Liberty Kenya Holdings Limited

LIBERTY

ANNUAL REPORT & FINANCIAL STATEMENTS

2013

For the year ended 31 December 2013

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the eighth Annual General Meeting of the members of Liberty Kenya Holdings Limited will be held on Wednesday, 21 May 2014, at the Intercontinental Hotel, Nairobi, at 11.00 am in the forenoon to transact the following business:

1. The Secretary to read the notice convening the meeting and confirm the presence of a quorum.

2. To receive and consider the audited financial statements for the year ended 31 December 2013 and the directors' and auditors' reports thereon.

3. To note that the directors recommend payment of a dividend of Shs 1 per share (2012: Shs 0.40) for the year ended 31 December 2013.

4. To elect directors.

5. To approve the directors' remuneration for the year ended 31 December 2013 as provided in the financial statements.

6. To note that Messrs PricewaterhouseCoopers continue in office as the auditor under Section 159(2) of the Companies Act and to authorise the directors to fix their remuneration.

7. Any other business for which due notice has been given.

By order of the Board

Caroline Kioni
Company Secretary
Date: 28 April 2014

NOTE: *In accordance with section 136(2) of the Companies Act every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not be a Member of the Company. A form of proxy is enclosed and should be returned to the Company Secretary, P.O. Box 30390-00100 Nairobi, to arrive not later than 48 hours before the meeting.*

Group Information

DIRECTORS

S A Mboya	-	Chairrnan
M L du Toit*	-	Managing
P Gethi	-	Non-Executive
G R May**	-	Non- Executive
S Kilonzo	-	(Resigned on 1 December 2013)
M Mittal**	-	(Alternate - S Wenman*)

*South African **British

Secretary

C Kioni (Ms)
P O Box 30390 – 00100
Nairobi

Bankers

CfC Stanbic Bank Ltd
NICBank

Subsidiaries

CfC Life Assurance Ltd (100%)
Heritage Insurance Company Kenya Ltd (100%)
Azali Ltd (100%)
CfC Investments Ltd (100%)
Heritage Insurance Company Tanzania Ltd (60%)

Independent Auditor

PricewaterhouseCoopers
Certified Public Accountants
The PwC Tower, Waiyaki Way
P.O.Box 43963
Nairobi

Registered office

LR No 209/8592/2
CfC House, Mamlaka Road
P.O.Box 30390, 00100
Nairobi

Share Registrar

Comprite Kenya Limited
Crescent Business Centre
Off Parklands Road, Parklands
P O Box 63428, 00619
Nairobi

Associate

Strategis Insurance (Tanzania) Ltd

Lawyers

Coulson Harney Advocates
Unit A, Nairobi Business Park
Ngong Road, Nairobi
P O Box 10643, 00100
Nairobi

Chairman's statement

It is my pleasure to present the annual report and financial statements for Liberty Kenya Holdings Limited ("Liberty Kenya") for the year ended 31 December 2013.

Overview

Liberty Kenya owns subsidiaries that engage in both short term and long term insurance business. Through its two operating entities, CfC Life Assurance Company Limited (CfC Life) and Heritage Insurance Company Kenya Limited (Heritage), the Group continues to be a key player in the insurance sector, both in Kenya and Tanzania. The Group's interest in Tanzania is through a 60% shareholding in Heritage Insurance Company Tanzania Limited. Liberty Kenya is a subsidiary of South African-based Liberty Holdings Limited (SA), which is in turn majority owned by The Standard Bank Group, also of South Africa. Whilst Libery Kenya is listed on the Nairobi Securities Exchange, both its immediate and ultimate shareholders are in turn listed on the JSE in South Africa.

2013 Economic Environment and outlook for 2014

Preliminary data from the African Development Bank (AfDB) shows that the economies of the East African countries grew by at least 5.5% in 2013 and are expected to grow at a rate of 5.8% in 2014. This is above Africa's average of 4.8%in 2013 and the 5.3% anticipated in 2014. Compared to the growth achieved by these economies in 2012, this is also a sound achievement.

In particular, Kenya's economy is expected to grow at a faster rate than in the past two years - riding on renewed investor confidence which follows a widely participated in and peaceful general election together with favourable weather conditions that are expected to boost agriculture. On the other hand, Tanzania's medium-term growth prospects have been significantly boosted by discoveries of natural gas. The favourable macroeconomic environment in the region is expected to have a positive effect on the Group's performance.

With respect to Kenya, relatively stable macro-economic factors and generally prudent monetary policies favoured economic growth in 2013. GDP growth was lead by the agricultural, construction, and financial services sectors and, to some extent, manufacturing.

The Kenyan Shilling was relatively stable throughout 2013, closing at Sh 86.3 to the US dollar, virtually the same as at the end of 2012. Consistent monetary policy action by the Central Bank of Kenya ("CBK") and rising foreign exchange reserves helped buoy the Shilling. Increased foreign investment and greater investor confidence in the economy also played its part. The outlook for 2014 is that the shilling is likely to weaken gradually, but that forex reserves will remain strong and this trend may well be arrested should the much-anticipated preliminary investments in the Oil and Gas sectors and an upbeat view persist to facilitate strong inward investment portfolio flows.

Year on year inflation declined during 2013 to stand at 6.8% at the year end, broadly within the CBK's policy range. It is expected that inflation is unlikely to be a major threat in 2014.

The CBK eased monetary policy in 2013 by cutting the Central Bank Rate (CBR) from 11.0% to 8.5% during the course of the year, following containment of inflation and a need to stimulate private sector credit growth. Short term rates varied in response to changes in liquidity conditions. Lower spending by both the central and county governments affected market liquidity. Treasury bill yields dropped during the year with 91-day and 182-day rates averaging 8.8% and 9.4% from the levels of 12.7% and 13.4% achieved in the previous year. The outlook for 2014 is that interest rates are likely to continue to soften, albeit marginally.

With regard to the Capital Market, the Nairobi Securities Exchange (NSE) continued the good performance that began in 2012 with equities ending 2013 on a firm note. Market performance was to an extent driven by the US Federal Reserve's quantitative easing programme which sparked increased global risk appetite. A lower political risk premium, after the conclusion of the peaceful general elections, improved investor confidence, while sustained company earnings and attractive valuations boosted most equities. The NSE 20 index climbed 19.2% to 4,927 points at year end and the 2014 outlook with higher economic growth and a stable macroeconomic environment should prove positive for equities. This is despite the adverse perceptions arising as a result of rising insecurity, notably the attack on the Westgate shopping mall.

Government bonds reflected a positive performance in 2013, whilst the yield curve corrected downwards slightly by an average of 0.07% across all tenors reflecting lower inflationary pressures and CBK's policy easing measures. Secondary market trading declined due to some volatility in money market interest rates. Liquidity conditions and uncertainty over the direction of interest rates negatively affected bond trading. Anchored inflation expectations and improved liquidity conditions are factors likely to stabilize bond yields in 2014.

Overall, we expect relative stability this year in key macro-economic indicators - inflation, interest rates and exchange rate - triggering strong consumer demand and increased economic growth. This is expected to result in good economic growth .The improved performance will largely be driven by the mining sector, credit consumption and county government spending. This provides significant opportunities to the insurance sector.

The country expects the multinational oil companies' confirmations of the commercial amounts of oil finds in Turkana and off the coast to spur greater economic activity. Although Industry experts indicate that Kenya could see its first oil in the next 5 -6 years, the infrastructure required will provide huge opportunities for the insurance sector and the short-to-mid term servicing requirements of the industry and its related suppliers should not be under-estimated in terms of economic benefit. In addition, there will be increased opportunities in the SME sector which is expected to grow to service the Oil and Gas sector. Your Company has put in place robust strategies to take advantage of the opportunities provided by these developments in the economy.

Recent political reforms have strengthened Kenya's governance record, though overall there is still much to do. The most pressing challenge in the country is to effectively implement the new devolved system of government and governance oversight, while also strengthening the capacity to cope with domestic and externally induced shocks. Youth unemployment, poverty, corruption and vulnerability to climate change that affects food security, remain critical challenges to realizing the socio-political and economic benefits envisaged.

Group Financial highlights

Against the welcome backdrop of generally improving economic conditions, we significantly progressed the reshaping of Liberty Kenya during 2013. The combination of our commitment to implementing Global principles, discipline in underwriting standards and managing increased capital discipline has driven a fundamental review of certain aspects of our business. In particular, during the year the Group reviewed its treatment of insurance liabilities (both long-term and short-term) and the relevant matching assets and recommended that the measurement of these liabilities should be aligned to Standard Bank and Liberty Holdings Limited's accounting policies which are modelled on internationally accepted best practice.

Accordingly, from 2013 Liberty Kenya Group's policy has been to fair value most financial instruments through the Income Statement at "Fair Value through Profit and Loss" as opposed to the former treatment where unrealised surpluses/losses were carried in the Statement of Financial Position for Available-for-Sale assets and were held at amortised cost for "Held-to-Maturity" assets. This fresh policy provides transparent, reliable and more relevant financial information as it ensures that IFRS performance reporting will better reflect the economic reality of occurrences within the reporting period in terms of asset changes. In accordance with International Accounting Standard (IAS) 8, the Statements of Financial Position and Income Statement for 2011 and 2012 have therefore been re-stated and disclosed in the 2013 financial report to ensure uniform comparison with prior years.

Chairman's statement (continued)

Liberty Kenya's performance in 2013 was reassuringly sound across our main business areas with good underlying momentum in areas of targeted growth and investment. 2013 operating results showed marked improvement as we continued to grow selectively and improve underwriting profitability. The Group reported a Profit After Tax of Sh 1,106 million for the twelve months ended December 31, 2013, which is an improvement of 29% on the previous year's Sh 858 million.

Both Kenyan subsidiaries continued to show strong performance as a consequence of sound underwriting and claims management, improvements to distribution channels, introduction of differentiated products, identification of new alternative distribution channels, process re-engineering, management of costs and use of new and enhanced technology to drive improvements in service delivery and value proposition to our customers and intermediaries.

Key Achievements for the year under review:

- Profit after tax up 29% to Sh1.1 billion, exceeding the billion mark for the first time.
- Gross earned premium revenue at Sh 7.4 billion is up 7.2% from Sh 6.9 billion.
- Investment income at Sh 2.6 billion mainly due to restatement of 2012 figures arising from the change in accounting policy as described above.
- Net insurance benefits and claims contained to Sh 3.1 billion, down 18% from Sh 3.8 billion.
- The overall total asset base of the Group is up by 15% from Sh 27.4 billion to Sh 31.5 billion
- Strong solvency in both CfC Life and Heritage at 1.46 and 3.9 times, respectively.

Short Term Business

The Group's short term business is managed through Heritage Kenya and its subsidiary in Tanzania, the Heritage Insurance Company Tanzania Limited. The results for 2013 benefited from a continued focus on profitability rather than mere volume, underpinned by the sustained execution of the Company's product, underwriting and pricing strategies. This has enabled Heritage to deliver strong and consistent long-term shareholder returns, despite the challenging operating environment in the short term insurance market.

Overall profit before tax stood at Sh 711.1million (2012 – Sh 975 million, as re-stated). It should be noted in this context, that the 2012 accounts included a profit of Sh 216.1 million in respect of the Life Assurance business that was subsequently transferred to CfC Life as part of the pro-active measures to achieve the Regulator's requirement for composite businesses to split the short and long term businesses. Also, it should be noted that the results for the prior year have been restated to reflect the change in accounting policy in respect of the valuation of financial assets. The effect of this change on future results will depend on the market movements in interest rates and equity prices. With this change in policy, the Company has moved to align assets to better match liabilities in order to run a more capital efficient business with a strong focus on the technical results.

The Company registered growth in gross written premium of 4% in 2013, up from Sh 3.406 billion in 2012 to Sh 3.549 billion. Some business during the year was lost to competition as a result of premium undercutting and conscious decisions not to renew certain poor performing accounts. Your Company's focus has always been on profitable underwriting rather than growing volumes. However, we recognise that premium growth is essential and in this respect, the Company is implementing a number of strategies in its distribution channels and new products that will go a long way to ensure that we achieve sound growth in our market share.

With respect to claims, the Company's overall Net Incurred Claims Ratio at 37.6% improved significantly over 2012 (40.8%). By contrast, a report published by the Insurance Regulatory Authority indicated that the net incurred claims ratio for the short term industry as a whole for 2013 is likely to be in the region of 57%.
Operating and other expenses were well controlled at Sh 936.6 million, down from Sh 1.0 billion in 2012.
The result of the above has led to a 52% improvement in the underwriting profit from Sh 209.4 million in

2012 to Sh 318.3 million last year. Whilst events that give rise to claims are always unpredictable, the sound overall result stems from a combination of measures adopted by Management to generate greater returns from previously poorer performing classes of business. Overall, the short term Company achieved profit after tax of Sh 536.9 million.

Long Term Business

The operating environment for the Life Company improved significantly from the previous year after instituting a number of changes meant to improve our operations and the quality of business written. Some of the changes involved the implementation of non-cash business in order to improve premium collection and policy persistency. As anticipated, these changes initially had a negative impact on new business, reducing production by an estimated 15%, although going forward we expect that new business written will be more sustainable and hence more profitable. The environment has now stabilized and we are focusing more on our growth initiatives. As part of these tactical growth plans, the Company introduced new products in the course of the year whilst intensifying its efforts to grow profitably in non-traditional market segments. The Company registered good performance with an increase in gross written premium of 16%. Pension fund contributions grew by 10%, mainly due to organic growth, whilst the Company is seeking to enhance its customer value proposition in order to improve persistency and acquisition of new business. The Group Risk line performed very well with a premium growth of 40% during the year. Our revised broker strategy is starting to pay dividends. However, even though we had a favourable claims experience, sustained profitability of this line of business remains of concern because much of the competitive pressure is focussed on rating, resulting in uneconomic pricing practices at times. We will continue with our philosophy of sound underwriting standards even as we aggressively look at ways of enhancing our market share. Investment income dropped marginally from Sh 2.2 Billion to Sh 2 Billion.

Concerted effort was put into addressing the Company's expense base, and measures instituted combined with technology introduced to enhance the level of automation, lead to an improvement in operational efficiency.

Overall, the Company registered a net profit of Sh 416 million compared to restated loss of Sh 18.6 million in 2012.(2012 previously reported net profit before restatement was Sh 331 million). The 2012 loss was driven mainly by the greater impact of the increase in liabilities arising from the change in the basis of valuing liabilities from NPV to GPV.

Total assets in the life Company grew to Sh 20.3 billion from Sh 18.1billion in 2012, attributed to the increase in the value of our invested assets.

Given the relatively good performance the statutory solvency position for the Company improved in 2013 to a multiple of 1.46 times the minimum specified by the Insurance Act. The Company's strong solvency position gives comfort to our existing and potential customers that we are adequately capitalized to weather reasonable market volatility.

