (continued)

The school's overall performance has greatly improved since the bursary program was introduced with the average score rising to above 50%. This is due to competition amongst the pupils. The bursary caters for the secondary education tuition and necessary personal effects.

Michael Oduor, APA Insurance CEO, handing over sponsorship cheque to Jane Wanyoike and Brian Mwaura, best students from 2014 KCPE at Cheleta Primary School

Recreation Through Sports

APA promotes sporting activities by supporting the Runda Youth Sports Association (RYSA) football team. The sponsorship includes the fees for RYSA to participate in various leagues and provides the football kits, for logistics and team allowances.

The RYSA football team participates in the Nairobi County league which is under the Football Kenya Federation. This year the team has participated in 24 matches and has managed to win 10 matches and drew in 7 matches. Overall the team is number six out of a league of 13 teams. In addition, APA organises tournaments for the team in order to boost and continue to nurture the soccer talents and positively engage the youth in Mji wa Huruma and Githongoro villages.

Some of RYSA team members during football kits presentation

Environment Conservation

Our commitment to protecting and conserving the environment is core to our business and it is our objective to plant and maintain at least 1,500 trees every year. With Egerton University, we have created the Ngongogeri Park. Every year we plant 1500 seedlings with our staff and Egerton students. We are also key partners and sponsors in the annual Run for Mau marathon.

Through the APA Apollo Foundation sand dam projects, we ask the benefiting communities to plant trees along the river beds to help curb soil erosion, provide food as well as beautifying the landscape. A minimum of ten trees are allocated for planting and maintenance to each household that benefits from the sand dam.

Environment conservation has also been embraced at departmental level by the APA staff.

During the year, 500 tree seedlings were planted at Sirimoni National Park, Nanyuki and 200 seedlings at Cheleta Primary School by the staff from various departments and another 500 seedlings at the Naivasha Municipal Council by the APA/Apollo sports team.

Last year, APA was presented with the award for outstanding performance as the top corporate which met the TOTAL Ecochallenge objectives of the year.

Ashok Shah at a tree planting exercise at Cheleta Primary School

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The directors submit their report together with the audited financial statements for the year ended 31 December 2014, which disclose the state of affairs of APA Insurance Limited (the “Company”).

Incorporation

The company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address and the registered office is set out in page 8.

The company has investments in the following associated companies;

- Reliance Insurance Company (Tanzania) Limited, incorporated in Tanzania as a private company limited by shares and is domiciled in Tanzania
- Gordon Court Limited, incorporated in Kenya as a private company limited by shares and is domiciled in Kenya

Principal activities

The principal activity of the company is the transaction of general insurance business.

Results and dividends

Profit for the year of Shs 776,194,000 (2013: Shs 492,573,000) has been added to retained earnings.
The directors recommend the payment of Shs100,000,000 dividends in respect of the year (2013: Shs 80,000,000).

Authorisation of financial statements

The financial statements of APA Insurance Limited for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 17 March 2015. The shareholders have the power to amend the financial statements after issue.

Directors

The directors who held office during the year and to the date of this report are set out on page 8.

Auditor

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

By order of the Board

P H Shah
Company Secretary
Nairobi
17 March 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, CAP 486, Laws of Kenya requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company at the end of the financial year and of the Company's profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The directors are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the preparation and fair presentation of the annual financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

(i) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements;

(ii) selecting and applying appropriate accounting policies; and

(iii) making accounting estimates and judgments that are reasonable in the circumstances.

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 as at 31December 2014 and of its profit or loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Director **Director**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF APA INSURANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of APA Insurance Limited (the "Company''), set out on pages 32 to 66, which comprise statement of financial position as at 31 December 2014, 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 notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Company as at 31 December 2014 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

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

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

The engagement partner responsible for the audit resulting in this independent auditors' report is FCPA Richard Njoroge –P/No 1244

pwc

Certified Public Accountants
Nairobi
17 March, 2015

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 Shs'000	2013 Shs'000
Gross written premium		**7,803,988**	**6,553,965**
Gross earned premium	3	7,321,738	6,319,763
Less reinsurance premium ceded		(1,670,920)	(1,262,101)
Net earned premium		5,650,818	5,057,662
Investment income	4	963,357	680,722
Commissions earned		478,554	309,340
Other income	5	1,344	638
Total income		**7,094,073**	**6,048,362**
Net incurred claims	6	(3,963,570)	(3,493,907)
Operating and other expenses	7	(1,385,648)	(1,147,315)
Commissions payable		(976,342)	(848,339)
Profit from operating activities		768,513	558,801
Share of profits of associates	15(b)	69,352	50,208
Profit before income tax		837,865	609,009
Income tax expense	9(a)	(61,671)	(116,436)
Profit for the year		**776,194**	**492,573**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Surplus on revaluation of property and equipment	12	-	5,000
Items that may be subsequently be reclassified to profit or loss			
Change in fair value of available for sale financial assets :			
- Unquoted equity investments	15(c)	4,395	-
- Quoted equity investments	16	173,937	708,345
- Government securities	21(b)	49,913	(2,725)
Share of other comprehensive income of associates	15(b)	16,100	11,071
Exchange differences on translation of foreign operations	15(b)	(4,167)	(1,276)
Deferred tax on other comprehensive income	30	(2,598)	-
Other comprehensive income for the year, net of tax		**237,580**	**720,415**
Total comprehensive income for the year attributable to the owners of the company		**1,013,774**	**1,212,988**
		Shs	**Shs**
Earnings per share – basic and diluted	10	**103.49**	**65.68**

The notes on pages 46 to 66 are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Notes	2014	2013
ASSETS		**Shs'000**	**Shs'000**
Property and equipment	12	96,025	183,613
Intangible assets	13	71,555	12,963
Investment properties	14	943,000	730,000
Investment in associates	15(b)	474,225	392,940
Investment in unquoted equity	15(c)	57,941	20,144
Available for sale quoted equity investments	16	2,593,973	2,418,077
Deferred income tax	30	99,074	-
Loans receivable	17	131,040	186,835
Receivables arising out of reinsurance arrangements		474,561	14,136
Receivables arising out of direct insurance arrangements		1,361,040	1,199,928
Reinsurers' share of insurance liabilities and reserves	18	2,017,320	2,802,426
Deferred acquisition costs	19	222,343	239,823
Other receivables	20	157,217	118,738
Government securities - held to maturity	21(a)	1,229,298	1,601,937
- available for sale	21(b)	2,103,168	1,798,059
Deposits with financial institutions	22	2,022,474	1,271,632
Commercial paper and corporate bonds	23	297,767	157,129
Cash and bank balances	32(b)	53,409	147,245
Total assets		**14,405,430**	**13,295,625**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	750,000	750,000
Property revaluation reserve	25(a)	54,281	54,281
Available for sale reserve	25(b)	961,461	719,714
Translation reserve	25(c)	(4,271)	(104)
Retained earnings	26	2,879,214	2,203,020
Proposed dividends	11	100,000	80,000
Total equity		**4,740,685**	**3,806,911**
Liabilities			
Insurance contract liabilities	27	5,447,084	6,007,958
Provision for unearned premium	28	3,491,399	2,961,151
Payables arising from reinsurance arrangements		136,523	86,113
Other payables	29	349,865	318,649
Deferred income tax	30	-	6,549
Bank overdraft	32(b)	233,937	50,613
Current income tax	9(c)	5,937	57,681
Total liabilities		**9,664,745**	**9,488,714**
Total equity and liabilities		**14,405,430**	**13,295,625**