Business Performance in Tanzania

Our subsidiary in Tanzania has remained focused in ensuring that sound underwriting practices are maintained. Consequently it is one of the few companies in the market that consistently reports an underwriting profit. Despite significant premium undercutting in the market during 2013, Heritage Insurance Tanzania achieved premium growth of 18%, at Tsh 45.9 billion, and endorsed its position as one of the top underwriters in the market. However, claims costs increased from TSh 5.5 billion (51% claims ratio) in 2012 to Tsh 6.4 billion (52% claims ratio) in 2013. During the year, the Company experienced an unprecedented number of large claims on Fire and Engineering policies. Though these did not have much impact on the 2013 financial results, because of the relatively conservative strategy followed in net retentions, our reinsurers have been affected very badly. They have thus revised their 2014 rates significantly.

As a result of the said claims experience, our underwriting surplus dropped from Tsh 902.8 million in 2012 to Tsh 419.3 million in 2013 and overall profit before tax slipped from Tsh 5.6 billion to Tsh 1.7 billion. It needs to be said, however, that in 2012 the Company earned TSh 3.6 billion from the disposal of one of its associates, Alliance Insurance Corporation Limited. Excluding the capital gains on the sale of shares in Alliance, Profit

Chairman's statement (continued)

Before Tax was Tsh 1.7 billion compared to Tsh 1.95 billion in 2012. The drop is mainly due to the unfavourable claims experience and slight increase in expenses.

However, the Company has robust strategies in place to ensure that in 2014 it maintains its position as the top general insurer. We also expect to benefit from full utilization of our IT systems. In addition, we expect to take advantage of "bancassurance" opportunities in the market, paving the way for participation of banks in the distribution of insurance products to remote parts of the country
Due to strategic reasons, the Group has been rationalising its operations in Tanzania. In 2012, we completed the disposal of our interest (indirect through Heritage Insurance Tanzania) in one of the associates, Alliance Insurance Corporation. We are currently in the process of reviewing our shareholding arrangements in the remaining associate, Strategis Insurance Tanzania Limited. This process is expected to be finalized in the course of quarter 2 of 2014.

Compliance

Compliance with best practice and regulatory requirements is enshrined within our value and governance structures in all the subsidiaries. The following are our key regulators:

- The Insurance Regulatory Authority of Kenya – the primary regulator of insurance businesses in Kenya
- The Retirement Benefits Authority (Kenya)
- The Tanzanian Insurance Regulatory Authority – the primary regulator of insurance businesses in Tanzania
- The Capital Markets Authority (Kenya).
- The Nairobi Securities Exchange.

We have cordial relationships with all our key regulators as well as the respective revenue authorities. This is founded on our endeavor to strictly comply with the guidelines of our industry and regular open communication.

Directorate

It is critical to all we do that we have the breadth and depth of experience on the Board necessary to provide effective governance and deal with challenges in the business environment. I am hugely encouraged by the quality of individuals we are able to identify and attract. Unfortunately, we had to say goodbye to one our directors, Stella Kilonzo, who had to leave the Board as she had to relocate outside the country. Stella has given outstanding service and commitment during the short period she was on the Board. On behalf of the Board and shareholders, I want to take this opportunity to acknowledge her contribution to Liberty Kenya and record our appreciation and gratitude for her distinguished service. As we refresh the Board to take account of this vacancy, we shall seek to add skills and experience complementary to those already on the Board in order to strengthen the range of oversight competences within the Board

Human resources

These results are a reflection of a committed team of staff who believe that in delivering value to our broad range of stakeholders, we will continue to build on the legacy of our Group. We shall continue to raise the skills of our human capital, to empower them and to improve service standards across the Group. The Group's total staff complement as at 31 December 2013 was 372 compared to 342 in 2012.

Outlook

The Group has set ambitious targets for all its operating entities. We have made good progress in many areas. In particular, we continue implementing a number of cost management initiatives, including system rationalisation, that we expect to have a positive effect on the overall cost base. Our strategy for the period 2014–2018 has several cornerstones. First, we are prioritizing investment in markets and customer segments

with strong potential for growth. Examples include the corporate market for our life business, in which we are building on the success of our Short Term insurance offering to large corporate customers and our County and Oil & Gas initiatives, where we are investing to better serve our customers. Secondly, whilst we continue to focus in the traditional areas of our business, we shall continue innovating to attract customers by way of new product development, improved service offering and expanded distribution channels.
We are also seeking higher returns from our investment portfolio – without compromising investment discipline.

During the 2014–2018 period, our objective is to deliver an attractive total return to our shareholders and to achieve this, our operating companies have set ambitious targets. We will be reporting on our progress against these targets over the course of time.
This is a year in which we are taking firm actions in relation to each of the cornerstones of our strategy. We expect some of the benefits of these actions will be visible this year, as we lay a strong foundation for the delivery of our strategic medium to long term targets.

Dividend

The Directors propose a first and final dividend per share of Sh 1(Sh 0.40) by way of a scrip dividend with the option to elect cash. This proposal is subject to shareholder and Capital Markets Authority approval.

Appreciation

I take this opportunity to express my sincere appreciation to our customers, shareholders, the Government and Regulators, suppliers and fellow board members for their dedicated contribution to the growth of the Group., I would also like to thank all our management and staff who, in a year of change, have worked hard, maintained their focus on our customers and continued to deliver, to the benefit of our business and our shareholders

Members of the Board

Dr Susan Mboya is the Chairman of the Company and the Group Director, Eurasia, Africa Group (EAG) for Women's Economic Empowerment at Coca Cola. In this role, Susan is leading the Group's deployment of an initiative undertaken by the Coca-Cola Company in September 2010 to empower five million women entrepreneurs across the Coca-Cola System by 2020.

In May 2009, Dr Mboya was awarded a honorary Doctorate in Humanities from Lakeland College in Wisconsin, for her work on the Zawadi Africa Educational Fund. In December 2010 she was awarded the Elder of the Burning Spear (EBS), the highest civilian award from the Kenya Government, in recognition of her dedication and service to the Country's youth through the Zawadi Africa Educational Fund. She Joined Liberty Kenya Board in 2012 and was appointed chairman on 29 November 2012.

Mr. Mike du Toit is the Company's Managing Director and Liberty Africa Regional Managing Director for East Africa responsible primarily for strategic growth initiatives. He joined Liberty in 2010. Prior to this he was Managing Director of CfC Stanbic Bank Ltd having led the merger of the Stanbic and CfC Groups.

As a career banker, he has extensive experience in the financial services field across sub-Sahara Africa having worked and lived in, amongst others, Botswana, Mozambique, South Africa and Uganda.

He also sits on the Boards of Heritage Insurance Company Kenya Ltd, CfC Life Assurance Ltd and The Heritage Insurance Company Tanzania Ltd.

Mr. Gayling R. May was appointed to the Board in December 2009. He has an extensive accounting background and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and a fellow of the Institute of Chartered Accounts in England and Wales (FCPA).

He has worked in the UK, USA and for the most part, Kenya, and has a history of 37 years with PricewaterhouseCoopers, 32 of which as a Partner/Regional Senior Partner. He is currently the Regional Representative of the Eastern Africa Association, a business information service based in Nairobi, which operates throughout East Africa.

He holds various directorships in banks, insurance companies, manufacturing entities and an aircraft ground handling company.

Members of the Board

Mr. Mukesh Mittal is Liberty Group Chief Executive Business Development Cluster. He holds a BSc (Hons) (Imperial London), FIA. Mukesh has significant international insurance experience having held the position of Group Chief Actuary at Old Mutual plc (London) and leading Old Mutual's strategy and business development for the Asia Pacific region, Deputy Group Chief Actuary of Allianz (SE) and a director of PricewaterhouseCoopers UK. Mukesh also served on the board for Actuarial Standards in the UK. He joined the board on 28 March 2012.

Mr Peter Gethi was appointed to the Board on 17 December 2009. He holds a BSc (Hons) degree in Agriculture Economics and has expansive managerial experience in Agriculture Business Management. He has been a General Manager with Kilimanjaro Plantations Ltd (TZ) and Senior Group Manager with SCEM Ltd (formally Standard Chartered Estate Management). He currently works both as an Agricultural Consultant and is involved with Real Estate Development as Managing Director of Nebange Ltd.

He is also the Chairman of Heritage Insurance Company Kenya Limited and CfC Life Assurance Company Limited and a director of The Heritage Insurance Company Tanzania Ltd, CfC Stanbic Holdings Limited and CfC Stanbic Bank Limited. He serves on the Audit and Risk Committees of Liberty Kenya Holdings Limited, and Heritage Insurance Company Tanzania Limited.

Corporate Governance Report

Introduction

The Directors are committed to the principles of good governance and appreciate the importance of governing the business with integrity and accountability to all the stakeholders. The Board prescribes to the Commonwealth Association of Corporate Governance principles and has adopted the recommended guidelines and associated principles of best practice.

Through its subsidiaries CfC Life Assurance Company Ltd, Heritage Insurance Company Kenya Ltd and CfC Investments Ltd, the Board of Liberty Kenya Holdings Ltd follows principles of openness, integrity and accountability in its stewardship of the organisation's affairs. It recognises the dynamic nature of corporate governance and continuously assesses the Group's compliance with generally accepted corporate practices on a regular basis. The role of the Board is to ensure conformance by focusing on and providing the Group's overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision.

The Board is responsible for maintaining a system of internal control and for reviewing its effectiveness regularly to ensure that the assets of the Group are safeguarded while maintaining a reliable system of managing financial information, so that the Group's objectives of increased growth in profitability and shareholder value are realised.

Board of Directors

The Board of Directors consists of one executive Director and four non-executive directors who have been chosen for their business acumen and wide range of skills and experience. The Board meets at least quarterly. During the year five meetings were held and the attendance by the Directors was as follows:

Directors	14 March	22 May	26 August	22 October	4December
	2013	2013	2013	2013	2013
Dr. S A Mboya	√	√	√	√	√
Mr. G R May	√	√	√	√	√
Mr. P Gethi	√	√	√	√	√
Mr. M Mittal	√	√	√	√	√
Ms. S Kilonzo	√	√	A/P	√	N/A
Mr. M L du Toit	√	√	√	√	√

√: Attended AP: Absent with Apology N/A: Not a member

The Board is responsible for setting the direction of the Group through the establishment of strategic objectives, key policies and decision making process to achieve the objectives of the organisation. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability against approved strategic approaches

Board Committees

The Group is headed by the Board of Directors, which has ultimate responsibility for the management and strategic guidance and assumes the primary responsibility of fostering the sustainability of the Group's business. The Board has the overall responsibility for establishing and oversight of Group's risk management framework. The performance against financial and corporate governance objectives is monitored by the Board through managements' quarterly reporting.

The implementation of the Group's strategic objectives is done at the individual subsidiary companies, through various established Board and management committees including Board Audit and Risk Committees ('BARC') and Investment committees.

The Company's BARC meets at least twice a year in accordance with the half yearly financial reporting period adopted by the Group. Attendance during the year is shown below:

Corporate Governance Report (Continued)

	22 February	13 March	21 August
Directors	2013	2013	2013
Mr. G R May	√	√	√
Mr. P Gethi	√	√	√
Mr. M Mittal	√	√	√

√: Attended AP: Absent with Apology

The Company also has a Directors' Affairs Committee comprising the Chairman of the Board, and two Directors, one of whom is Non-Executive. The mandate of this Committee includes ensuring the effectiveness of the Group's governance structures.

Board effectiveness and evaluation

The Board is focused on continued improvements in its effectiveness and corporate governance performance.

Sustainability

Social and environmental responsibility remains an important part of Liberty Kenya Holding Group culture. The monitoring and reporting of sustainability issues is still an evolving discipline within the organisation. However the Board, through its subsidiaries, is conscious of the fact that as a Group its sustainability and success is dependent upon the environment and the community within which the group operates. Through our subsidiaries it is our policy to ensure that our activities meet the social, economic and environmental expectations of all our stakeholders.

Social responsibility

As a Kenyan business, the Group understands the challenges and benefits of doing business in Kenya, and owes its existence to the people and societies within which it operates. The Group is committed therefore not only to the promotion of the economic development but also to the strengthening of civil society and human well-being. The Group concentrates its social investment expenditure in defined focus areas in order to make the greatest impact. These areas of focus are subject to annual revision as the country's social-economic needs change. The Group focus is mainly in the area of education and health with a long term view of sustaining the projects at hand.

Going Concern

The Board has reviewed the facts and assumptions, on which it relied and, based on these, will continue to view the Group as a going concern for the foreseeable future.

Remuneration

Liberty Kenya Holdings Limited has a clear policy on remuneration of executive and non-executive directors at levels that are fair and reasonable in a competitive market for the skills, knowledge, experience required, nature and size of the Board.

The non-executive Directors remuneration is reviewed periodically by the Directors' Affairs Committee.

The amounts paid to directors are included in note 33 which represents the total remuneration paid to executive and non-executive directors for the year under review.

S A Mboya
Chairman

M L du Toit
Managing Director

9 April 2014

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2013, in accordance with Section 157 of the Kenyan Companies Act, which disclose the state of affairs of Liberty Kenya Holdings Limited and its subsidiaries (together the "Group") and of Liberty Kenya Holdings Limited (the "Company").

Principal activities

The Group is engaged in the business of insurance and wealth management through its subsidiaries namely CfC Life Assurance Limited, and the Heritage Insurance Company Kenya Limited. The Group underwrites classes of long term and general insurance as defined in the Kenyan Insurance Act with exception of bonds investments. It also issues investment contracts to provide customers with asset management solutions for their savings and retirement needs.

Results and dividend

Profit for the year ended 31 December 2013 of Shs 1,105,920,000 (2012: Shs 857,849,000 as re-stated) has been added to retained earnings.

The Directors recommend a dividend per share of Shs 1 (2012: Shs 0.40) by way of a scrip dividend with the option to elect cash.

Directors

The names of the directors who held office during the year and to the date of this report are set out on page 2.

Auditor

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Companies Act.

Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of directors on
9 April 2014

By order of the Board

C. Kioni
9 April 2014

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company as at the end of the financial year and of its profit or loss for that year. It is also requires the directors to ensure that the Company and its subsidiaries maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and its subsidiaries. The directors are also responsible for safeguarding the assets of the company.