The financial statements on pages 32 to 66 were authorised for issue by the Board of Directors on 17 March 2015 and signed on its behalf by:

Chairman **Director**

The notes on pages 46 to 66 are an integral part of these financial statements

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

	Share capital Shs'000	Property revaluation reserve Shs'000	Available for sale reserve Shs'000	Trans-lation reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2013							
At 1 January 2013	750,000	49,281	3,023	1,172	1,790,447	130,000	2,723,923
Changes in equity 2013:							
Profit for the year	-	-	-	-	492,573	-	492,573
Other comprehensive income for the year	-	5,000	716,691	(1,276)	-	-	720,415
Transactions with owners:							
Dividends:							
- 2012 first and final paid	-	-	-	-	-	(130,000)	(130,000)
-2013 proposed dividend	-	-	-	-	(80,000)	80,000	-
At 31 December 2013	750,000	54,281	719,714	(104)	2,203,020	80,000	3,806,911
Year ended 31 December 2014							
At 1 January 2014	750,000	54,281	719,714	(104)	2,203,020	80,000	3,806,911
Changes in equity 2014:							
Profit for the year	-	-	-	-	776,194	-	776,194
Other comprehensive income for the year	-	-	241,747	(4,167)	-	-	237,580
Transactions with owners:							
Dividends:							
- 2013 first and final paid	-	-	-	-	-	(80,000)	(80,000)
-2014 proposed dividend	-	-	-	-	(100,000)	100,000	-
At 31 December 2014	**750,000**	**54,281**	**961,461**	**(4,271)**	**2,879,214**	**100,000**	**4,740,685**

The notes on pages 46 to 66 are an integral part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 Shs '000	2013 Shs '000
Cash flows from operating activities			
Cash generated from operations	32(a)	379,305	799,278
Interest received		495,780	374,611
Income tax paid	9(c)	(221,636)	(130,057)
Net cash generated from operating activities		653,449	1,043,832
Cash flows from investing activities			
Purchase of property and equipment	12	(54,050)	(20,137)
Proceeds from sale of property and equipment		1,414	638
Purchase of intangible assets	13	(73,174)	-
Proceeds from sale of subsidiary	15(a)	-	73,979
Investment in associate	15(b)	-	(6,792)
Purchase of quoted shares	16	(273,326)	(513,931)
Proceeds from sale of quoted shares		516,993	717,275
Purchase of unquoted shares	15(c)	(30,000)	-
Loans advanced	17	(30,136)	(138,829)
Loan repayments received	17	85,931	23,743
Net purchase of government securities		(229,980)	(899,674)
Maturity of deposits maturing after 90 days		15,113	447,348
Net purchase of commercial bonds	23	(140,638)	(93,115)
Net cash used in investing activities		(211,853)	(409,495)
Cash flows from financing activities			
Dividends paid	11	(80,000)	(130,000)
Net cash used in financing activities		(80,000)	(130,000)
Net increase in cash and cash equivalents		**361,596**	**504,337**
Movement in cash and cash equivalents			
At 1 January		996,949	492,612
Increase		361,596	504,337
At 31 December	**32(b)**	**1,358,545**	**996,949**

The notes on pages 46 to 66 are an integral part of these financial statements

{ ACCOUNTING POLICIES }

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1 General information

APA Insurance Limited ("the Company") is in the transaction of general insurance business and is incorporated in Kenya under the Companies Act as a private limited liability company. The Company is domiciled in Kenya and the address of its registered office is:

Apollo Centre
07 Ring Road Parklands, Westlands
PO Box 30065, 00100
Nairobi

For the Kenyan Companies Act reporting purposes, the balance sheet is presented by statement of financial position and the profit and loss account is presented by the statement of comprehensive income.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except for investment properties, available for sale financial assets and financial assets and liabilities, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The following standards have been adopted by the company for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the company:

Amendment to IAS 32, 'Financial instruments:Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the company financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of Cash-generating units which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The company has applied the amendment and there has been no significant impact on the company financial statements as a result.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the company.

ACCOUNTING POLICIES (continued)

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The company is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(b) Investment in associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

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

The group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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 adjacent to 'share of profit/ (loss) of associates in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

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

ACCOUNTING POLICIES (continued)

(c) Investment in joint ventures

A joint venture is a contractual arrangement whereby the company and other parties undertake an economic activity that is subject to joint control. The company reports its interest in the jointly controlled entities using proportionate consolidation. The company's share of assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the financial statements on a line-by-line basis.

The company's investment in a joint venture (Amini Management EA Limited) has been fully impaired and the joint venture was dissolved and struck off the register in 2014.

(d) Income recognition

Premium income is recognised on assumption of risks, and includes estimates of premium due but not yet received less an allowance for unearned premium. Unearned premium represent the proportion of the premium written in periods up to the accounting date that relate to the unexpired terms of policies in force at the reporting date, and is calculated using the $1/24^{th}$ method on written premium less reinsurance premium ceded.

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

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends receivable are recognised as income in the period in which the right to receive payment is established. Rental income from operating leases is recognised on a straight line basis over the terms of the leases.

(e) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years.

Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

(f) Reinsurance

The company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

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

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

ACCOUNTING POLICIES (continued)

(g) Insurance contract 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 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 recognised in profit or loss.

(h) Deferred acquisition costs

Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end. A proportion of commission payable is deferred and amortised over the period in which the related premiums are earned.

(i) Property and equipment

All items of property and equipment are initially recorded at cost. Freehold land and buildings are subsequently restated to market value based on a tri-annual valuations by independent external valuers. All other property and equipment are stated at historical cost less any accumulated depreciation.

Increases in the carrying amount of freehold land and buildings arising on revaluation are credited to a revaluation surplus. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit or loss.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

Depreciation is calculated on property and equipment on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

Furniture, fixtures and fittings and office equipment	8 years
Motor vehicles	4 years
Computer equipment	3 years

Assets' residual values and their estimated useful lives are reviewed at the reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by comparing the proceedswith their carrying amounts and are recognised within 'Other gains / (losses)' in the income statement. Upon disposal of a revalued asset, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

(j) Intangible assets – computer software

Intangible assets comprise of computer software costs which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost of computer software on a straight line basis over its estimated useful life of 5 years.

(k) Investment property

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by independent external valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amounts between the reporting dates are dealt with through the profit or loss.

Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

ACCOUNTING POLICIES (continued)

(l) Financial assets

Classification

The company classifies its financial assets into the following categories: loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification adopted for a particular financial asset depends on the purpose for which the asset was acquired.

Management determines the classification of its financial asset at initial recognition and re-evaluates this at every reporting date.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

ii) Available-for-sale financial assets

This classification represents 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.

iii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:

- those that the Company upon initial recognition designates as at fair value through profit or loss;
- those that the Company designates as available for sale; and
- those that meet the definition of loans and receivables

Interest on held-to-maturity investments are included in the consolidated statement of profit or loss and are reported as 'Interest and similar income'. In the case of an impairment, it is been reported as a deduction from the carrying value of the investment and recognised in the consolidated statement of profit or loss as 'Net gains/(losses) on investment securities'.

Recognition and measurement

Financial assets are initially recognised at cost plus transaction costs.

Available-for-sale financial assets 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 available-for-sale financial assets are recognised in other comprehensive income and accumulated in investment revaluation reserve in the statement of changes in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash receipts (including all fees, transaction costs and premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

ACCOUNTING POLICIES (continued)

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on 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. This includes listed equity securities and quoted debt instruments on major exchange (NSE). The quoted market price used for financial assets held by the company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the company at the end of the reporting period during which the change occurred.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment for receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss for the year.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

ACCOUNTING POLICIES (continued)

(m) Financial liabilities and equity instruments issued by the company

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 company are recorded at the proceeds received, net of direct issue costs.

Other financial 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 using the effective interest 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.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

(n) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

(o) Translation of foreign currencies

The financial statements are presented in Kenya Shillings, which is the company's functional and reporting currency. In preparing the financial statements, transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

(p) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the company as a lessee are classified as finance leases. All other leases are classified as operating leases. Payments made under operating leases are charged to income on the straight-line basis over the term of the lease.

(q) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense in profit or loss.

(r) Retirement benefit obligations

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered fund, which is funded from contributions from both the company and employees. Contributions are determined by the rules of the scheme. The company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute. The company's obligations to these schemes are charged to profit or loss as they fall due.

ACCOUNTING POLICIES (continued)

(s) Income tax expense

Income tax expense is the aggregate amount charged/(credited) in respect of current income tax and deferred income tax in determining the profit or loss for the year. Tax is recognised in the 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

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

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

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the company is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the company the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same entity.

(t) Dividend distribution

Dividend distributions to the company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

Proposed dividends are shown as a separate component of equity.

(u) Share capital

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 directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Shares are classified as equity when there is no obligation to transfer cash or other assets.

ACCOUNTING POLICIES (continued)

(v) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i) Critical judgments in applying the company's accounting policies

The key areas of judgment in applying the company's accounting policies are dealt with as follows:

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying techniques applied in the estimation of this liability is that the company's past claims experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims' inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

Held-to-maturity investments

The company 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 judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to hold these investments to maturity other than for the specific circumstances - for example, selling more than an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

ii) Key sources of estimation uncertainty

Impairment losses

At each reporting date, the company 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. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of receivables and valuation of investment property.

Valuation of investment properties

Estimates are made in determining valuations of investment properties. The group management uses experts in determination of the values to adopt.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Incorporation and registered office

APA Insurance Limited is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is Apollo Centre, 07 Ring Road, Parklands, Nairobi.

2 Risk management objectives and policies

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

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

2.1 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 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 payable are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits payable will vary from year to year from the level established using statistical techniques.

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

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

Short-term insurance contracts

The company engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk. An analysis of the company's financial assets and its short term insurance liabilities is presented as follows;

NOTES TO THE FINANCIAL STATEMENTS (continued)

Short-term insurance contracts (Continued)

	2014 Shs'000	2013 Shs'000
Debt securities held to maturity:		
-Government bonds and treasury bills	1,229,298	1,474,738
-Commercial paper & corporate bonds	297,767	157,129
Debt securities available for sale:		
-Government bonds	2,103,168	1,798,059
-Equity securities-listed securities	2,593,973	2,418,077
Mortgage loans	12,857	6,724
Other loans	118,183	180,111
Receivables arising out of insurance arrangements	1,361,040	1,199,928
Receivables arising out of reinsurance arrangements	474,561	14,136
Deposits with financial institutions maturing after 90 days	483,401	498,514
Cash and cash equivalents (note 32(b))	1,358,545	996,949
Total	**10,032,793**	**8,744,365**
Short – term insurance liabilities:		
Insurance contract liabilities	5,447,084	6,007,958
Less: assets arising from reinsurance contracts	(1,105,531)	(2,279,973)
Payables arising from reinsurance arrangements	136,523	86,113
Total	**4,478,076**	**3,814,098**

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they areun-discounted 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 company's policyholders (where a reduction of interest rate would normally produce a higher insurance liability), the company 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 expectedsettlement pattern for claims arising from the insurance contracts in force at the reporting date (both incurred claims and future claims arising from the unexpired risks at the reporting date).

The tables below show the contractual timing of cash flows arising from assets and liabilities included in the company's Asset Liability Management framework for management of short term insurance contracts as of 31 December 2014 and 31 December 2013.

31 December 2014	Total Amount Shs'000	Contractual cash flows (undiscounted) No stated Maturity Shs'000	0-1 year Shs'000	1-5 years Shs'000	> 5 years Shs'000
Financial assets:					
Debt securities held to maturity:					
-Government bonds and treasury bills-fixed rate	1,229,298	-	222,713	190,250	816,335
-Commercial paper and corporate bonds	297,767	-	63,683	193,567	40,517
Government bonds - available for sale	2,103,168	-	403,908	1,086,829	612,431
Quoted equity securities- available for sale	2,593,973	2,593,973	-	-	-
Mortgage loans	12,857	-	-	8,174	4,683
Other loans	118,183	-	2,531	115,652	-
Insurance and reinsurance receivables	1,835,601	-	1,618,687	216,914	-
Deposits with financial institutions maturing after 90 days	483,401	-	483,401	-	-
Cash and cash equivalents(note 32(b))	1,358,545		1,358,545		
Total	10,032,793	2,593,973	4,153,468	1,811,386	1,473,966
Short term insurance liabilities:					
Insurance contracts	5,447,084	-	2,909,632	1,923,073	614,379
Less assets arising from reinsurance contracts	(1,105,531)	-	(785,211)	(285,987)	(34,333)
Payables arising from reinsurance arrangements	136,523	-	136,523	-	-
Total	4,478,076	-	2,260,944	1,637,086	580,046
Difference in contractual cash flows	5,554,717	2,593,973	1,892,524	174,300	893,920

NOTES TO THE FINANCIAL STATEMENTS (continued)

Short-term insurance contracts (Continued)

31 December 2013	Total Amount Shs'000	No. Stated Monthly Shs'000	Contracted 0-1 Year Shs'000	Cash Flow 1-5 Years Shs'000	Undiscounted > 5 Years Shs'000
Financial assets:					
Debt securities held to maturity:					
-Government bonds and treasury bills-fixed rate	1,474,738	-	454,989	193,606	826,143
-Commercial paper and corporate bonds	157,129	-	11,200	26,134	119,795
Government bonds - available for sale	1,798,059	-	225,705	902,943	669,411
Quoted equity securities- available for sale	2,418,077	2,418,077	-	-	-
Mortgage loans	6,724	-	1,390	4,021	1,313
Other loans	180,111	-	75,111	105,000	-
Insurance and reinsurance receivables	1,214,064	-	1,214,064	-	-
Deposits with financial institutions maturing after 90 days	498,514	-	498,514	-	-
Cash and cash equivalents(note 32(b))	996,949	-	996,949	-	-
Total	8,744,365	2,418,077	3,477,922	1,231,704	1,616,662
Short term insurance liabilities:					
Insurance contracts	6,007,958	-	2,046,043	1,038,999	2,922,916
Less assets arising from reinsurance contracts	(2,279,973)	-	(776,457)	(394,292)	(1,109,224)
Payables arising from reinsurance arrangements	86,113	-	86,113	-	-
Total	3,814,098	-	1,355,699	644,707	1,813,692
Difference in contractual cash flows	4,930,267	2,418,077	2,122,223	586,997	(197,030)

2.2 Financial risk factors

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

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. It manages these positions with an Asset Liability Management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The company produces regular reports at portfolio and asset and liability class levels that are circulated to the company's key management personnel. The principal technique of the company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The company's ALM is also integrated with the management of the financial risks associated with the company's other financial assets and liabilities not directly associated with insurance and investment liabilities (in particular, borrowings and investments in foreign operations). The company does not use hedge accounting. The company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the company's ALM framework.