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

(i) designing, implementing and maintaining such internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
(ii) selecting and applying appropriate accounting policies;
(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 financial position of the Company and its subsidiaries at 31 December 2013 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

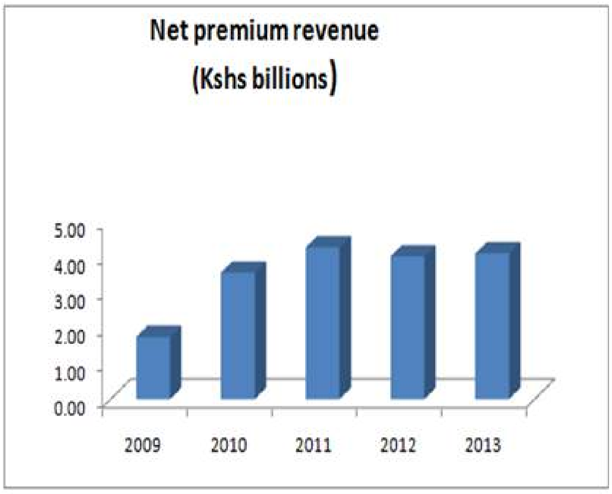
Nothing has come to the attention of the Directors to indicate that the Company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

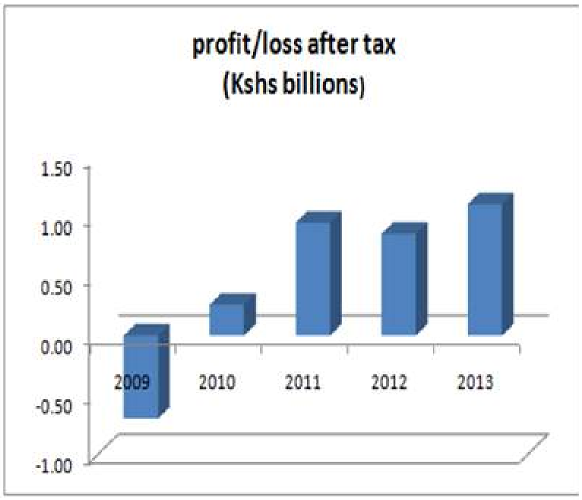
Approved by the Board of Directors on 9 April 2014 and signed on its behalf by:

S A Mboya	**M L du Toit**
Chairman	**Managing Director**

Financial highlights – Five year consolidated statement of profit or loss

	31 December 2009 Shs'000	31 December 2010 Shs'000	31 December 2011 Shs'000	31 December 2012 Shs'000	31 December 2013 Shs'000
Net insurance premium revenue	1,733,280	3,531,909	4,237,933	3,982,386	4,067,128
Investment and other income	354,937	1,842,744	2,195,322	4,067,013	3,311,482
Total income	2,088,217	5,374,653	6,433,255	8,049,399	7,378,610
Net insurance benefits and claims	(1,471,322)	(2,714,472)	(2,482,494)	(3,761,475)	(3,076,841)
Operating expenses and commissions	(1,237,745)	(2,214,028)	(2,940,927)	(3,137,549)	(2,995,520)
Result of operating activities	(620,850)	446,153	1,009,834	1,150,375	1,306,249
Earnings from associates	-	36,782	2,381	23,704	(7,387)
(Loss) / Profit before income tax	(620,850)	482,935	1,012,215	1,174,079	1,298,862
Income tax expense	(77,965)	(222,921)	(61,797)	(316,230)	(192,942)
(Loss) / Profit for the year	(698,815)	260,014	950,418	857,849	1,105,920
Costs to income	59%	41%	46%	39%	41%
Earnings per share (Shs)	(1.36)	0.50	1.84	1.66	2.15

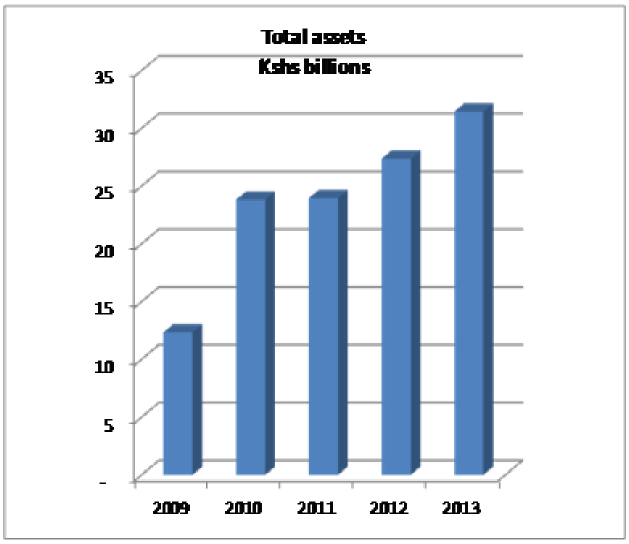


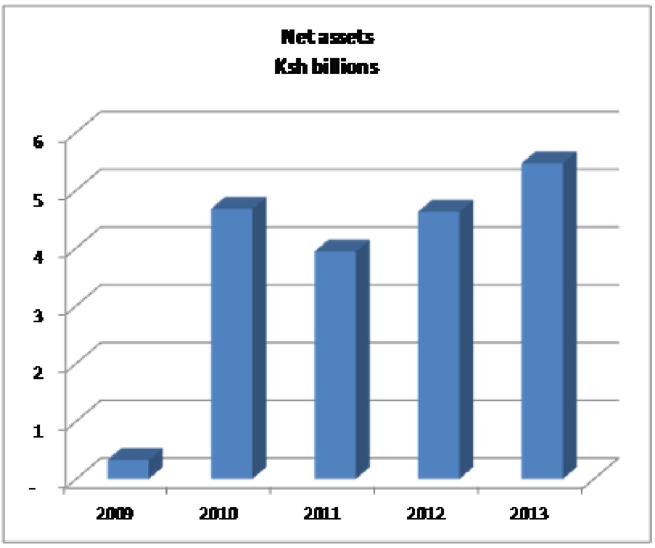


Figures included in the five year review have been re-stated, as explained in note 2 to provide a meaningful comparison of performance over the years.

Financial highlights – Five year consolidated statement of profit or loss

	31 December 2009 Shs'000	31 December 2010 Shs'000	31 December 2011 Shs'000	31 December 2012 Shs'000	31 December 2013 Shs'000
Total equity	329,307	4,676,659	3,865,638	4,554,231	5,464,882
Assets					
Property, equipment and intangible assets	844,721	1,260,013	1,176,517	1,165,093	1,136,877
Investment property	354,000	545,000	623,553	710,449	842,200
Goodwill	1,084,649	1,254,995	1,254,995	1,254,995	1,254,995
Investment in associates	-	313,180	355,400	61,948	70,041
Finacial investments	9,329,227	15,084,710	13,956,773	14,083,814	15,949,076
Other assets	73,879	2,539,229	3,636,393	4,062,108	5,746,018
Cash and cash equivalent	654,445	2,830,202	2,892,146	6,033,693	6,452,983
Total assets	12,340,921	23,827,329	23,895,777	27,372,100	31,452,190
Liabilities					
Insurance contract liabilities	3,484,257	6,027,195	6,239,993	7,523,118	10,320,927
Deposit administration liabilities	6,160,510	8,703,273	9,300,122	10,465,499	11,103,757
Other liabilities	1,866,847	3,811,391	3,985,403	4,349,456	4,562,624
Borrowings and bank overdraft	500,000	608,811	504,621	479,796	-
Total liabilities	12,011,614	19,150,670	20,030,139	22,817,869	25,987,308
Net assets	329,307	4,676,659	3,865,638	4,554,231	5,464,882





Figures included in the five year review have been re-stated, as explained in note 2 to provide a meaningful comparison of performance over the years.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF LIBERTY KENYA HOLDINGS LIMITED

Report on the financial statements

We have audited the accompanying consolidated financial statements of Liberty Kenya Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), as set out on pages 21 to 94 These financial statements comprise the consolidated statement of financial position at 31 December 2013 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2013, the statement of profit or loss, statement of comprehensive income and the statement of changes in equity of the Company 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 and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and for such internal control, as the directors determine necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that 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, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2013 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and 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;
iii) the Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is

CPA Kang'e Saiti
P/No. 1652. _____________2014

Certified Public Accountants
Nairobi

Financial Statements

Consolidated and Company Statement of financial position

		GROUP				COMPANY	
		31 December 2013	Restated 31 December 2012	Restated 31 December 2011		31 December 2013	31 December 2012
	Notes	Shs'000	Shs'000	Shs'000		Shs'000	Shs'000
Ordinary share capital	16	515,270	515,270	515,270		515,270	515,270
Share premium	16	1,185,969	1,701,239	1,701,239		1,185,969	1,701,239
Revenue reserve	17	2,607,295	1,590,478	1,114,735		852,512	696,911
Proposed dividend	17	515,270	206,108	-		515,270	206,108
Other reserves	17	266,317	226,216	134,679		-	-
Equity attributable to equity holders		5,090,121	4,239,311	3,465,923		3,069,021	3,119,528
Non-controlling interests		374,761	314,920	286,715		-	-
Total equity		5,464,882	4,554,231	3,752,638		3,069,021	3,119,528
REPRESENTED BY:							
Assets							
Property and equipment	20	1,084,901	1,097,599	1,056,551		-	-
Intangible assets	22	51,976	67,494	119,966		-	-
Goodwill	18	1,254,995	1,254,995	1,254,995		-	-
Investment property	21	842,200	710,449	623,553		-	-
Investment in associates	13	70,041	61,948	355,400		-	-
Investment in subsidiaries	13	-	-	-		3,202,333	3,202,333
Financial investments	19	15,949,076	14,083,814	13,956,773		-	-
Receivable arising from reinsurance		439,166	224,848	216,266		-	-
Receivable arising from direct insurance		775,189	662,212	740,559		-	-
Reinsurers' share of insurance liabilities	23	3,822,104	2,040,892	2,117,135		-	-
Deferred acquisition costs		123,273	95,219	137,510		-	-
Other receivables		461,873	988,818	347,640		-	500,000
Deferred income tax	30	65,037	50,119	37,400		-	-
Current income tax		59,376	-	39,883		-	-
Cash and cash equivalents	24	6,452,983	6,033,693	2,892,146		37,223	54,638
Total assets		31,452,190	27,372,100	23,895,777		3,239,556	3,756,971
Liabilities							
Insurance contract liabilities	25	10,320,927	7,523,118	6,319,993		-	-
Deposit administration liabilities	26	11,103,757	10,465,499	9,300,122		-	-
Unearned premium reserve	27	2,664,554	2,325,273	2,242,031		-	-
Creditors arising from direct insurance		34,616	45,411	73,094		-	-
Creditors arising from reinsurance		515,205	354,671	475,480		-	-
Deferred acquisition income		76,324	82,829	77,867		-	-
Other liabilities	28	913,290	1,030,910	834,025		170,535	157,647
Deferred income tax		352,214	340,736	172,874		-	-
Current income tax		6,421	169,626	39,941		-	-
Bank overdraft		-	-	70,091			
Borrowings	32	-	479,796	504,621		-	479,796
Total liabilities		25,987,308	22,817,869	20,110,139		170,535	637,443
Net assets		5,464,882	4,554,231	3,785,638		3,069,021	3,119,528

The notes on pages 28 to 94 are an integral part of these financial statements. The financial statements on pages 21 to 94 were approved for issue by the board of Directors on 9 April 2014 and signed on its behalf by:

S A Mboya **M L du Toit** **G R May** **C Kioni**

Consolidated and Company statement of profit or loss

		GROUP			COMPANY	
		31 December 2013	Restated 31 December 2012		31 December 2013	31 December 2012
	Notes	Shs'000	Shs'000		Shs'000	Shs'000
Gross earned premium revenue	6	7,397,982	6,953,842		-	-
Less: Outward reinsurance		(3,330,854)	(2,971,456)		-	-
Net insurance premium revenue		4,067,128	3,982,386		-	-
		3,311,482	4,067,013		200,000	500,000
Commissions earned		657,492	660,441		-	-
Investment income	7	2,629,519	3,180,431		200,000	500,000
Administration fees		15,897	13,292		-	-
Other income	8	8,574	212,849		-	-
Total income		7,378,610	8,049,399		200,000	500,000
Claims and policyholder benefits payable	9	(8,088,006)	(3,644,939)		-	-
Change in insurance contract liabilities		(490,432)	(833,627)		-	-
Amounts recoverable from reinsurers		5,501,597	717,091		-	-
Net insurance benefits and claims		(3,076,841)	(3,761,475)		-	-
Total expenses and commissions		(2,995,520)	(3,137,549)		(44,398)	(110,898)
Commissions payable		(833,885)	(892,089)		-	-
Finance costs	10	(25,512)	(95,179)		(25,512)	(97,254)
Other operating expenses	11	(2,136,123)	(2,150,281)		(18,886)	(13,644)
Result of operating activities		1,306,249	1,150,375		155,602	389,102
Earnings from associates	13	(7,387)	23,704		-	-
Profit before income tax		1,298,862	1,174,079		155,602	389,102
Income tax expense	14	(192,942)	(316,230)		-	-
Profit for the year		1,105,920	857,849		155,602	389,102
Attributable to :						
Owners of the parent		1,024,907	801,911		155,602	389,102
Non-controlling interests		81,013	55,938		-	-
		1,105,920	857,849		155,602	389,102
Basic and diluted earnings per share (Shs)	15	2.15	1.66		0.30	0.76

The notes on pages 28 to 94 are an integral part of these financial statements.

Consolidated and Company Statement of comprehensive income

	GROUP			COMPANY	
	31 December 2013	31 December 2012		31 December 2013	31 December 2012
	Shs'000	Shs'000		Shs'000	Shs'000
Profit for the year	1,105,920	857,849		155,602	389,102
Other comprehensive income/ (loss) for the year net of tax	32,011	(108,208)		-	-
Items that can be re-classified into profit or loss:					
Foreign currency translation operations	5,229	1,784		-	-
Items that cannot be re-classified into profit or loss:					
Gain on revaluation of land and building	38,260	54,211			
Recognition of deferred income tax on revaluation	(11,478)	(164,203)		-	-
Total comprehensive income for the year	1,137,931	749,641		155,602	389,102
Total comprehensive income attributable to:					
Equity holders of parent	1,056,918	684,528		155,602	389,102
Non-controlling interests	81,013	65,113		-	-
Total comprehensive income for the year	1,137,931	749,641		155,602	389,102

The notes on pages 28 to 94 are an integral part of these financial statements.

Consolidated statement of changes in equity

	Notes	Share capital	Share premium	Statutory reserve	Fair value reserve	Revaluation reserve	Currency translation reserve	Revenue reserve	Proposed dividend	Non-controlling interest	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
As at 1 January 2013 as previously reported		515,270	1,701,239	460,981	436,121	279,680	(32,749)	1,533,118	206,108	321,823	5,421,591
Net effect of change in accounting policy	2(xii)	-	-	(296,213)	(436,121)	(114,953)	-	99,974	-	(6,903)	(754,216)
Net effect of prior period adjustments	2(xii)	-	-	-	-	(70,530)	-	(42,614)	-	-	(113,144)
As at 1 January (Re-stated)		515,270	1,701,239	164,768	-	94,197	(32,749)	1,590,478	206,108	314,920	4,554,231
Total comprehensive income for the year		-	-	-	-	26,782	1,907	1,028,229	-	81,013	1,137,931
Profit for the year		-	-	-	-	-	-	1,024,907	-	81,013	1,105,920
Other comprehensive income:											
Recognition of deferred income tax on revaluation surplus		-	-	-	-	(11,478)	-	-	-	-	(11,478)
Foreign currency translation differences		-	-	-	-	-	1,907	3,322	-	-	5,229
Gain on revaluation of land and building	20	-	-	-	-	38260	-	-	-	-	38,260
Total other comprehensive income		-	-	-	-	26,782	1,907	3,322	-	-	32,011
Transfers to statutory reserve		-	-	11,412	-	-	-	(11,412)	-	-	-
Distributions:											
Dividend paid to owners of the parent interests		-	-	-	-	-	-	-	(206,108)	-	(206,108)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	(21,172)	(21,172)
Proposed dividend to controlling interests	17	-	(515,270)	-	-	-	-	-	515,270	-	-
Total contributions by and distributions to owners		-	-	11,412	-	-	-	(11,412)	(206,108)	(21,172)	(227,280)
As at 31 December 2013		515,270	1,185,969	176,180	-	120,979	(30,842)	2,607,295	515,270	374,761	5,464,882

The notes on pages 28 to 94 are an integral part of these financial statements.