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities and deposits with financial institutions. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the company's overall exposure to interest rate sensitivities included in the company's ALM framework and its impact on the company's profit or loss. An increase/decrease of 5percentage points in interest yields would result in additional profit/loss for the period of Shs 289 million (2013: Shs 251 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(ii) Price risk

The company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets available for sale. Exposures 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.

Investment management meetings are held monthly. At these meetings, senior investment managers meet to discuss investment return and concentration of the equity investments. Listed equity securities represent 83% (2013:85%) of total equity investments. If equity market indices had increased/ decreased by 5%, with all other variables held constant, and all thecompany's equity investments moving according to the historical correlation with the index, equity would have increased/decreased by Shs130 million (2013: Shs 121 million).

(iii) Foreign exchange risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the company's functional currency. Currently, management believes that there is minimal risk of significant losses due to exchange rate fluctuations.

(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:

- reinsurers' share of insurance liabilities and reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers;
- cash and deposits held with banks and
- rental receivables

The company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties and to geographical and industry segments. Such risks are subject to regular reviews. Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim, the company 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 annual contracts.

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. 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 company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Exposures to individual policyholders and groups of policyholders are collected within the on-going monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis is carried out by the management.

The amount that best represents the company's maximum exposure to credit risk as at 31 December 2014 is made up as follows:

	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
Government securities	3,332,467	-	-	3,332,467
Mortgage loans	12,857	-	-	12,857
Other loans receivable	118,183	-	-	118,183
Insurance and reinsurance receivables	1,002,405	833,196	497,600	2,333,201
Deposits with financial institutions maturing after 90 days	483,401	-	-	483,401
Cash and cash equivalents	1,358,545	-	-	1,358,545

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Credit risk (Continued)

The amount that best represented the company's maximum exposure to credit risk as at 31 December 2013 was as follows:

	Fully performing	Past due	Impaired	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Government securities	3,272,797	-	-	3,272,797
Mortgage loans	6,724	-	-	6,724
Other loans receivable	180,111	-	-	180,111
Insurance and reinsurance receivables	686,749	527,315	335,747	1,549,811
Deposits with financial institutions maturing after 90 days	498,514	-	-	498,514
Cash and cash equivalents	996,949	-	-	996,949

(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 company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

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

At 31 December 2014	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Insurance contract liabilities	745,919	2,163,713	2,537,452	5,447,084
Payables arising from reinsurance arrangements	136,523	-	-	136,523
Bank overdraft	233,937	-	-	233,937
Other payables	349,865	-	-	349,865
At 31 December 2013				
Insurance contract liabilities	2,263,830	2,400,640	1,343,488	6,007,958
Payables arising from reinsurance arrangements	86,113	-	-	86,113
Bank overdraft	50,613	-	-	50,613
Other payables	318,649	-	-	318,649

NOTES TO THE FINANCIAL STATEMENTS (continued)

(d) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the company's financial assets and liabilities measured at fair value at 31 December 2014 and 31 December 2013

	Level 1	Level 2	Level 3	Total
At 31 December 2014	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Available for sale				
- Government securities	2,103,168	-	-	2,103,168
- Quoted equity investments – available for sale	2,593,973	-	-	2,593,973
- Investment in unquoted equity	-	57,941	-	57,941
Total	4,697,141	57,941	-	4,755,082
At 31 December 2013				
Available for sale				
- Government securities	1,798,059	-	-	1,798,059
- Quoted equity investments – available for sale	2,418,077	-	-	2,418,077
- Investment in unquoted equity	-	20,144	-	20,144
Total	4,216,136	20,144	-	4,236,280

There were no transfers between levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Nairobi Securities Exchange ("NSE") equity investments and government bonds classified as available for sale.

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

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

Specific valuation techniques used to value financial instruments include

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There was no movement in level 3 during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Capital management

The company maintains an efficient capital structure consistent with the company's risk profile and the regulatory and market requirements of its business.

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

The company has a number of sources of capital available to it and seeks to optimise its equity/debt structure in order to ensure that it can consistently maximise returns to shareholders. The company 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 company manages as capital, all items that are eligible to be treated as such for regulatory purposes.

The company is regulated by the Insurance Regulatory Authority in Kenya. The Insurance Act Requires each insurance company to hold the minimum level of paid up capital for composite companies at the minimum amount of Shs 300 Million.

In Kenya the solvency and capital adequacy margins are calculated based on Kenyan Solvency Law, which requires the application of a formula that contains variables for expenses and admitted assets, as contained in section 41 of the Insurance Act.

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

The solvency margin of the Company as at 31 December 2014 and 2013 is illustrated below.

	2014 Shs'000	2013 Shs'000
Admitted assets	12,507,580	11,814,908
Admitted liabilities	9,664,745	9,488,715
Margin	2,842,835	2,326,193
Required margin	768,519	671,809

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

	2014 Shs'000	2013 Shs'000
Share capital	750,000	750,000
Property revaluation reserve	54,281	54,281
Investment revaluation reserve	961,461	719,714
Translation reserve	(4,271)	(104)
Retained earnings	2,879,214	2,203,020
Proposed dividends	100,000	80,000
Total attributable to equity holders	**4,740,685**	**3,806,911**

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Gross earned premium

The company underwrites general insurance business only. This has been analysed into several sub-classes of business based on the nature of the assumed risks as shown below:

	2014 Shs'000	2013 Shs'000
Engineering	204,684	186,708
Fire	650,901	570,603
Liability	92,662	93,219
Marine and transit	302,434	290,647
Motor	2,868,812	2,478,394
Personal accident (including medical)	2,052,899	1,666,450
Theft	176,048	189,973
Workmen's compensation	608,861	549,426
Other	364,437	294,343
Total	**7,321,738**	**6,319,763**

4 Investment income

	2014 Shs'000	2013 Shs'000
Interest from government securities	273,718	218,735
Bank deposit interest	205,927	137,750
Loan interest receivable	16,135	18,126
Rental income from investment properties	66,566	57,722
Dividends receivable from equity investments	56,840	56,684
Realised gain from trading in available for sale financial assets	251,171	131,705
Fair value gain on investment properties (note 14)	93,000	60,000
Total	**963,357**	**680,722**

5 Other income

Gains on disposal of property and equipment	1,344	638
Total	**1,344**	**638**

6 Net incurred claims

	2014 Shs'000	2013 Shs'000
Engineering	(403)	103,008
Fire	68,251	130,566
Liability	66,542	46,372
Marine and transit	83,754	91,394
Motor	1,961,383	1,646,392
Personal accident	1,144,712	993,942
Theft	114,066	102,452
Workmen's compensation	379,625	348,548
Other	145,640	31,233
Total	**3,963,570**	**3,493,907**

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Operating and other expenses

	2014 Shs'000	2013 Shs'000
Employee benefits (note 8)	463,050	385,903
Auditors' remuneration	4,861	4,800
Directors emoluments – fees	5,660	5,215
- other	72,381	75,318
Depreciation (note 12)	21,568	18,411
Amortisation (note 13)	14,582	3,241
Impairment charge for doubtful receivables	200,924	154,530
Operating lease rentals – land and buildings	76,091	61,450
Repairs and maintenance expenditure	16,914	15,751
Premium and reinsurance levies	78,346	60,134
Policyholders compensation fund contributions	19,310	16,402
Printing and stationery	30,458	26,313
Telecommunications expenses	21,350	20,084
Travelling expenses	21,113	20,494
Advertisement and promotion costs	111,706	136,408
Marketing expenses	144,896	109,373
Other	82,438	33,488
Total	**1,385,648**	**1,147,315**

8 Employee benefits

	2014 Shs'000	2013 Shs'000
The following are included in employee benefits expense:		
- salaries and wages	435,260	361,238
- social security benefit costs	697	641
- other retirement benefit costs	27,093	24,024
Total	**463,050**	**385,903**

9 Income tax expense

(a) Tax charge

	2014 Shs'000	2013 Shs'000
Current income tax	169,892	148,639
Deferred income tax credit (note 30)	(108,221)	(32,203)
Income tax expense	61,671	116,436

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

	2014 Shs'000	2013 Shs'000
Profit before income tax	837,865	609,009
Tax calculated at tax rate of 30% (2013: 30%)	251,360	182,703
Tax effect of income not subject to tax	(169,562)	(123,528)
Tax effect of expenses not tax deductible	35,623	57,261
Deferred tax on fair value gains on investment properties at CGT rate	(55,750)	-
Tax Charge	61,671	116,436

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Income tax expense (Continued)

(c) Current income tax	2014 Shs'000	2013 Shs'000
At 1 January	57,681	39,099
Current tax charge for the year (note 9(a))	169,892	148,639
Paid in the year	(221,636)	(130,057)
At 31 December	5,937	57,681
Analysed as follows:		
Tax recoverable	-	-
Tax payable	5,937	57,681
Net tax payable	5,937	57,681

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year,

	2014 Shs'000	2013 Shs'000
Profit for the year (Shs'000)	776,194	492,573
Shares in issue during the year (numbers '000)	7,500	7,500
Earnings per share (Shs) – basic and diluted	103.49	65.68

There were no potentially dilutive shares outstanding at 31 December 2014 or 31 December 2013. Diluted earnings per share are therefore the same as basic earnings per share.

11 Dividends

At the annual general meeting to be held in May 2015, a first and final dividend in respect of the year ended 31 December 2014 of Shs 13.334 (2013: Shs 10.667) per share amounting to a total of Shs 100,000,000 (2013:Shs 80,000,000) is to be proposed. No interim dividend was paid during the year.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Property and equipment

Year 2013	Buildings and freehold land Shs' 000	Motor vehicles Shs' 000	Fittings and equipment Shs' 000	Total Shs' 000
Cost or valuation				
At 1 January 2013	115,000	17,563	130,487	263,050
Additions	-	-	20,137	20,137
Revaluation surplus	5,000	-	-	5,000
Disposals	-	(1,150)	(45)	(1,195)
At 31 December 2013	120,000	16,413	150,579	286,992
Comprising:				
Cost	-	16,413	150,579	166,992
Valuation – 2013	120,000	-	-	120,000
At 31 December 2013	120,000	16,413	150,579	286,992
Depreciation				
At 1 January 2013	-	10,644	75,519	86,163
Charge for the year	-	3,857	14,554	18,411
Eliminated on disposal	-	(1,150)	(45)	(1,195)
At 31 December 2013	-	13,351	90,028	103,379
Net book value				
At 31 December 2013	120,000	3,062	60,551	183,613
Year 2014				
Cost or valuation				
At 1 January 2014	120,000	16,413	150,579	286,992
Additions	-	2,750	51,300	54,050
Revaluation surplus	-	-	-	-
Transfer/disposal	(120,000)	(1,950)	(70)	(122,020)
At 31 December 2014	**-**	**17,213**	**201,809**	**219,022**
Comprising:				
Cost	-	17,213	201,809	219,022
Valuation – 2014	-	-	-	-
At 31 December 2014	**-**	**17,213**	**201,809**	**219,022**
Depreciation				
At 1 January 2014	-	13,351	90,028	103,379
Charge for the year	-	1,982	19,586	21,568
Eliminated on disposal	-	(1,950)	-	(1,950)
At 31 December 2014	**-**	**13,383**	**109,614**	**122,997**
Net book value				
At 31 December 2014	**-**	**3,830**	**92,195**	**96,025**

Buildings and freehold land were last revalued on 31December 2014, by Axis Real Estate Limited, independent valuers, on the basis of market value for existing use. The net book value on cost basis for the building and freehold land was nil (2013: Shs 60 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Intangible assets – computer software

	2014 Shs'000	2013 Shs'000
Cost		
At 1 January	42,604	42,604
Additions	73,174	-
At 31 December	115,778	42,604
Amortisation		
At 1 January	29,641	26,400
Charge for the year	14,582	3,241
At 31 December	44,223	29,641
Net book value:		
At 31 December	71,555	12,963

14 Investment properties

	2014 Shs'000	2013 Shs'000
At 1 January	730,000	670,000
Reclassification of land and buildings from Property and equipment(note 12)	120,000	-
Fair value gain (note 4)	93,000	60,000
At 31 December	943,000	730,000

Investment properties were last revalued on 31December 2014, by Axis Real Estate Limited, independent valuers, on the basis of open market value for existing use.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
At 31 December 2014				
Investment properties	-	943,000	-	943,000
At 31 December 2013				
Investment properties	-	730,000	-	730,000

Valuation technique used to derive level 2 fair values

Level 2 fair value of land and buildings has been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size.

15 Equity investments

	2014 Shs'000	2013 Shs'000
(a) Investment in subsidiary - at cost	-	73,979
At 1 January	-	(73,979)
Disposal of the investment in subsidiary		
At 31 December	-	-

As a result of group structure reorganisation, the company sold its entire shareholding (68.5%) in APA Insurance (Uganda) Limited (a subsidiary company) to the holding company, Apollo Investments Limited. This transaction was effective 1 January 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Investment in associates

	2014 Shs'000	2013 Shs'000
At I January	392,940	326,145
Additional investment during the year	-	6,792
Share of investment revaluation reserve, net of tax	16,100	11,071
Share of after tax profit	69,352	50,208
Translation adjustment	(4,167)	(1,276)
At 31 December	474,225	392,940

This comprises 979,200 (2013: 612,000) ordinary shares of Tanzania Shillings 1,000 each representing 34% shareholding in Reliance Insurance Company (Tanzania) Limited, an insurance company incorporated in Tanzania and 200,000 ordinary shares of Kenya Shillings 20 each representing 40% shareholding in Gordon Court Limited, a property development company incorporated in Kenya. Both associates have 31 December as their reporting date.