Consolidated statement of changes in equity (continued)

	Notes	Share capital	Share premium	Statutory reserve	Fair value reserve	Revaluation reserve	Currency translation reserve	Revenue reserve	Proposed dividend	Non-controlling interest	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
As at 1 January 2012 as previously reported		515,270	1,701,239	253,983	70,994	225,471	(30,842)	1,117,187	-	300,781	4,154,083
Net effect of change in accounting policy	2(xii)	-	-	(144,711)	(70,994)	-	-	40,018	-	(14,066)	(189,753)
Net effect of prior period adjustments	2(xii)	-	-	-	-	(169,222)	-	(9,470)	-	-	(188,692)
As at 1 January (Re-stated)		515,270	1,701,239	109,272	-	56,249	(30,842)	1147,735	-	286,715	3,785,638
Total comprehensive income for the year		-	-	(147,940)	-	37,948	(1,907)	796,427	-	65,113	749,641
Profit for the year		-	-	-	-	-	-	801,911	-	55,938	857,849
Other comprehensive income:											
Recognition of deferred income tax on revaluation		-	-	(147,940)	-	(16,263)	-	-	-		(164,203)
Foreign currency translation differences		-	-	-	-	-	(1,907)	(5,484)	-	9,175	1,784
Gain on revaluation of land and building	20	-	-	-	-	54,211	-	-	-	-	54,211
Total other comprehensive income		-	-	(147,940)	-	37,948	(1,907)	(5,484)	-	9,175	(108,208)
Transfer to statutory reserves		-	-	203,436	-	-	-	(203,436)	-	-	-
Distributions											
Dividend paid to non-controlling interests		-	-	-	-	-	-	55,860	-	(36,908)	18,952
Proposed dividend	17	-	-	-	-	-	-	(206,108)	206,108	-	-
As at 31 December 2012		515,270	1,701,239	164,768	-	94,197	(32,749)	1,590,478	206,108	314,920	4,554,231

The notes on pages 28 to 94 are an integral part of these financial statements.

Company statement of changes in equity

Year ended 31 December 2013	Share capital	Share premium	Revenue reserve	Proposed dividend	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
As at 1 January 2013	515,270	1,701,239	696,911	206,108	3,119,528
Total comprehensive income for the year					
Profit for the year	-	-	155,601	-	155,601
Distribution to owners					
Dividend Paid	-		-	(206,108)	(206,108)
Proposed dividend to controlling interests	-	(515,270)	-	515,270	-
As at 31 December 2013	515,270	1,185,969	852,512	515,270	3,069,021
Year ended 31 December 2012	Share capital	Share premium	Revenue reserve	Proposed dividend	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
	515,270	1,701,239	513,917	-	2,730,426
As at 1 January 2013					
Total comprehensive income for the year	-	-	389,102	-	389,102
Profit for the year					
Distribution to owners	-	-	(206,108)	206,108	-
Dividend Paid					-
Proposed dividend to controlling interests	515,270	1,701,239	696,911	206,108	3,119,528
As at 31 December 2013	515,270	1,185,969	852,512	515,270	3,069,021

The notes on pages 28 to 94 are an integral part of these financial statements.

Consolidated statement of cash flows

		GROUP	
		31 December 2013	Restated 31 December 2012
	Notes	Shs'000	Shs'000
Cash generated from operations	31	1,011,348	5,663
Net interest received		1,869,917	1,692,278
Income tax paid		(376,310)	(178,541)
Net cash generated from operating activities		2,504,955	1,519,400
Investment in associate	13	(9,979)	-
Additions to investment property	21	-	(4,468)
Additions to property and equipment	20	(44,684)	(99,984)
Additions to intangible assets	22	(4,285)	(15,937)
Proceeds from the sale of equipment		-	26,093
Net investment in quoted shares		(747,729)	1,907,713
Net investment in unquoted shares		54,630	12,066
Net investment in government securities and corporate bonds		(460,234)	(1,323,623)
Net investment in loans and receivables		(251,745)	(30,212)
Proceeds from disposal of investments in Alliance Insurance		-	440,508
corporation ltd.		-	-
Dividend, rental and other income received		87,641	845,976
Cash flows (used in) /from investing activities		(1,376,385)	1,758,132
Cash flows used in financing activities		(707,076)	(131,827)
Dividend paid		(227,280)	(36,908)
Cash in borrowings and overdrafts		(479,796)	(94,919)
Net increase in cash and cash equivalents		421,494	3,145,705
Currency translation differences		(2,201)	(4,158)
Cash and cash equivalents at 1 January		6,033,693	2,892,146
Cash and cash equivalents at 31 December		6,452,983	6,033,693
Consolidated statement of cash flows			
		COMPANY	
		31 December 2013	Restated 31 December 2012
	Notes	Shs'000	Shs'000
Cash generated from/(used in) operations	31	668,486	(108,755)
Net cash generated from operating activities		668,486	(108,755)
Cash flows from/(used in) investing activities		668,486	(108,755)
Cash flows used in financing activities		(685,901)	(24,825)
Dividend paid		(206,105)	-
Cash in borrowings		(479,796)	(24,825)
Net (decrease) in cash and cash equivalents		(17,415)	(133,580)
Cash and cash equivalents at 1 January		54,638	188,218
Cash and cash equivalents at 31 December		37,223	54,638

The notes on pages 28 to 94 are an integral part of these financial statements.

1. General information

Liberty Kenya Holdings Limited is incorporated in Kenya under the companies Act as a limited liability Company, and is domiciled in Kenya. The address of its registered office is:

LR No 209/8592/2
CfC House, Mamlaka Road
P.O. Box 30390-00100
Nairobi

The Company was listed on the Nairobi Securities Exchange on 21 April 2011. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss in these financial statements.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below and relate to both the Company's and the Group's activities. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS.

(a) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.
Fair values are categorised into three levels of fair value hieracrchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety; See note 5 (h)

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3

(b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company and the Group

The following standards have been adopted by the Group for the first time in the financial year beginning on 1 January 2013 and have a material impact on the Group:

Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (re-classification adjustments). The amendment only affects presentation on the face of the statement of comprehensive income.

Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The impact has been increased disclosure in the financial statements.

Notes (Continued)

2. Summary of significant accounting policies (continued)

IFRS 10, 'Consolidated Financial Statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

(b) Changes in accounting policy and disclosures (continued)

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The impact of adopting IFRS 12 has been increased disclosures in the financial statements.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The adoption of IFRS 13 has increased the extent of fair value disclosures in the 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 CGUs which had been included in IAS 36 by the issue of IFRS 13. There are no other new or revised standards or interpretations issued and effective that would be expected to have a material impact on the Group.

(ii) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.
of and choices provided by the standard, comparative figures have not been restated.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Annual improvements 2010-2012 and 2011-2013 cycles – These are collections of 7 and 4 amendments to standards respectively as part of the IASB's programme to annual improvements.

2. Summary of significant accounting policies (continued)

c) Consolidation (continued)

The amendments are all effective for annual periods beginning on or after 1 July 2014 and the directors are currently assessing the impact of these improvements on their financial statements.

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

(c) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

The consolidated financial statements incorporate the financial statements of Liberty Kenya Holdings Limited and its subsidiaries; CfC Life Assurance Limited, CfC Investments Limited, The Heritage Insurance Company (Kenya) Limited, The Heritage Insurance Company (Tanzania) Limited and Azali Limited. The financial statements have been made up to 31 December 2013.

(i) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(ii) Disposal of subsidiaries

When the Group ceases to control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes

Notes (Continued)

2. Summary of significant accounting policies (continued)

c) Consolidation (continued)

of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) 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 by the equity method of accounting. Under the equity method, the investments are 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 as appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in 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 or loss of an associate' in the 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 from investments in associates are recognised in profit or loss.

(d) Insurance contracts

(i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. See accounting policy for these contracts under 2(f). Insurance contracts and investment contracts are classified into two main categories depending on the duration of risk and as per the provisions of the Insurance Act

Long term insurance business

Long-term insurance business includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business, industrial life assurance business, bond investment business and business incidental to any such class of business.

Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of a liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the

2. Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract, and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life; Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, group life and permanent health insurance policy.

General insurance business

It is insurance business of any class or classes that is not long term insurance business. Classes of general Insurance include Engineering insurance, Fire insurance – domestic risks, Fire insurance – industrial and commercial risks, Liability insurance, Marine insurance, Motor insurance – private vehicles, Motor insurance – commercial vehicles, Personal accident insurance, Theft insurance, Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.

Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class. It also includes business of effecting and carrying out contracts of insurance against risk of persons insured incurring medical expenses.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business, damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

(ii) Recognition and measurement

a) Premium income

For long term insurance business, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. For general insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the un expired terms of policies in force at the financial reporting date, and is computed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

b) Claims

For long term insurance business, benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Notes (Continued)

2. Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of un expired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts.

For general insurance business, 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 financial 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.

c) Commissions earned and payable and deferred acquisition costs ("DAC")

Commissions earned and payable are recognised in the period in which relevant premiums are written. A proportion of commissions' payable is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

d) Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss as part of claims incurred.

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

e) Reinsurance contracts held

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsures, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsures are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

f) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial

g) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a

2. Summary of significant accounting policies (continued)

(e) Functional currency and translation of foreign currencies (continued)

claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

(e) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The consolidated financial statements are presented in 'Kenyan Shillings (Shs) rounded to the nearest thousand, which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as financial assets through other comprehensive income, are included in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(f) Revenue recognition

(i) Insurance premium revenue

The revenue recognition policy relating to insurance contracts is set out under note (c) above

Notes (Continued)

2. Summary of significant accounting policies (continued)

(f) Revenue recognition (continued)

(ii) Commissions

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

(iii) Rendering of services

Revenue arising from asset management and other related services offered by the Group are recognised in the accounting period in which the services are rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument.

These services comprise the activity of trading financial assets in order to reproduce the contractual returns that the Group's customers expect to receive from their investments. Such activities generate revenue that is recognised by reference to the stage of completion of the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Group recognises these fees on a straight-line basis over the estimated life of the contract. Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid.

The Group charges its customers for asset management and other related services using the following different approaches:

Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period; fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

(iv) Interest income

Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognised within 'investment income' (Note 7) in the profit or loss using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(v) Dividend income

Dividend income for equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

(vi) Rental income

Rental income is recognized as income in the period in which it is earned. All investment income is stated net of investment expenses.

(vii) Realised / unrealised gains and losses

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

(g) Investment contracts

The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate). The investment contracts include funds administered for a number of retirement benefit schemes

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets (these contracts are also known as unit-linked investment contracts) and are designated at inception as at fair value through profit or loss. The Group designates these investment contracts to be measured at fair value through profit and loss because it eliminates or

2. Summary of significant accounting policies (continued)

(g) Investment contracts (continued)

significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (i.e. the fair value received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit on day 1. The Group has not recognised any profit on initial measurement of these investment contracts because the difference is attributed to the prepayment liability recognised for the future investment management services that the Group will render to each contract holder.

The Group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. The fair value of financial liabilities for investment contracts without fixed terms is determined using the current unit values in which the contractual benefits are denominated. These unit values reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each contract holder at the financial reporting date by the unit value for the same date.

When the investment contract has an embedded put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable. For investment contracts with fixed and guaranteed terms, the amortised cost basis is used. In this case, the liability is initially measured at its fair value less transaction costs that are incremental and directly attributable to the acquisition or issue of the contract.

Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Group re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

(h) Property and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	The shorter of the lease period
Leasehold Buildings	or 50 years
Furniture and fittings	10 years
Motor vehicles	3 - 5 years
Computers and office equipment	4 - 5 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and

Notes (Continued)

2. Summary of significant accounting policies (continued)

(h) Property and equipment (continued)

maintenance are charged to the profit or loss during the financial period in which they are incurred.

Property and equipment are reviewed annually for impairment. 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 proceeds with the carrying amounts and are taken into account in determining operating profit. Buildings are revalued on an annual basis with the change credited/debited to revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserves.

On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

(i) Intangible assets

(i) Computer software

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.
Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed seven years.

(ii) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates. It represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(j) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or

2. Summary of significant accounting policies (continued)

(h) Investment property (continued)

changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

(k) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and which are not occupied by the Group are classified as investment property. Investment property is treated as a long term investment and is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in investment income in the profit or loss. Land held under operating lease is classified and accounted for as investment property if and only if the property meets the definition of an investment property.

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

Properties under construction and development sites with projected use as investment properties are valued at projected fair values taking into account current market conditions, outstanding investment costs and a risk loading according to the progress of the project

(l) Financial instruments

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

a. Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held-for-trading. Financial assets are designated at fair value through profit or loss when:

a) Doing so significantly reduces or eliminates a measurement inconsistency; or
b) They form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

These assets are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments and realised gain and loss are recognised in the income statements

Financial assets at fair value through profit or loss comprise quoted shares, government securities commercial paper and corporate bonds.

b. Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as held for trading and those that the Group on initial recognition designates as at fair value through profit or loss; (b) those that the Group upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

The Group's receivables out of direct insurance and reinsurance arrangements, mortgage loans, loans to policy holders, deposits with financial institutions under the cash category, reinsurer's share of insurance liabilities, receivables from related parties and other receivables are classified in this category. The assets in this category had a total carrying value

Notes (Continued)

2. Summary of significant accounting policies (continued)

(l) Financial instruments (continued)

of Shs.5,911,287,000 as at 31 December 2011, Shs 11,134,000 as at 31 December 2012. The Company's assets in this category at the end of the year were Shs 13,387,000

c. Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

Certain investments in government securities and corporate bonds are classified in this category. The assets in this category had a total carrying value of Shs 7,731,000 at the financial reporting date of 31 December 2012. The Company's assets in this category at the end of the year were Shs 6,495,000.

(i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an

intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(i) Recognition, de-recognition and measurement

Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership
Loans, advances and receivables and held to maturity financial assets are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

Fair values of quoted investments in active markets are based on current bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment

d. Financial liabilities

All the Group's financial liabilities are measured at amortised cost. These include payables under deposit administration and creditors arising from reinsurance arrangements. Financial liabilities are initially measured at fair value and subsequently at amortised cost. Financial liabilities are derecognised when extinguished

e. Impairment of financial assets

a) significant financial difficulty of the borrower;
b) a breach of contract, such as default or delinquency in interest or principal repayments;
c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties;
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- Adverse changes in the payment status of borrowers in the group; or
- National or local economic conditions that correlate with defaults on the assets in the group; or

g) Significant or prolonged decline in the fair value of investments in equity instruments below their cost.

2. Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio.

h) Assets carried at amortised cost

The Company assesses whether objective evidence of impairment exists for individual financial assets.

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

If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instruments fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may

result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(ii) Re-negotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

(iii) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(iv) Employee benefits

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 financial reporting date.

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

(v) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at

Notes (Continued)

2. Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

the reporting date and are expected to apply when the related deferred income 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 the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(vi) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their

expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(vii) Dividends

Dividends payable to the Group's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(viii) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds net of tax.

(m) Re-statements

(i) Insurance contract liabilities, Payable under Deposit administration contracts and Financial assets

Liberty Kenya Holdings Ltd (LKH) changed the accounting basis of valuation of the policyholders insurance liabilities from the Net Premium Valuation (NPV) basis to Gross Premium Valuation (GPV) to aligning this to Group's accounting policies. In making the policy change LKH has taken advantage of the provisions in IFRS 4 Insurance Contracts which allow an entity to reclassify the basis of measurement of its financial instruments. Financial instruments which were previously classified as available for sale were reclassified to financial assets through profit or loss. This was done so as to match the movements in policyholder liabilities with the fair value movements in corresponding financial assets at fair value through profit or loss. The impact of this policy change has been accounted for retrospectively in line with IAS 8 Accounting policies, changes in accounting estimates and errors and is shown on the summary of adjustments below.

(ii) Income tax expense

During the year LKH adopted the Group policy to recognise deferred income tax on the undistributed portion of the life fund surplus. The impact has been accounted for retrospectively in line with IAS 8 Accounting policies, changes in accounting estimates and errors. The overall impact on the current and prior years statement of profit or loss and statement of financial position is shown on the summary of adjustments.

2. Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

(iii) Reclassification of revaluation reserves

Revaluation reserves that related to disposed property have been subsequently been released to retained earnings to align with correct accounting treatment Shs 170 million. The reclassification has been accounted for in line with IAS 8 Accounting policies, changes in accounting estimates and errors.

(iv) Income builder adjustments

As part of LKH's process of internal reviews the actuaries identified that the income builder investment product that provides for dividend to be issue on the 10th anniversary had not been properly set-up. Dividends on this product were omitted understating the policyholder liabilities by Shs 80 million. Due to information limitations the actuaries are unable the split the impact beyond 2011. The directors have hence presented the cumulative impact in 2012 in line provisions of IAS 8 Accounting policies, changes in accounting estimates and errors. Refer to summary of adjustments below;

(v) Deposit administration adjustments

The deposit administration liabilities as at 31 December 2012 were understated by Shs 113 million due to system limitations where certain liabilities had been omitted. The misstatement was identified as part of the enhancement of systems and processes during 2013. The impact which is limited to the 2012 financial statements has been accounted for in line with IAS 8 Accounting policies, changes in accounting estimates and errors as shown in the table below;

Statement of financial position	As previously stated - 1 January 2012	Insurance contracts (refer to (i))	Deferred tax (refer to (iii))	Income tax (refer to (ii))	Revaluation reserve (refer to (iii))	Income builder (refer to (iv))	Deposit administration (refer to (v))	Restated - 1 Janaury 2012
Ordinary share capital	515,270							515,270
Share premium	1,701,239							1,701,239
Revenue reserve	1,117,187	529,319			(276,504)	(80,000)	(62,267)	1,227,735
Proposed dividend	-							-
Other reserves	519,606		(242,142)	(71,791)	(70,994)			134,679
Equity attributable to equity holders	3,853,302	529,319	(242,142)	(71,791)	(347,498)	(80,000)	(62,267)	3,578,923
Non-controlling interests	300,781				(14,066)			286,715
Total equity	4,154,083	529,319	(242,142)	(71,791)	(361,564)	(80,000)	(62,267)	3,865,638
REPRESENTED BY:								
Assets								
Property and equity	1,056,551							1,056,551
Intangibles assets	119,966							119,966
Goodwill	1,254,995							1,254,995
Investment property	623,553							623,553
Investment in associates	355,400							355,400
Financial investments	14,318,337				(361,564)			13,956,773
Receivable arising from reinsurance	216,266							216,266
Receivable arising from direct insurance	740,559							740,559
Reinsurers' share of insurance liabilities	2,117,135							2,117,135
Deferred acquisition costs	137,510							137,510
Other receivables	347,640							347,640
Deferred income tax	37,400							37,400
Current income tax	103,447			(63,564)				39,883
Cash and cash equivalents	2,892,146							2,892,146
Total assets	24,320,905	-		(63,564)	(361,564)	-	-	23,895,777
Insurance contract	6,689,312	(529,319)				80,000		6,239,993
Deposit administration liabilities	9,237,855						62267	9,300,122
Unearned premium reserve	2,242,031							2,242,031
Creditors arising from direct insurance	73,094							73,094
Creditors arising from reinsurance	475,480							475,480
Deferred acquisition	77,867							77,867
Other liabilities	763,495		70,530					834,025
Deferred income tax			171,612	1,262				172,874
Current income tax	32,976			6,965				39,941
Bank overdraft	70,091							70,091
Borrowings	504,621							504,621
Total liabilities	20,166,822	(529,319)	242,142	8,227	-	80,000	62,267	20,030,139
Net Assets	4,154,083	529,319	(242,142)	(71,791)	(361,564)	(80,000)	(62,267)	3,865,638

Statement of financial position	As previously stated - 31 December 2012	Insurance contracts (refer to (i))	Deferred tax (refer to (iii))	Income tax (refer to (ii))	Revaluation reserve (refer to (iii))	Income builder (refer to (iv))	Deposit administration (refer to (v))	Restated -31 December 2012
Ordinary share capital	515,270							515,270
Share premium	1,701,239							1,701,239
Revenue reserve	1,533,117	95,724			402,861	(80,000)	(361,224)	1,590,478
Proposed dividend	206,108							206,108
Other reserves	1,144,036		(409,907)	(71,792)	(436,121)			226,216
Equity attributable to equity holders	5,099,770	95,724	(409,907)	(71,792)	(33,260)	(80,000)	(361,224)	4,239,311
Non-controlling interests	321,801				(6,881)			314,920
Total equity	5,421,571	95,724	(409,907)	(71,792)	(40,141)	(80,000)	(361,224)	4,554,231
REPRESENTED BY:								
Assets								
Property and equity	1,097,599							1,097,599
Intangibles assets	67,494							67,494
Goodwill	1,254,995							1,254,995
Investment property	710,449							710,449
Investment in associates	61,948							61,948
Investment in subsidiaries								
Financial investments	14,123,955				(40,141)			14,083,814
Receivable arising from reinsurance	224,848							224,848
Receivable arising from direct insurance	662,212							662,212
Reinsurers' share of insurance liabilities	2,040,892							2,040,892
Deferred acquisition costs	95,219							95,219
Other receivables	988,818							988,818
Deferred income tax	50,119							50,119
Current income tax	28,885			(28,885)				-
Cash and cash equivalents	6,033,693							6,033,693
Total assets	27,441,126	-	-	(28,885)	(40,141)	-	-	27,372,100
Insurance contract	7,538,842	(95,724)				80,000		7,523,118
Deposit administration liabilities	10,104,275						361,224	10,465,499
Unearned premium reserve	2,325,273							2,325,273
Creditors arising from direct insurance	45,411							45,411
Creditors arising from reinsurance	354,671							354,671
Deferred acquisition	82,829							82,829
Other liabilities	960,380		70,530					1,030,910
Deferred income tax			339,377	1,359				340,736
Current income tax	128,078			41,548				169,626
Bank overdraft								
Borrowings	479,796							479,796
Total liabilities	22,019,555	(95,724)	409,907	42,907	-	80,000	361,224	22,817,869
Net Assets	5,421,571	95,724	(409,907)	(71,792)	(40,141)	(80,000)	(361,224)	4,554,231

	31 December As previously reported Shs '000	Insurance contracts (refer to (i)) Shs '000	GPV Liabilities (refer to (i)) Shs '000	DA Restatement (refer to (v)) Shs '000	31 December 2012 Restated Shs '000
Gross earned premium revenue	6,953,842				6,953,842
Less: Outward reinsurance	(2,971,456)				(2,971,456)
Net insurance premium revenue	3,982,386	-	-	-	3,982,386
	3,478,478	588,535	-	-	4,067,013
Commissions earned	660,441				660,441
Investment income	2,591,896	588,535			3,180,431
Administration fees	13,292				13,292
Other income	212,849				212,849
Total income	7,460,864	588,535	-	-	8,049,399
Claims and policyholder benefits payable	(3,337,436)		(194,362)	(113,141)	(3,644,939)
Change in insurance contract liabilities	(480,031)		(353,596)		(833,627)
Amounts recoverable from reinsurers	708,545				708,545
Net insurance benefits and claims	(3,108,922)	-	(547,958)	(113,141)	(3,770,021)
Total expenses and commissions	(3,137,549)	-	-	-	(3,137,549)
Commissions payable	(892,089)				(892,089)
Acquisition costs	-				-
Finance costs	(95,179)				(95,179)
Other operating expenses	(2,150,281)				(2,150,281)
Result of operating activities	1,214,393	588,535	(547,958)	(113,141)	1,141,829
Earnings from associates	23,704				23,704
Profit before income tax	1,238,097	588,535	(547,958)	(113,141)	1,165,533
Income tax expense	(316,230)				(316,230)
Profit for the year	921,867	588,535	(547,958)	(113,141)	849,303
Attributable to :					
Owners of the parent	819,615	(17,704)			801,911
Non-controlling interest	67,056	(11,118)			55,938
	886,671	(28,822)	-	-	857,849
Basic and diluted earnings per share (Shs)	1.72				1.66

	2012 As previously reported Shs '000	Revaluation reserve Shs '000	GPV Liabilities Shs '000	DA Restatement Shs '000	Deferred Tax Shs '000	Restated 2012 Shs '000
Profit for the year	921,864	588,535	(539,409)	(113,141)	-	857,849
Other comprehensive income/(expenses) (net of tax):						
Foreign currency translation operations	18,951	(17,167)	-	-	-	1,784
Gain on fair valuation of available - for- sale financial assets	305,495	(305,495)	-	-	-	-
Impairment loss on Available -For-Sale equity securities charged through the income statement investments	18,259	(18,259)	-	-	-	-
Recognition of deferred income on revaluation gain	-	-	-	-	(164,203)	(164,203)
Gains on property revaluations	54,211	-	-	-	-	54,211
Share of associate's fair value reserve	317	(317)	-	-	-	-
Total comprehensive income for the year	1,319,097	247,297	(539,409)	(113,141)	(164,203)	749,641
Total comprehensive income attributable to:						
Equity holders of parent	1,261,617	239,684	(539,409)	(113,141)	(164,203)	684,548
Non- controlling interest	57,500	7,613	-	-	-	65,113

Notes (Continued)

Year ended 31 December 2013

On the statement of profit or loss, statement of financial position and statement of changes in equity

The accounting policy changes and adjustment to prior periods have no impact on the financial statements for the year ended 31 December 2013

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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.

a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 h(ij). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 18.

b) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting date. The Group has used a discounted cash flow analysis for various financial assets that are not traded in active markets.

c) Income taxes

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

d) The classification of financial investments

In applying the Groups accounting policies, management has made judgement in determining the classification of financial investments as held-to-maturity, available for sale and loans and receivables in line with IAS 39. The classifications require judgement of the Group's ability and intention to hold the investments to maturity.

e) Insurance contract liabilities

It is the statutory requirement in Kenya that the insurance contract liabilities are calculated on the statutory Net Present Valuation (NPV) basis. The NPV is intended to measure the solvency of the life operation on a stable basis and examines the business from the point of view of premiums that are net of standard expense allowances the value of future net premium is compared with the cost of providing contractual policyholder benefits over the duration of the policy. When performing the liability adequacy test, all classes for which undiscounted liabilities were calculated, a discounted cash flow model was created based on the "best estimate" assumptions. Prudent margins are added to these to project cash flows. These are then discounted at the valuation interest rate.

f) Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business, while Group specific tables are used for larger classes. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk.

g) Insurance contract liabilities

The Group bases these estimates on standard mortality tables that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums.

The main source of uncertainty is that epidemics such as AIDS could result in future mortality being

3. Critical accounting estimates and judgements in applying accounting policies (continued)

significantly worse than in the past for the age Groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk.

For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

An investigation into mortality experience is performed annually. The period investigation extends over the latest three full years for larger classes of business. Investigations relating to smaller classes usually extend over five years in order to gain sufficient credibility of the data. The results of the investigation are used to set the valuation assumptions, which are taken as an adjustment to the respective standard table.

In setting the assumptions, provision is made for the expected increase in AIDS-related claims. In general, Actuarial Society of South Africa (ASSA) models are used to allow AIDS-related claims. The practice differs by class of business, however for major classes of business, a basic allowance for AIDS related deaths is included in the base mortality rates against which annual mortality investigations are conducted. A further discretionary margin is then held using the ASSA2000 lie model.

(i) Morbidity

The incidence of disability claims is derived from industry experience studies, adjusted where appropriate for Group Companies own experience. The same is true for the incidence of recovery from disability.

(ii) Medical

The incidence of medical claims is derived from the risk premium rates determined from annual investigations. This is adjusted where appropriate to allow for the future expected experience.

(iii) Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal rates are analysed by product type and policy duration. These withdrawal rates vary considerably by duration and policy term. Typically the rates are higher for risk type products versus investment type products, and are higher at early durations.

(iv) Correlation

No correlations between assumptions are allowed for.

3. Segmental reporting

The Group is currently organised in line with the Insurance Act which classifies insurance and investment contracts into two main categories (long-term and general) depending on the duration of risk.

The results of the business units are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance.

The Group is required to produce segmented financial statements i.e. profit or loss and statement of financial position in compliance with IFRS 8.

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Identification of segments and the measurement of segment result is based on the Group's internal reporting to management.

The geographical spread (across borders) is also used as a part of performance analysis.

a) Long term insurance business

Includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business, industrial life assurance business and bond investment business and business incidental to any such class of business;

Notes (Continued)

3. Segmental reporting (continued)

a) Long term business (continued)

Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract), and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life;

Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, Group life and permanent health insurance policy.

b) General insurance business

Includes insurance business of any class or classes not being long term insurance business. Classes of General Insurance include Aviation insurance, Engineering insurance, Fire insurance - domestic risks, Fire insurance - industrial and commercial risks, Liability insurance, Marine Insurance, Motor insurance - private vehicles , Motor insurance - commercial vehicles, Personal accident insurance, Theft insurance ,Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.

Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

c) Major Customers

The Group does not have any one major customer that contributes more than 10 percent of its revenues

3. Segmental reporting (continued)

Results by business units

	December 2013		
	Long term business Shs '000	General business Shs '000	Total Shs '000
Net insurance premium revenue	1,474,498	2,592,630	4,067,128
Commissions earned	91,426	566,066	657,492
Investment income	2,028,137	601,382	2,629,519
Administration fees	15,899	(2)	15,897
Other income	-	8,574	8,574
	2,135,462	1,176,020	3,311,482
Total income	3,609,959	3,768,651	7,378,610
Net insurance benefits and claims	(2,020,233)	(1,056,608)	(3,076,841)
Total expenses and commissions	(1,153,089)	(1,842,431)	(2,995,520)
Results of operating activities	436,637	869,612	1,306,249
Earnings from associate	-	(7,387)	(7,387)
Profit before income tax	436,637	862,225	1,298,862
Income tax expense	(20,176)	(172,766)	(192,942)
Profit for the year	416,461	689,459	1,105,920
Total Assets	20,281,921	11,170,269	31,452,190
Property and equipment	658,930	425,971	1,084,901
Intangible assets	48,254	3,722	51,976
Investment property	898,000	(55,800)	842,200
Financial investments	13,271,235	2,677,841	15,949,076
Reinsurers' share of insurance liabilities	109,857	3,712,247	3,822,104
Total Liabilities	18,760,111	7,227,197	25,987,308
Insurance contract liabilities	6,558,520	3,762,407	10,320,927
Payable under deposit administration contracts	11,103,758	(1)	11,103,757
Unearned premium reserves	118,709	2,545,845	2,664,554
Additions to property and equipment	20,265	24,419	44,684
Additions to intangible assets	2,092	2,193	4,285

Notes (Continued)

4) Segmental reporting (continued)
Results by business units (Continued)

	December 2012		
	Long term business Shs '000	General business Shs '000	Total Shs '000
Net insurance premium revenue	1,328,435	2,653,951	3,982,386
Commissions earned	64,526	595,915	660,441
Investment income	2,171,087	1,009,344	3,180,431
Administration fees	13,292	-	13,292
Other income	-	212,849	212,849
	2,248,905	1,818,108	4,067,013
Total income	3,577,340	4,472,059	8,049,399
Net insurance benefits and claims	(2,452,475)	(1,309,000)	(3,761,475)
Total expenses and commissions	(1,096,232)	(2,041,317)	(3,137,549)
Results of operating activities	28,633	1,121,742	1,150,375
Earnings from associate	-	23,704	23,704
Profit before income tax	28,633	1,145,446	1,174,079
Income tax expense	(47,279)	(268,951)	(316,230)
Profit for the year	(18,646)	876,495	857,849
Total Assets	18,064,133	9,307,967	27,372,100
Property and equipment	660,922	436,677	1,097,599
Intangible assets	63,180	4,314	67,494
Investment property	428,449	282,000	710,449
Financial investments	11,190,817	2,892,997	14,083,814
Reinsurers' share of insurance liabilities	130,506	1,910,386	2,040,892
Total Liabilities	16,885,566	5,932,303	22,817,869
Insurance contract liabilities	5,338,000	2,185,118	7,523,118
Payable under deposit administration contracts	10,465,499	-	10,465,499
Unearned premium reserves	45,296	2,279,977	2,325,273
Borrowings	-	479,796	479,796
Additions to property and equipment	74,688	25,296	99,984
Additions to intangible assets	13,909	2,028	15,937

4) Segmental reporting (continued)

Results by geographical spread

The Tanzania subsidiary contributes approximately 18.3% of the Group's consolidated income.

	December 2013		
	Kenya business Shs '000	Tanzania business Shs '000	Total Shs '000
Net insurance premium revenue	3,402,096	665,032	4,067,128
Commissions earned	474,879	182,613	657,492
Investment income	2,402,345	227,174	2,629,519
Administration fees	15,897	-	15,897
Other income	2,456	6,118	8,574
	2,895,577	415,905	3,311,482
Total income	6,297,673	1,080,937	7,378,610
Net insurance benefits and claims	(2,730,662)	(346,179)	(3,076,841)
Total expenses and commissions	(2,468,377)	(527,143)	(2,995,520)
Results of operating activities	1,098,634	207,615	1,306,249
Earnings from associate	-	(7,387)	(7,387)
Profit before income tax	1,098,634	200,228	1,298,862
Income tax expense	(195,246)	2,304	(192,942)
Profit for the year	903,388	202,532	1,105,920
Total Assets	26,211,010	5,241,180	31,452,190
Property and equipment	1,078,339	6,562	1,084,901
Intangible assets	51,976	-	51,976
Investment property	842,200	-	842,200
Financial investments	15,456,123	492,953	15,949,076
Reinsurers' share of insurance liabilities	940,252	2,881,852	3,822,104
Total Liabilities	21,683,032	4,304,276	25,987,308
Insurance contract liabilities	7,676,812	2,644,115	10,320,927
Payable under deposit administration contracts	11,103,757	-	11,103,757
Unearned premium reserves	1,616,211	1,048,343	2,664,554
Additions to property and equipment	42,588	2,096	44,684
Additions to intangible assets	4,285	-	4,285
Additions to intangible assets	13,909	2,028	15,937

Notes (Continued)

4) Segmental reporting (continued)

Results by geographical spread (Continued)

The Tanzania subsidiary contributes approximately 18.9% of the Group's consolidated income.

	December 2012		
	Kenya business Shs '000	Tanzania business Shs '000	Total Shs '000
Net insurance premium revenue	3,408,824	573,562	3,982,386
	3,608,302	458,711	4,067,013
Commissions earned	462,996	197,445	660,441
Investment income	3,119,414	61,017	3,180,431
Administration fees	13,292	-	13,292
Other income	12,600	200,249	212,849
Total income	7,017,126	1,032,273	8,049,399
Net insurance benefits and claims	(3,470,853)	(290,622)	(3,761,475)
Total expenses and commissions	(2,661,967)	(475,582)	(3,137,549)
Results of operating activities	884,306	266,069	1,150,375
Earnings from associate	-	23,704	23,704
Profit before income tax	884,306	289,773	1,174,079
Income tax expense	(166,301)	(149,929)	(316,230)
Profit for the year	718,005	139,844	857,849
Total Assets	24,143,508	3,229,591	27,373,100
Property and equipment	1,085,880	11,719	1,097,599
Intangible assets	67,224	270	67,494
Investment property	710,449	-	710,449
Financial investments	13,500,017	583,797	14,083,814
Reinsurers' share of insurance liabilities	909,534	1,131,358	2,040,892
Total Liabilities	20,375,533	2,442,336	22,817,869
Insurance contract liabilities	5,338,000	2,185,118	7,523,118
Payable under deposit administration contracts	10,465,499	-	10,465,499
Unearned premium reserves	1,432,543	892,730	2,325,273
Borrowings	479,796	-	479,796
Additions to property and equipment	92,511	7,473	99,984
Additions to intangible assets	15,937	-	15,937

4. Management of Insurance and Financial risk

Liberty Kenya Holdings Limited (the Group) offers a comprehensive range of financial products and services to the retail and corporate markets, distributing tailored risk, insurance, investment, retirement and health products through its network. The Group is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of these products and services. The Group is mindful of achieving this objective in the interests of all stakeholders. The Group continues to explore opportunities to develop and grow its business organically, with strategic plans being subject to careful consideration of the trade-off between risk and reward, taking into account the risk appetite limits approved by the board.

The Group's main value creation activities can be summarised into the following categories:

1. Providing risk cover – Liberty Kenya Holdings Limited's core competency is to understand the life, health and asset related risk needs of individuals and Groups, and design sustainable products that provide financial security to policyholders and their families in times of death, sickness or ill health, disability and other losses.
2. Providing asset management services – primarily through its subsidiaries, the Group uses its financial skills to provide competitive investment products and investment advice to a broad range of customers.
3. Assuming market risk – through the management of assets backing shareholder funds and of exposures arising from asset-liability mismatches which the Group wishes to retain.

Ultimate responsibility for risk management resides with the Board which ensures that all business unit executives are responsible and are held accountable for risk management within the subsidiaries. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types.

a) Risk management objectives

The Group's key risk management objectives are to:

- Grow shareholder value by generating a long-term sustainable return on capital;
- Ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;
- Meet the statutory requirements of the Kenyan Insurance Act, and other regulators; and
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis.

The management of risks is currently focused on managing shareholder exposures within strategic limits whilst ensuring sufficient allocation of capital on both a regulatory and economic capital basis given the limits in place.

b) Capital management

The capital management strategy seeks to ensure that the Group is adequately capitalised to support the risks assumed by the Group in accordance with the Group's risk appetite. It further seeks to fund working capital and strategic requirements, thereby protecting policyholder and customer interests while optimising shareholder risk adjusted returns and delivering in accordance with the Group's dividend policy.

Due to varying requirements of different stakeholders, the Group reports and manages capital on a number of different bases. The capital management process ensures that the Group's available capital exceeds the capital required both currently and going forward and to ensure that the Group has unfettered access to its capital at all times to meet its requirements.

(i) Company

The Company's objective in capital management is to safeguard the Company's ability to continue as going concern in order to provide returns for share holders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or

Notes (Continued)

5 Management of Insurance and Financial risk (Continued)

b) Capital management (continued)

adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

Total capital is calculated as equity plus net debt.

	COMPANY		
	2013 Shs '000	2012 Shs '000	2011 Shs '000
Total borrowings	170,535	637,443	660,125
Due from group companies (Note 33)	(115,389)	(124,054)	(124,054)
Net borrowings	55,146	513,389	536,071
Less: cash and cash equivalents (Note 24)	(37,223)	(54,638)	(188,218)
Net debt	17,923	458,751	347,853
Total equity	3,069,021	3,119,528	2,730,426
Gearing ratio	0.58%	14.71%	12.74%

(ii) Group

The Board of Directors at the subsidiary Companies are responsible for monitoring and ensuring compliance with the regulatory framework as established by the Kenyan and Tanzanian Insurance Regulatory Authorities.

The subsidiaries are regulated by the Kenyan Insurance Act, the Tanzanian Insurance Act, Companies Act, Retirement Benefit Authority and Insurance Regulatory Authority. The objectives when managing capital are to:

- Comply with the capital requirements as set out in the Insurance Act;
- Comply with regulatory solvency requirements as set out in the Insurance Act.
- Safeguard the companies' ability to continue as going concerns, so that they can continue to provide returns to shareholders and benefits for other stakeholders; and
- Provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

(iii) The Kenyan Insurance Act requires each insurance Company to hold the minimum level of paid up capital as follows;

	Regulatory requirement Shs' 000	CfC Life Assurance Limited Shs' 000	Heritage Insurance (Kenya) Shs' 000
General insurance business	300,000	-	500,000
Long-term insurance business	150,000	612,340	-

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.

5. Management of Insurance and Financial risk (Continued)

b) Capital management (continued)

Long-term 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 5% of total admitted liabilities.

- The Tanzanian Insurance Act requires each insurance Company to hold the minimum level of paid up capital as follows;
- Composite insurance companies TShs 1,000 million
- General insurance business companies TShs 500 million and
- Long term insurance business companies TShs 500 million

As at year end, the Heritage Insurance Company (T) Limited had a total of number 100,00 ordinary shares with a par value of Tsh. 100,00 of which 60,000 share capital were issued and fully paid. (2012: 60,000 with a par value of Tshs 100,000each) This was in excess of the minimum requirement.

(iv) Solvency margin

The solvency margins of the subsidiaries as at 31 December 2013 and 31 December 2012 are set out below:

CfC Life Assurance Limited	**Long-term business 2013 Shs' 000**	**Long-term business 2012 Shs' 000**	**Long-term business 2011 Shs' 000**
Admitted assets	20,148,496	17,831,680	12,788,518
Admitted liabilities	(18,606,461)	(16,755,441)	(12,053,934)
Solvency margin	**1,542,035**	**1,076,239**	**734,584**
Required margin	**930,323**	**937,772**	**602,697**
Heritage Insurance Company Kenya Limited	**Short-term business 2013 Shs' 000**	**Short-term business 2012 Shs' 000**	**Short-term business 2011 Shs' 000**
Total admitted assets	4,113,284	4,229,219	5,045,921
Total admitted liabilities	(2,867,936)	(2,968,364)	(4,395,391)
Add: 5% of admitted liabilities		-	(81,209)
Add: 15% of previous year's net written premium	(315,327)	(356,444)	(272,261)
Total liabilities and minimum requirement	(3,183,263)	(3,324,808)	(4,748,861)
Solvency margin	930,021	904,411	297,060
Required margin	315,327	356,444	191,052
Heritage Insurance Company Tanzania Limited	**Short-term business 2013 Shs' 000**	**Short-term business 2012 Shs' 000**	**Short-term business 2011 Shs' 000**
Total admitted assets	1,702,871	1,557,820	1,511,845
Total admitted liabilities	(1,336,297)	(1,229,626)	(1,255,572)
Add: 15% of previous year's net written premium	(139,822)	(121,176)	(114,571)
Total liabilities and minimum requirement	(1,476,119)	(1,350,802)	(1,370,143)
Solvency margin	226,752	207,018	141,702
Required margin	139,822	121,176	114,571

Notes (Continued)

5. Management of Insurance and Financial risk (Continued)

c) Credit risk

Definition

Credit risk refers to the risk of loss or of adverse change in the financial position resulting, directly or indirectly from fluctuations in the credit standing of counterparties and any debtors to which shareholders and policyholders are exposed. Credit risk is a function of exposure at default and probability of default and comprises default, settlement and spread risk.

- Default risk is the risk of credit loss as a result of failure by counterparty to meet its financial and/or contractual obligations. It has three components:
- \- Issuer risk: the exposure at default (EAD) arising from traded credit products.
- \- Primary credit risk: the EAD arising from lending and related product activities. Primary credit risk generally refers to non-tradable, illiquid or hold-to-maturity credit risk.
- Settlement risk is the risk of loss from a transaction settlement, where value is exchanged, failing which the counter value is not received in whole or part.
- Spread risk (also known as credit migration risk) is the result of changes to spreads due to changing circumstances (micro and macro). It is the risk that a portfolio or counterparty's credit quality will materially deteriorate over time without allowing for a reprising of the exposure to compensate for the higher probability of default risk being carried.

Key activities that result in the origination of credit risk are:

- financial asset instruments including debt instruments (including bonds, loans and term deposits and investment policies);
- reinsurance assets including amounts due from reinsurers in respect of claims already paid;
- certain debtor accounts within the financial position categories of prepayments, insurance and other receivables;
- rental due where tenants have signed lease contracts for space within the Group's investment properties;and
- Cash and cash equivalents.

Counterparty types to which the Group is exposed to credit risk include sovereigns (governments), state owned enterprises, financial institutions and corporate entities. In addition, the Group is also exposed to credit risk through investment in securitisation issuance, mutual funds and investment policies.

Reinsurance assets

Reinsurance is used to manage insurance risk and consequently, in the liability valuation process, reinsurance assets are raised for expected recoveries on projected claims. This does not, however, discharge the Group's liability as primary insurer. In addition, reinsurance debtors are raised for specific recoveries on claims recognised.

Creditworthiness is assessed when appointing reinsurers. Financial position strength, performance, track record, relative size and ranking within the industry and credit ratings of reinsurers are taken into account when determining the allocation of business to reinsurers. Credit exposure to reinsurers is also limited through the use of several reinsurers. A review of these reinsurers is continuously done.