Summarised financial information in respect of the company's share of results and net assets in the associates is set out below:

	2014 Sh'000	2013 Sh'000
Total assets:		
Reliance Insurance Company (Tanzania) Limited	2,175,337	1,859,809
Gordon Court Limited	920,073	917,859
Total liabilities:		
Reliance Insurance Company (Tanzania) Limited	1,609,767	1,422,989
Gordon Court Limited	215,245	306,805
Net assets:		
Reliance Insurance Company (Tanzania) Limited	565,570	436,820
Gordon Court Limited	704,828	611,054
Company's share of net assets of associate:		
Reliance Insurance Company (Tanzania) Limited	192,294	148,519
Gordon Court Limited	281,931	244,421
Total revenue:		
Reliance Insurance Company (Tanzania) Limited	1,719,994	1,491,255
Gordon Court Limited	121,701	107,659
Profit for the year:		
Reliance Insurance Company (Tanzania) Limited	96,447	72,271
Gordon Court Limited	91,907	64,090
Company's share of profit for the year:		
Reliance Insurance Company (Tanzania) Limited	32,792	24,572
Gordon Court Limited	36,560	25,636
(c) Investment in unquoted shares		
At 1 January	20,144	65,024
Additions	30,000	-
Fair value gain	4,395	-
Reclassification / transfer from /(to) quoted shares - note 16	3,402	(44,880)
31 December	57,941	20,144

NOTES TO THE FINANCIAL STATEMENTS (continued)

		2014	2013
16	**Available for sale quoted equity investments**	**Shs'000**	**Shs'000**
	At 1 January	2,418,077	1,736,426
	Additions	273,326	513,931
	Transfer to/from unquoted investments (note 15(c))	(3,402)	44,880
	Disposals	(267,965)	(585,505)
	Fair value gain through other comprehensive income	173,937	708,345
	At 31 December	2,593,973	2,418,077

17 Loans receivable

Mortgage loans	2014 Shs'000	2013 Shs'000
At 1 January	6,724	9,310
Loans advanced	6,892	-
Repayments received	(759)	(2,586)
At 31 December	12,857	6,724
Other loans		
At 1 January	180,111	62,439
Loans advanced	23,244	138,829
Repayments received	(85,172)	(21,157)
At 31 December	118,183	180,111
Total	131,040	186,835
Summary		
At 1 January	186,835	71,749
Loans advanced	30,136	138,829
Loan repayments	(85,931)	(23,743)
At 31 December	131,040	186,835
Maturity profile of mortgage loans		
Within 1 year	-	1,034
In 1 to 5 years	8,174	4,140
In over 5 years	4,683	1,550
Total	12,857	6,724
Maturity profile of other loans		
Loans maturing:		
Within 1 year	2,531	53,959
In 1 to 5 years	115,652	126,152
Over 5 years	-	-
Total	118,183	180,111
Book amount of:		
- Mortgage loans	12,857	6,724
- Other loans	118,183	180,111
Total loans receivable at 31 December	131,040	186,835
Lending commitments		
Mortgage loans approved by the directors but not disbursed at 31 December	-	-

There is no undue concentration of credit risk with respect to mortgage and other loans. Weighted average effective interest rates are disclosed under note 31.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Reinsurers' share of insurance liabilities and reserves

	2014 Shs'000	2013 Shs'000
Reinsurers' share of:		
- provision for unearned premiums (note 28)	911,789	522,453
- notified claims outstanding (note 27 (b))	923,116	2,236,130
-claims incurred but not reported (note 27(b))	182,415	43,843
Total	2,017,320	2,802,426

Amounts due from reinsurers in respect of claims already paid by the company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above reinsurance assets are shown in notes 27 and 28.

19 Deferred acquisition costs

	2014 Shs'000	2013 Shs'000
At 1 January	239,823	261,945
Additions	222,343	239,823
Amortisation for the year	(239,823)	(261,945)
At 31 December	222,343	239,823

20 Other receivables

	2014 Shs'000	2013 Shs'000
Due from related companies (note 35(iii))	5,005	8,480
Staff advances	7,611	7,567
Sundry deposits and prepayments	29,868	25,080
Rental receivables	23,907	26,523
Other receivables	90,826	51,088
Total	157,217	118,738

21 Government securities

(a) Held to maturity

	2014 Shs'000	2013 Shs'000
Treasury bills and bonds at amortised cost maturing:		
Within 90 days	-	127,199
After 90 days but within a year	222,714	454,989
In 1 to 5 years	190,250	193,606
Over 5 years	816,334	826,143
Total	1,229,298	1,601,937

The treasury bonds include bonds under lien as required by Insurance Act with a carrying value of Shs 622 million (2013: Shs 552 million).

	2014 Shs'000	2013 Shs'000
(b) Available for sale		
Government treasury and infrastructure bonds:		
At 1 January	1,798,059	914,212
Additions	451,337	886,572
Maturities during the year	(196,141)	-
Fair valuegain/(loss) through other comprehensive income	49,913	(2,725)
At 31 December	2,103,168	1,798,059

These bonds are carried at fair values based on the Nairobi Securities Exchange prices as at 31 December. Weighted average effective interest rates are disclosed under note 31.

NOTES TO THE FINANCIAL STATEMENTS (continued)

		2014 Shs'000	2013 Shs'000
22	**Deposits with financial institutions**		
	Deposits maturing:		
	Within 90 days	1,539,073	773,118
	After 90 days but within a year	483,401	498,514
	Total	2,022,474	1,271,632

Weighted average effective interest rates are disclosed under note 31.

		2014 Shs'000	2013 Shs'000
23	**Commercial paper and corporate bonds**		
	At 1 January	157,129	64,014
	Additions	158,801	100,000
	Maturities during the year	(18,163)	(6,885)
	Fair value gain/(loss)	-	-
	At 31 December	297,767	157,129

Weighted average effective interest rates are disclosed under note 31.

		Number of shares	Share capital Shs'000
24	**Share capital**		
	Balance at 1 January 2013, 31 December 2013 and 31 December 2014	7,500,000	750,000

The total authorised number of ordinary shares is 7,500,000 with a par value of Shs 100 per share. All issued shares are fully paid.

25 Reserves

(a) Property revaluation reserve

The property revaluation reserve arises on revaluation of freehold land and buildings (included within property and equipment), net of deferred tax. This reserve is non-distributable. Where a revalued land or building is sold, the portion of the property revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained earnings.

(b) Available for sale reserve (AFS)

The AFS reserve represents net surpluses / (deficits) that arise on the revaluation of available-for-sale financial assets. This reserve is non-distributable. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit and loss.

Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit and loss.

The movement in this reserve is shown in the statement of changes in equity on page 34.

c) Translation reserve

The translation reserve relates to translation gains and losses arising from translating the financial Statements of the foreign operation in Tanzania.

The movement in this reserve is shown in the statement of changes in equity on page 34.

26 Retained earnings

The retained earnings balance represents the amount available for distribution to the shareholders of the company, with the exception of cumulative fair value gains on the company's investment properties amounting to Shs 356,675,000 (2013: Shs 207,925,000) whose distribution is subject to restrictions imposed by legislation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

		2014 Shs'000	2013 Shs'000
27	**(a) Insurance contract liabilities**		
	Short term non – life insurance contracts		
	- claims reported and claims handling expenses	4,733,645	5,684,460
	- provision for claims incurred but not reported	713,439	323,498
	Total	5,447,084	6,007,958

(b) Movements in insurance contract liabilities and reinsurance assets

	2014 Gross Shs '000	2014 Reinsurance Shs '000	2014 Net Shs '000	2013 Gross Shs '000	2013 Reinsurance Shs '000	2013 Net Shs '000
At 1 January:						
Notified claims	5,684,460	2,236,130	3,448,330	3,350,554	577,245	2,773,309
Incurred but not reported	323,498	43,843	279,655	320,583	21,155	299,428
Total at 1 January	6,007,958	2,279,973	3,727,985	3,671,137	598,400	3,072,737
Cash paid for claims settled in year	5,969,161	2,619,157	3,350,004	3,900,148	1,061,488	2,838,660
Increase in liabilities:						
-arising from current year claims	1,631,429	506,120	1,125,309	3,551,112	634,650	2,916,462
-arising from prior year claims	3,776,858	938,596	2,838,262	2,685,855	2,108,410	577,445
Total increase in liabilities	5,408,287	1,444,716	3,963,571	6,236,967	2,743,060	3,493,907
Change in outstanding claims	(560,874)	(1,174,442)	613,568	2,336,821	1,681,573	655,248
Total at 31 December	5,447,084	1,105,531	4,341,553	6,007,958	2,279,973	3,727,985
Notified claims	4,733,645	923,116	3,810,529	5,684,460	2,236,130	3,448,330
Incurred but not reported	713,439	182,415	531,024	323,498	43,843	279,655
Total at 31 December	5,447,084	1,105,531	4,341,553	6,007,958	2,279,973	3,727,985

28 Provision for unearned premium

The provision for unearned premium represents the liability for short term business contracts where the company's obligations have not expired at the year end.