Furthermore to mitigate credit exposures to reinsurers, reassurance management performs the following annual checks on reinsurers:

- Copies of reinsurers' claim paying abilities, as assessed by reputable rating agencies, and copies of valuators' certificates are obtained and analysed;
- Meetings and administration process audits are conducted with reinsurers with whom the Group has larger exposures; and
- Reinsurance agreements are reviewed and amended as appropriate with accurate and complete records kept up to date.

Insurance and other receivables

The Group has formalised procedures in place to collect or recover amounts receivable. In the event of default, these procedures include industry supported lists that help to prevent rogue agents, brokers and intermediaries from conducting further business with Liberty Kenya Holdings Limited. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

5. Management of Insurance, operational and financial risk (Continued)

c) Credit risk (continued)

Credit assessment changes recognised in the income statement

Fair value instruments

The Group invests in both listed and unlisted debt instruments. Changes to credit spreads for listed instruments are based on available market information and/or a proxy (where appropriate), combined with management input and override depending on the liquidity of the listed asset. Unlisted financial assets are generally not actively traded and changes to the credit spread for these instruments are fair valued with reference to proxy listed assets (where appropriate), combined with management input and override, market research and other compelling evidence which is all collated to form a view on current value.

Mortgages and loans, comprising policy loans, are impaired when the amount of the loan exceeds the policyholder's investment balance. The mortgages and loans are recoverable through offset against their respective liabilities (policy benefits) at policy maturity date.

The impairment loss is determined on an incurred loss approach as the difference between the instrument's carrying value and the present value of the asset's estimated future cash flows, including any recoverable collateral, discounted at the instrument's original effective interest rate. To provide for latent losses in a portfolio of loans where the loans have not yet been individually identified as impaired, impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods.

The amount that best represents the Group's maximum exposure to credit risk at 31 December 2013 is made up as follows:

Maximum exposure to credit risk before collateral held

	GROUP		COMPANY	
	2013 Shs '000	2012 Shs '000	2013 Shs '000	2012 Shs '000
Financial investments	15,949,076	14,083,814	-	-
Receivable arising from reinsurance	439,166	224,848	-	-
Receivable arising from direct insurance	775,189	662,212	-	-
Reinsurers' share of insurance liabilities	3,822,104	2,040,892	-	-
Other receivables	461,873	988,818	-	500,000
Cash and bank balances	6,452,983	6,033,693	37,223	54,638
	27,900,391	**24,034,277**	**37,223**	**554,638**

None of the above assets are past due or impaired except for insurance receivables (which are due upon invoicing):

	GROUP	
	2013 Shs '000	2012 Shs '000
Neither past due nor impaired	457,151	365,556
Past due but not impaired	256,054	296,656
Impaired	205,230	215,507
Gross	917,380	877,719
Less: allowance for impairment	(205,230)	(215,507)
Net	713,205	662,212

Notes (Continued)

	GROUP	
	2013 Shs 'ooo	2012 Shs 'ooo
Past due but not impaired:		
-by up to 30 days	55,207	94,433
-by 31 to 60 days	54,505	38,805
-by 61 to 315 days	130,362	155,749
-by 151 to 360 days	15,980	7,669
Total past due but not impaired	**256,054**	**296,656**

All receivables past due by more than 360 days are considered to be impaired, and are carried at their estimated recoverable value.

Consideration of own credit risk for financial liabilities measured at fair value through profit or loss

Liberty Kenya Holdings Limited has considered the impact of changes in credit risk in the fair value measurement of its policyholder investment contract liabilities. Credit risk changes will only have a significant impact in extreme circumstances, when the Group's ability to fulfil the contract terms is considered to be under threat. The Group remains well capitalised and accordingly no adjustment to the valuation for credit risk has been made for the years under review.

d) Operational risk

Definition

Operational risk is the risk of loss caused by inadequate or failed internal processes, people and systems, or from external events. Operational risk is therefore pervasive across all financial institutions and all other operational companies.

Operational risk is recognized as a distinct risk category which the Group strives to manage within acceptable levels through sound operational risk management practices. The Group's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organizational maturity and particular business environments.

Executive management defines the operational risk appetite at a Group and subsidiary level. This operational risk appetite supports effective decision-making and is central to embedding effective risk management. The objective in managing operational risk is to increase the efficiency and effectiveness of the Group's resources, minimize losses and utilize opportunities.

Ownership and accountability

Management and staff at every level of the business are accountable for the day-to-day identification and management of operational risks. It is also management's responsibility to report any material operational risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

Risk identification, assessment and measurement

The process of operational risk management starts with the operational risk assessment of identified areas. Consideration is then given to the need for a Group or business unit policy to define the approach to mitigating this risk.

Risk and compliance policies are developed where necessary to:

- ensure compliance with internal principles and with legal and regulatory requirements;
- address associated risks in the business, define roles, responsibilities and expectations at all levels;
- guide staff at all levels on how to conduct Group's business;
- ensure that staff apply consistent processes throughout the Group; and
- help management to develop operating processes.

Policies are approved at the appropriate governance level subject to compliance with Group policy principles. Once identified, operational risks are assessed to determine the potential impact to the Group should the risk events occur, and reviewed against the Group's risk appetite. Mitigating

5. Management of Insurance, operational and Financial risk policies (Continued)

d) Operational risk (continued)

actions are developed for any operational risks that fall outside of management's assessment of risk appetite.

Risk management activities in relation to operational risks include but are not limited to:

Information technology (IT) risk: The Group is highly dependent on and constantly increasing its use of information technology to ensure improved operations and customer service. The Group's IT systems enable it to take its products to markets across the East African Region and so carry out its expansion strategy.

The Group is, therefore, exposed to various IT risks which include the disruption of transaction processing, information loss and/or malicious attacks from third parties.

Maintaining technological advantage requires a strong IT risk management culture and function that allows the Group to identify and manage IT risks effectively. In order to prevent potential risk events and ensure best practice levels of continuous IT service and security, management review and ensure compliance with relevant IT policies and procedures, conduct control and risk self-assessments and are subject to internal and external audits.

Process risk: The Group's approach to process improvement focuses on process efficiency and work quality. The processes undergoing improvement incorporate input from risk and compliance specialists, as well as other generic process stakeholders and Group finance.

Regulatory risk: The regulatory environment is monitored closely to ensure that the Group implements new or amended legislation requirements promptly to ensure compliance and avoid unnecessary fines and penalties or the revocation of any business license.

Compliance risk: The risk of regulatory sanctions, financial loss or damage to reputation as a result of not complying with legislation, regulation or internal policies is managed through the established compliance functions within the Group and a compliance policy. The policy ensures that compliance requirements are identified and implemented through the development of appropriate policies and procedures and that regular monitoring and reporting of breaches is carried out within the businesses and at the centre to provide the board with assurance on the status of compliance within the organization.

Taxation risk: Tax risk is the risk of suffering a loss, financial or otherwise, as a result of an incorrect interpretation and application of taxation legislation or the impact of new taxation legislation on existing products. Tax risk can also arise if the Group's objectives in relation to its tax strategy are not met.

Corporate governance, increasingly complex tax legislation as well as improved tax collection and enforcement by revenue authorities, are driving increased focus on tax risk and the controls that mitigate tax risk to an acceptable level.

Human resources: The Group remains concerned about the availability of specialist technical skills available in East Africa to provide first world financial services. It focuses on recruitment, development and retention through a number of Group-wide initiatives.

Business continuity management (BCM): BCM is implemented to reduce the risk of not continuing normal business activities should a crisis occur. BCM is an integral component of the Group's risk management framework. The various subsidiaries are regularly exposed to deployment of updated methodologies, testing and training to ensure increased capability to deal with interruptions to business. The Group's has established a BCM site at Mlolongo along Mombasa road where critical staff and core services can be relocated incase of disruptions to business at the usual business premises.

Internal and external fraud: The Group adopts a 'zero-tolerance' approach to fraud. The Group internal audit function supports management in meeting their objective of minimising fraud risk. In terms of the Group's anti- fraud policy, line management is responsible for ensuring that controls at all stages of a business process are adequate for the prevention

Notes (Continued)

and detection of fraud. Prevention and detection measures are periodically rolled out by forensic services to support management.

e) Liquidity risk

Definition

Liquidity risk is the risk that the Group, although solvent, is not able to settle its obligations as they fall due because of insufficient cash in the Group. This might arise in circumstances where the Group's assets are not marketable, or can only be realised at excessive cost. The principal risk relating to liquidity comprises the Group's exposure to policyholder behaviour.

Ownership and accountability

The ownership and accountability for liquidity risk is the same as for market risk. Liquidity requirements are reviewed on an ongoing basis as part of the Group's normal operating activities at the subsidiary level.

Liquidity profile of assets

The Group's assets are liquid however given the quantum of investments held relative to the volumes of trading a substantial short-term liquidation may result in current values not being realised due to demand-supply principles. It is considered highly unlikely, however, that a short-term realisation of that magnitude would occur.

Liquidity risks arising out of obligations to policyholders

On unit-linked business, liquidity risk and asset-liability matching risk arising as a result of changes in lapse and withdrawal experience is limited through policy terms and conditions that restrict claims to the value at which assets are realised. Similarly the liquidity and asset-liability
matching risk arising from a change in withdrawal experience on business with DPF is limited through policy terms and conditions that permit withdrawal benefits to be altered in the event of falling asset prices.
The table below presents the cash flows receivable and payable by the Group under financial assets and liabilities by remaining expected maturities at the reporting date.

As at 31 December 2013	**1 - 3 months Shs '000**	**3 - 12 months Shs '000**	**1 - 5 years, Shs '000**	Over 5 years Shs '000	Total Shs '000
Liabilities					
Insurance contract liabilities	629,788	2,496,512	1,154,160	6,040,467	10,320,927
Payable under deposit administration		(218,257)	679,575	10,642,439	11,103,757
Creditors arising from reinsurance	42,384	472,821	-	-	515,205
Creditors arising from direct insurance	-	34,616	-	-	34,616
Other payables	901,523	11,767	-	-	913,290
Total financial liabilities	**1,573,695**	**2,797,459**	**1,833,735**	16,682,906	22,887,795
Assets					
Other recevables	165,715	109,552	112,582	74,024	461,873
Reinsurers' share of insurance liabilities	-	3,716,582	60,841	44,681	3,822,104
Receivables arising from reinsurance	109,712	267,470	61,984	-	439,166
Financial investment	1,191,501	3,208,503	5,566,765	5,982,307	15,949,076
Receivable arising from direct insurance	40,256	734,933	-	-	775,189
Cash and cash equivalents	5,006,269	1,446,714	-	-	6,452,983
Total financial assets	6,513,453	9,483,754	5,802,172	6,101,012	27,900,391
Net liquidity gap	4,939,758	6,686,295	3,968,437	(10,581,894)	5,012,596

As at 31 December 2013	1 - 3 months Shs '000	3 - 12 months Shs '000	1 - 5 years, Shs '000	Over 5 years Shs '000	Total Shs '000
Liabilities					
Insurance contract liabilities	3,048,057	1,809,573	1,504,395	1,176,833	7,538,858
Payable under deposit administration	1,555,789	778,167	4,247,839	3,522,481	10,104,276
Creditors arising from reinsurance	(120,137)	473,924	-	-	353,787
Creditors arising from direct insurance	(27,320)	72,731	-	-	45,411
Other payables	899,497	6,942	3,996	-	910,435
Borrowings	**479,796**		**-**	-	479,796
Total financial liabilities	5,835,682	3,141,337	5,756,230	4,699,314	19,432,563
Assets					
Other recevables	969,594	19,224	-	-	988,818
Reinsurers' share of insurance liabilities	1,277,500	656,094	107,298	-	2,040,892
Receivables arising from reinsurance	97,745	127,103	-	-	224,848
Financial investment	6,947,500	465,304	3,950,357	2,720,653	14,083,814
Receivable arising from direct insurance	141,696	520,516	-	-	662,212
Cash and cash equivalents	6,033,693	-	-	-	6,033,693
Total financial assets	15,467,728	1,788,241	4,057,655	2,720,653	24,034,277
Net liquidity gap	9,632,046	(1,353,096)	(1,698,575)	-	4,601,714

Long term insurance and deposit administration contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated surrenders before the contractual maturity dates. In addition, the Group invests only a limited proportion of its assets in investments that are not actively traded. The Group's listed securities are considered readily realisable, as they are actively traded on the Nairobi Stock Exchange.

Liquidity risk – Company
Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by continuous monitoring of banking facilities, cash flow forecast and actual cash flows.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows

Notes (Continued)

5. Management of Insurance, operational and Financial risk policies (Continued)

e) Liquidity risk (continued)

At 31 December 2013	Less than 1 year Shs' 000	Over 1 year Shs' 000	Total Shs' 000
Due to group companies (note 34)	115,389	-	115,389
Borrowings	-	-	-
	115,389	**-**	**115,389**
At 31 December 2013	**Less than 1 year Shs' 000**	**Over 1 year Shs' 000**	**Total Shs' 000**
Due to group companies (note 34)	**124,054**	-	**124,054**
Borrowings	**479,796**	-	**479,796**
	603,850	**-**	**603,850**

Capital requirements

The Group's view is that liquidity risk has to be managed by means other than capital. If assets and liabilities are not well matched by term, even a large amount of capital may provide only a small buffer in an extreme liquidity event.

Liquidity risk is most likely to arise due to a sharp increase in benefit withdrawals or risk-related claims. The liquidity risk arising from withdrawals is largely managed by policy terms and conditions in the contract that enable the Group to reduce withdrawal benefits in the event that asset prices fall. The liquidity risk arising from risk-related claims is managed by having reinsurance arrangements in place for catastrophic events. Liquidity risks arising on maturity benefits are managed by closely monitoring the expected future maturities and realising assets in advance if large outflows are expected.

Liquidity risk is also managed by matching liabilities with backing assets that are of similar maturity, duration and risk nature. The liquidity profile of the total financial position is reviewed on a regular basis to ensure that the cash flow profile of liabilities can be met as they fall due.

As a result of the liquidity risk mitigation measures in place, the Group's exposure to liquidity risk is expected to be small and no allowance is currently made for liquidity risk.

f) Market risk

Definition

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in equity prices, interest rates and foreign currency exchange rates (as well as their associated volatilities). In addition, in light of the Group's significant investment in investment properties, there is exposure to fluctuation in property values.

The Group's shareholders are exposed to market risk arising from policyholder asset-liability mismatch risk. This is where the Group's property and financial assets do not move in the same direction and magnitude as the obligations arising under its insurance and investment contracts.

The key components of market risk are as follows:

- *Price risk:* is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of securities price and/or dividend changes;
- *Interest rate risk:* is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of interest rate changes;

5. Management of Insurance, operational and Financial risk policies (Continued)

f) Market risk (continued)

- *Currency risk:* is the risk arising from a change in the value and/or future cash flows of an asset or liability as a result of changes in exchange rates. This can either be in the form of a mismatch between currencies of assets and liabilities, or on assets supporting capital, or the functional currency of the local entity being different to the reporting currency of the Group; and
- *Property market risk:* is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of changes in property market prices and/or rental income.