Movements in the reserves are shown below:

	Gross Shs'000	Reinsurance Shs'000	2014 Shs'000	Gross Shs'000	Reinsurance Shs'000	2013 Shs'000
At 1 January	2,961,151	522,453	2,438,698	2,726,949	354,052	2,372,897
Increase	530,248	389,336	140,912	234,202	168,401	65,801
At 31 December	3,491,399	911,789	2,579,610	2,961,151	522,453	2,438,698

		2014 Shs'000	2013 Shs'000
29	**Other payables**		
	Accrued expenses	91,233	123,120
	Accrued leave pay	15,055	10,151
	Rental deposits	12,512	16,314
	Other liabilities	231,065	169,064
	Total	349,865	318,649

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 Deferred income tax

Deferred income tax is calculated using the enacted capital gains tax rate of 5% for investment properties and available for sale cumulative reserves and 30% for the assets (2013: 30%). Deferred tax assets and liabilities, and the deferred tax charge / (credit) in the statement of profit or loss (P/L) and in other comprehensive income (OCI) are attributable to the following items:

	2014 Shs'000	2013 Shs'000
At 1 January	6,549	38,752
Profit or loss (credit)/charge (note 9(a))	(108,221)	(32,203)
Charge to other comprehensive income	2,598	-
At 31 December	(99,074)	6,549

Deferred income tax assets and liabilities, and the deferred incometax charge / (credit) in the statement of profit or loss (P/L) and in other comprehensive income (OCI) are attributable to the following items:

Year ended 31st December 2014	At 1 January 2014	(Credited/ charged to P/L	Charged to OCI	At 31 December 2014
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax asset				
Property and equipment on historical cost basis	(77)	(372)	-	(449)
Provision for doubtful debts	(78,949)	(52,099)	-	(131,048)
Sub-Total	(79,026)	(52,471)	-	(131,497)
Deferred income tax liability				
Available for sale investments	-	-	2,598	2,598
Investment properties	85,575	(55,750)	-	29,825
Sub-Total	85,575	(55,750)	2,598	32,423
Net deferred tax liability/(asset)	**6,549**	**(108,221)**	**2,598**	**(99,074)**

Year ended 31st December 2013	At 1 January 2013	(Credited)/ charged to P/L	(Credited)/ charged to OCI	At 31 December 2013
Sub-Total	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax asset				
Property and equipment on historical cost basis	1,828	(1,905)	-	(77)
Provision for doubtful debts	(36,651)	(42,298)	-	(78,949)
Sub-Total	(34,823)	(44,205)	-	(79,026)
Deferred income tax liability				
Investment properties	73,575	12,000	-	85,575
Net deferred tax liability	38,752	(32,203)	-	6,549

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 Weighted average effective interest rates

The following table summarises the weighted average effective interest rate at 31 December on the principal interest-bearing investments:

	2014 %	2013 %
Mortgage loans	10	10
Government securities	11	11
Deposits with financial institutions	11	11
Commercial bonds	12	12
Other loans	10	10

32 Notes to the Statement of Cash Flows

(a) Cash generated from operations

Reconciliation of profit before tax to cash generated from operations;

	2014 Shs'000	2013 Shs'000
Profit before income tax	837,865	609,009
Adjustments for:		
Interest income	(495,780)	(374,611)
Depreciation (note 12)	21,568	18,411
Amortisation of intangible assets (note 13)	14,582	3,241
Gain on disposal of property and equipment (note 5)	(1,344)	(638)
Gain on sale of available for sale financial assets (note 4)	(251,171)	(131,705)
Gain in fair value of investment property (note 14)	(93,000)	(60,000)
Share of profits from associates (note 15(b))	(69,352)	(50,208)
(Loss)/Profit before working capital changes	(36,632)	13,499
Changes in working capital:		
- technical provisions	815,732	721,046
- trade and other payables	81,627	162,247
- trade and other receivables	(481,422)	(97,514)
Cash generated from operations	379,305	799,278

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

	2014 Shs'000	2013 Shs'000
Cash and bank balances	53,409	147,245
Deposits with financial institutions (note 22)	1,539,073	773,118
Treasury bills and bonds maturing within 3 months (note 21(a))	-	127,199
Bank overdraft	(233,937)	(50,613)
Total	1,358,545	996,949

(c) Bank overdraft

The bank overdraft balance represents a book overdraft.

33 Contingent liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

34 Commitments

Capital commitments

Capital commitments at the end of the year for which no provision has been made in these financial statements are as follows:

	2014 Shs'000	2013 Shs'000
Authorised and contracted for	101,008	113,334
Authorised but not contracted for	139,482	150,343
Total	240,490	263,677

Operating lease commitments

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

	2014 Shs'000	2013 Shs'000
Not later than 1 year	21,533	52,994
Later than 1 year and not later than 5 years	69,286	193,883
Later than 5 years	113,637	4,524

35 Related parties

The company is controlled by Apollo Investments Limited, a company incorporated in Kenya which owns 100% of the company's shares.

In the normal course of business, insurance policies are sold to related parties. Transaction with related parties during the year and related outstanding balances are disclosed below:

	2014 Shs'000	2013 Shs'000
i) Insurance business transacted with related parties		
Gross written premium:		
- Parent company	849	1,385
- Other related parties	3,802	2,362
Total	4,651	3,747
ii) Mortgage loans advanced to staff	12,857	6,724

iii) Outstanding balances with related parties	2014 Shs'000	2013 Shs'000
Due from APA Life Assurance Limited	2,866	6,530
Due from Reliance Insurance Company (Tanzania) Limited	-	238
Due from Apollo Investments Limited	-	17
Due from Gordon Court Limited	1,911	1,770
Due to Apollo Asset Management Company Limited	240	(75)
Due to APA Insurance (Uganda) Limited	(12)	-
Total (note 20)	5,005	8,480
iv) Loans to directors		
At 1 January	-	-
Loans advanced	-	-
Loan repayments	-	-
At 31 December	-	-
v) Directors' and key management remuneration		
Directors' fees	5,660	5,215
Directors' other remuneration	71,685	75,318
Remuneration to key management personnel (included in staff costs (note 8))	124,377	115,648
Total	201,722	196,181

Supplementary Information
Underwriting Revenue Account

For the year ended 31 December 2014

Class of Insurance Business	Aviation Shs'000	Engineering Shs'000	Fire Domestic Shs'000	Fire Industrial Shs'000	Liability Shs'000	Marine & Transit Shs'000	Motor Private Shs'000	Motor Commercial Shs'000	Medical Shs'000	Personal Accident Shs'000	Theft Shs'000	Workmen's Compen-sation Shs'000	Miscella-neuos Shs'000	Total 2014 Shs'000	Total 2013 Shs'000
Gross premium written	75,909	268,581	66,172	576,073	89,453	231,888	1,183,459	1,764,560	2,380,217	81,079	171,582	585,229	329,786	7,803,988	6,553,965
Change in gross UPR	42,418	63,897	307	(8,963)	(3,209)	(70,546)	45,996	33,211	400,531	7,866	(4,466)	(23,632)	(1,160)	482,250	234,202
Gross earned premium	33,491	204,684	65,865	585,036	92,662	302,434	1,137,463	1,731,349	1,979,686	73,213	176,048	608,861	330,946	7,321,738	6,319,763
Less: reinsurance payable	(29,971)	(155,721)	(17,920)	(449,509)	(25,233)	(120,835)	(18,873)	(14,623)	(795,771)	30,626	3,063	(6,452)	(69,701)	(1,670,920)	(1,262,101)
Net earned premium	3,520	48,963	47,945	135,527	67,429	181,599	1,118,590	1,716,726	1,183,915	103,839	179,111	602,409	261,245	5,650,818	5,057,662
Gross claims paid	-	132,626	25,992	1,967,565	71,272	99,151	865,659	797,346	1,575,960	63,486	92,316	246,536	31,252	5,969,161	3,900,148
Change in gross outstanding claims	7,572	(143,189)	(12,875)	(1,331,942)	41,597	19,425	184,930	203,865	184,597	7,898	(20,374)	171,551	126,070	(560,874)	2,336,821
Less: reinsurance recoverable	(7,035)	10,160	(6,476)	(574,013)	(46,327)	(34,822)	(14,939)	(75,478)	(698,210)	10,980	42,124	(38,462)	(12,218)	(1,444,716)	(2,743,062)
Net incurred claims	537	(403)	6,641	61,610	66,542	83,754	1,035,650	925,733	1,062,347	82,364	114,066	379,625	145,104	3,963,570	3,493,907
Commissions receivable	(2,482)	(64,657)	(2,829)	(142,345)	(11,233)	(20,472)	(509)	(2,173)	(212,426)	(1)	(9)	-	(19,418)	(478,554)	(309,340)
Commissions payable	929	61,120	14,158	147,795	11,695	37,409	111,691	171,320	224,087	16,191	22,911	106,856	50,180	976,342	848,339
Expenses of management	3,002	46,002	11,334	98,669	15,321	39,717	208,956	319,116	208,597	13,887	29,388	100,237	56,485	1,150,711	970,653
Total expenses and commissions	1,449	42,465	22,663	104,119	15,783	56,654	320,138	488,263	220,258	30,077	52,290	207,093	87,247	1,648,499	1,509,652
Underwriting profit / (loss)	**1,534**	**6,901**	**18,641**	**(30,202)**	**(14,896)**	**41,191**	**(237,198)**	**302,730**	**(98,690)**	**(8,602)**	**12,755**	**15,691**	**28,894**	**38,749**	**54,103**

Key ratios

	2014 %	2013 %
Loss ratio (net claims incurred/net earned premium)	70.14	69.08
Commissions ratio (commissions payable/gross written premium)	12.51	12.94
Expense ratio (management expenses/gross written premium)	14.75	14.81

{NOTES}

HEAD OFFICE

Apollo Centre, Ring Road Parklands, Westlands
P.O. Box 30065 – 00100 Nairobi
Tel: +254 (0) 20 286 2000
E-mail: info@apainsurance.org
Website: www.apainsurance.org

BRANCH OFFICES

CITY CENTRE
6th Floor, Hughes Building, Kenyatta Avenue
P.O. Box 30065 – 00100, Nairobi
Tel: 020 286 2000
Fax: 020 286 2000

NAKURU
Giddo Plaza, George Morara Road
P.O. Box 14418 – 20100, Nakuru
Tel: 051 221 3412/6
Fax: 051 221 3449
E-mail: apa.nakuru@apainsurance.org

MOMBASA
Apollo House, Moi Avenue
P.O. Box 81821 -80100, Mombasa
Tel: 041 222 19 41 / 222 07 58/7
Pilot line: 020 286 2400 / 0709 912 2400
Mob: 0720 652 273 / 0720 652 273
E-mail: apa.mombasa@apainsurance.org

KISUMU
ground floor, tuff foam mall - jomo kenyatta highway
P.O. Box 632 – 40100, Kisumu
Tel: 057 202 4860
Fax: 057 202 4860
E-mail: apa.kisumu@apainsurance.org

NAIVASHA
1st Floor, Jubilee Mall
P.O. Box 1819 – 20117, Naivasha
Tel: 050 202 0086
Fax: 050 202 0086
E-mail: apa.naivasha@apainsurance.org

ELDORET
1st Floor, zion mall, Uganda Road
P.O. Box 3600 – 30100, Eldoret
Tel: 053 203 0937
Fax: 053 203 0938
E-mail: apa.eldoret@apainsurance.org

THIKA
5th Floor, zuri cEntre, kenyatta highway
P.O. Box 4400 – 01002, Thika
Tel: 061 20196
Fax: 061 20197
E-mail: apa.thika@apainsurance.org

MERU
2ND Floor,Twin Plaza, Ghana Road
P.O. Box 3298 – 60200, Meru
Tel: 064 31823
Fax: 064 31821
E-mail: apa.meru@apainsurance.org

NYERI
1st Floor, peak business centre off kenyatta highway
P.O. Box 2443 – 10100, Nyeri
Tel: 061 203 0332
Fax: 061 203 0332
E-mail: apa.nyeri@apainsurance.org

EMBU
2nd Floor, Sparko Building, Kenyatta Highway
P.O. Box 1817 – 60100, Embu
Tel: 068 30103
Fax: 068 30104
E-mail: apa.embu@apainsurance.org

KISII
Ouru Complex, Kisii – Kisumu Road
P.O. Box 3479 -40200, Kisii
Tel: 058 31773
Fax: 058 31773
E-mail: apa.kisii@apainsurance.org

MACHAKOS
abc imani plaza, ngei Road
P.O. Box 2475-90100, machakos
Tel: 044 21455
E-mail: apa.machakos@apainsurance.org

ASSOCIATES and RELATED COMPANIES

APA Insurance (Uganda) Limited
5TH floor APA TOWER, opposite ministry of health
Kampala Road, Kampala
P.O. Box 7651, Kampala
Tel: +256 (4) 425 0087 / +256 (4) 425 1103
Fax: +256 (4) 425 1120
E-mail: apa.uganda@apainsurance.org

apa LIFE ASsurance Limited
Apollo CENTRE,RING ROAD, PARKLANDS
P.O. Box 30389-00100, NAIROBI
Tel: +254 (0) 20 364 1000
E-mail: info@apalife.co.ke
WEBSITE: www.apalife.co.ke

apOLLO ASset management company Ltd
Apollo CENTRE,RING ROAD, PARKLANDS
P.O. Box 30389-00100, NAIROBI
Tel: +254 (0) 20 364 1000
E-mail: info@apolloassetmanagement.co.ke
WEBSITE: www.apolloassetmanagement.co.ke

Gordon Court Limited
Apollo Centre, Ring Road, Parklands
P.O. box 30389 – 00100, Nairobi
Tel: +254 020 364 1900
E-mail: info@apollocentre.org

Reliance Insurance Company (Tanzania) Ltd
3rd & 4th Floor Reliance House
Plot No. 356 Upanga, United Nations Road
P.O. Box 9826, Dar es Salaam
Tel: +255 (22) 212 0088-90
Fax: +255 (22) 211 2903
E-mail: insure@reliance.co.tz