Risk identification, assessment and measurement

In the case of market risks which arise from shareholder funds, the risk can be identified, assessed and measured by considering the market risks that apply to the assets in which these funds have been invested.

In the case of asset-liability mismatches, risks both to the assets and corresponding liabilities need to be assessed together. The Group is exposed to market risk to the extent that these exposures may result in a loss due to the assets increasing by less than the liabilities or the assets falling by more than the liabilities.

The Group assesses its asset-liability mismatch exposures with respect to the key components of market risk at subsidiary level.

i) Price risk

The Group is exposed to equity securities price risk because of investments in quoted and unquoted shares classified as available-for-sale. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group in the Investment Policy. All quoted shares held by the Group are traded on the Stock Exchange.

ii) Interest rate risk

Fixed interest rate financial instruments expose the Group to fair value interest rate risk. Variable interest rate financial instruments expose the Group to cash flow interest rate risk. The Group's fixed interest rate financial instruments are government securities and deposits with financial institutions. The Group's variable interest rate financial instruments are quoted corporate bonds.

No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments. The Group manages its cash flow interest rate risk by diversification of its portfolio.

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 liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rate will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The level of the reduction of the level of interest rate that will trigger an adjustment is an interest rate of 1 % (2012: 1 %). Investment contracts with fixed and guaranteed terms, government securities and deposits with financial institutions held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

At 31 December 2013, if interest rates on quoted corporate bonds at that date had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the period would have been Shs 991,021 (2012:9,070,080) lower/higher, mainly as a result of higher/lower interest income on floating rate quoted corporate bonds.

iii) Currency risk

The Group operates regionally and is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar. Foreign exchange risk arises from reinsurance transactions with foreign reinsurance brokers. This risk is not significant and is mitigated through the use of dollar-denominated accounts. In

5. Management of Insurance, operational and Financial risk policies (Continued)

f) Market risk (continued)

the year ending 31 December 2013, the Group had an equivalent of Shs 10.2 Million (2012: Shs. 4 Million) in reinsurance balances denominated in foreign currency and foreign currency deposit accounts. The impact of normal exchange fluctuations in the Kenya and Tanzania shilling against the US dollar would not have a material effect on Groups results.

iv) Property market risk

The Group is exposed to tenant default and unlet space within its investment property portfolio affecting property values and rental income. This risk is mainly attributable to the matching policyholder liability and the shareholder exposure is mainly limited to management fees and profit margins. The managed diversity of the property portfolio and the existence of multi-tenanted buildings significantly reduce the exposure to this risk.

g) Insurance risk

Definition

Insurance risk from management's perspective is the risk that future claims (in relation to death, disability, ill health and withdrawal) and expenses will exceed the allowance for expected claims and expenses in the measurement of policyholder liabilities and in product pricing. In addition to these insurance risks, the Group assumes further risks in relation to policyholder behaviour (including lapses and converting recurring premium policies to paid up) and tax which could have adverse impacts on the Group's earnings and capital if different from that assumed in the measurement of policyholder liabilities. From a risk management perspective, management Groups these risks under insurance risk.

Ownership and accountability

The management and staff in all subsidiaries taking on insurance risk are responsible for the day-to-day identification, management and monitoring of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

The statutory actuaries and the heads of risk in the subsidiaries provide independent oversight of the compliance with the Group's risk management policies and procedures and the effectiveness of the Group's insurance risk management processes.

Risk identification, assessment and measurement
Insurance risks arise due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, withdrawal and expenses about which assumptions are made in the measurement of policyholder liabilities and in product pricing. Deviations from assumptions will result in actual cash flows being different from those expected. As such, each assumption represents a source of uncertainty.

Experience investigations are conducted at least annually on all insurance risks to ascertain the reasons for deviations from assumptions and their financial impacts. If the investigations indicate that these deviations are likely to persist in future, the assumptions will be adjusted accordingly in the subsequent measurement of policyholder liabilities.

Insurance risks are assessed and reviewed against the risk appetite. Mitigating actions are developed for any risks that fall outside of management's assessment of risk appetite in order to reduce the level of risk to within the approved tolerance limits.

Risk management

The management of insurance risk is effectively the management of deviations of actual experience from the assumed best estimate of future experience. On the published reporting basis, earnings are expected as a result of the release of margins that have been added to the best estimate assumptions. The risk is that these earnings are less than expected due to adverse actual experience.

The statutory actuaries provide oversight of the insurance risks undertaken by the Group in that they are required to: report at least annually on the financial soundness of the life companies within the Group; approve policy for assumptions used to provide best estimates plus compulsory and discretionary margins oversee the setting of these assumptions; and report on the actuarial soundness

5. Management of Insurance, operational and Financial risk policies (Continued)

g) Insurance risk (continued)

of premium rates in use for new business, and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

The Group makes use of reinsurance to reduce its exposures to some insurance risks.

i) Policyholder behaviour risk

Policyholder behaviour risk is the risk of loss arising due to actual policyholder behaviour being different from expected.

The primary policyholder behaviour risk is persistency risk. This arises due to policyholders discontinuing or reducing contributions or withdrawing benefits partially or in total when this is not in line with expectations. This behaviour results in a loss of future charges that are designed to recoup expenses and commission incurred early in the life of the contract and to provide a profit margin or return on capital.

Deterioration in persistency generally gives rise to a loss as the loss of these future charges generally exceeds the charges that the Group applies to the policyholder benefits in these events.

ii) Mortality and morbidity risk

Mortality risk is the risk of loss arising due to actual death rates on life assurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health-related claims being higher than expected. The Group has the following processes and procedures in place to manage mortality and morbidity risk:

- Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claim experience.

- Terms are built into the policy contracts that permit risk premiums to be reviewed on expiry of a guarantee period. Delays in implementing increases in premiums, and market or regulatory restraints over the extent of the increases may reduce their mitigating effects. Furthermore, charges can only be increased to the extent that they can be supported by gross premiums, although this is not relevant on contracts where gross premiums can be reviewed.
- Underwriting guidelines concerning authority limits and procedures to be followed are in place.
- All retail business applications for risk cover are underwritten. For smaller sums assured this process is largely automated. For retail and corporate business, larger sums assured in excess of specified limits are reviewed by experienced underwriters and evaluated against established processes. For corporate risk business, these specified limits are scheme specific based on the size of the scheme and distribution of sums assured.
- Part of the underwriting process involves assessing the health condition and family medical history of applicants. Terms and conditions are varied accordingly.
- The policy terms and conditions contain exclusions for non-standard and unpredictable risks that may result in severe financial loss (e.g. on life policies, a suicide exclusion applies to the sum assured for death within two years from the date of issue).
- The actual claims experience is monitored on a regular basis so that deteriorating experience can be timeously identified. Product pricing and the measurement of the liabilities is changed if the deteriorating experience is expected to continue and cannot be mitigated. Detailed mortality and morbidity investigations are conducted on a bi-annual basis, but mortality claim ratios are reviewed monthly.
- For morbidity, experienced claims assessors determine the merits of the claim in relation to the policy terms and conditions. In the case of disability annuitants, claim management ensures the continued eligibility for monthly income and includes interventions that may result in the full or partial medical recovery of the claimant. The actual disability experience is highly dependent on the quality of the claim assessments.

Notes (Continued)

5. Management of Insurance, operational and Financial risk policies (Continued)

g) Insurance risk (continued)

- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual and provide cover in catastrophic events.

The Group views mortality and morbidity risks as risks that are core to the business.

iii) Longevity risk

Longevity risk is the risk of loss arising due to annuitants living longer than expected. For life annuities, the loss arises as a result of the Group having undertaken to make regular payments to policyholders for their remaining lives, and possibly to the policyholders' spouses for their remaining lives. The most significant risk on these liabilities is continued medical advances and improvement in social conditions that lead to longevity improvements being better than expected.

The group manages longevity risk by:

- Annually monitoring the actual longevity experience and identifying trends over time; and
- Making allowance for future mortality improvements in the pricing of new business and the measurement of policyholder liabilities – this allowance will be based on the trends identified in experience investigations and external data.

iv) Expense risk

Expense risk is the risk of loss arising due to expenses incurred in the administration of policies being higher than expected.

Allowance is made for expected future expenses in the measurement of policyholder liabilities. These expected expenses are dependent on estimates of the number of in-force and new business policies. As a result, the risk of expense loss arises due to expenses increasing by more than expected as well as the number of in-force and/or new business policies being less than expected.

The group manages the expense risk by:

- regularly monitoring actual expenses against the budgeted expenses;
- regularly monitoring new business;
- regularly monitoring withdrawal rates including lapses; and
- Implementing cost control measures in the event of expenses exceeding budget or of significant unplanned reductions in in-force policies.

v) Tax risk

Tax risk is the risk of loss arising due to the actual tax assessed being more than the tax expected.

Allowance for tax is made in the measurement of policyholder liabilities at the rates applicable at the financial reporting date. Adjustments may be made for known future changes in the tax regime.

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

The following tables disclose the concentration of insurance liabilities by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy:

5. Management of Insurance, operational and Financial risk policies (Continued)

g) Insurance risk (continued)

Year ended 31 December 2013 (Shs '000)		Shs 0m to Shs 15m	Shs 15m to Shs 250m	Shs 250m to Shs 1,000	Total
General insurance business					
Personal accident	Gross	14,173,227	16,692,437	2,768,257	33,633,921
	Net	14,168,660	16,684,725	2,768,257	33,621,642
Motor	Gross	21,900,573	369,896	-	22,270,469
	Net	19,560,681	369,896	-	19,930,577
Fire	Gross	49,740,129	85,697,718	561,490,366	696,928,213
	Net	48,660,957	69,696,055	13,777,509	132,134,521
Other	Gross	30,724,737	37,603,286	169,436,956	237,764,979
	Net	31,314,452	69,647,476	3,725,066	104,686,994
Life assurance business					
Ordinary life	Gross	21,857,014	120,000	134,165	22,111,179
	Net	18,762,019	-	-	18,762,019
Group life	Gross	87,309,197	19,607,315	800,000	107,716,512
	Net	63,669,452	-	-	63,669,452
Total	**Gross**	**225,704,877**	**160,090,652**	**734,629,744**	**1,120,425,273**
	Net	**196,136,221**	**156,398,152**	**20,270,832**	**372,805,205**
Year ended 31 December 2013 (Shs '000)		**Shs 0m to Shs 15m**	**Shs 15m to Shs 250m**	**Shs 250m to Shs 1,000**	**Total**
General insurance business					
Personal accident	Gross	20,172,000	12,599,300	-	32,771,300
	Net	16,137,600	10,079,440	-	26,217,040
Motor	Gross	22,947,740	350,078	95,611,015	118,908,833
	Net	20,000,000	350,078	11,419,400	31,769,478
Fire	Gross	503,478,339	85,231,140	3,464,500	592,173,979
	Net	40,358,131	69,498,900	2,771,600	112,628,631
Other	Gross	181,287,493	40,920,900	7,462,600	229,670,993
	Net	56,569,169	35,579,700	3,770,880	95,919,749
Life assurance business					
Ordinary life	Gross	20,177,761	274,165	-	20,451,926
	Net	17,001,846	12,000	-	17,013,846
Group life	Gross	55,751,491	17,505,081	300,000	73,556,572
	Net	34,068,563	1,460,000	2,000	35,530,563
Total	**Gross**	**803,814,824**	**156,880,664**	**106,838,115**	**1,067,533,603**
	Net	**184,135,309**	**116,980,118**	**17,963,880**	**319,079,307**

Notes (Continued)

5. Management of Insurance, operational and Financial risk policies (Continued)

g) Insurance risk (continued)

The concentration by sector or maximum insured loss at the end of the period is broadly consistent with the prior year.

h) Fair value hierarchy

Introduction

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. IFRS 7 and IFRS 13 requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

• Level 1 – Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Nairobi Securities Exchange, or an international stock or bond exchange.

• Level 2 – Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the balance sheet date. The valuation techniques or models are periodically reviewed and the outputs validated.

• Level 3 – Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013.

At 31 December 2013	**Level 1 Shs' 000**	**Level 2 Shs' 000**	**Level 3 Shs' 000**	**Total Shs' 000**
Fair value through profit and loss financial assets				
Quoted shares	2,259,035	-	-	2,259,035
Unquoted shares	-	31,458	156,693	188,151
Government securities and bonds	**-**	**5,398,808**	**-**	**5,398,808**
Investment Property	**-**	**1,145,000**	**-**	**1,145,000**
Buildings		**442,000**		
	2,259,035	**7,017,266**	**156,693**	**8,990,994**
At 31 December 2012	**Level 1 Shs' 000**	**Level 2 Shs' 000**	**Level 3 Shs' 000**	Total Shs' 000
Fair value through profit and loss financial assets				
Quoted shares	2,259,035	-	-	2,259,035
Unquoted shares	-	31,458	156,693	188,151
Government securities and bonds	**-**	**5,398,808**	**-**	**5,398,808**
Investment Property	**-**	**1,145,000**	**-**	**1,145,000**
Buildings		**442,000**		
	2,259,035	**7,017,266**	**156,693**	**8,990,994**

6. Gross earned premium

	GROUP	
	2013 Shs' 000	2012 Shs' 000
Motor	1,181,519	1,262,691
Fire	1,546,051	1,499,039
Personal accident and Medical	1,503,294	1,670,355
Retail Life	**1,190,996**	**1,156,761**
Group life	**492,141**	**357,711**
Others	**1,483,981**	1,007,285
	7,397,982	6,953,842

7. Investment income

	GROUP		COMPANY	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
Interest from Government securities	1,090,663	1,107,557	-	-
Interest on bank deposits	462,563	336,934	-	-
interest from corporate bonds and commercial paper	182,665	197,996	-	-
Interest on loans and receivables	34,785	125,634	-	-
Rental income from investment property	94,546	46,750	-	-
Gain on sale of financial investments	459,099	141,821	-	-
Fair value gain on investment property	182,151	111,406	-	-
Interest on policy loans	99,241	302,877	-	-
Dividend income	321,362	123,755	200,000	500,000
impairment provision on investment in associate	5,199	-	-	-
others	(302,755)	698,042	-	-
	2,629,519	**3,180,431**	**200,000**	**500,000**

The Company's dividend income of Shs 200 million (2012: 500 million) was earned from the subsidiaries in the year.

8. Other income

	GROUP	
	2013 Shs' 000	2012 Shs' 000
Profit on sale of property, plant and equipment	13	8,861
Profit from Kenya Motor Insurance Pool	2,443	-
Foreign exchange gain	5,744	-
Miscellaneous income	**374**	**10,803**
Profit on sale of investment in associate (Note 13)	**-**	**193,185**
	8,574	**212,849**

9. Claims and other policy holder benefits payable

	GROUP	
	2013 Shs' 000	2012 Shs' 000
Motor	590,576	609,943
Fire	4,795,523	7,257
Personal accident and Medical	775,785	779,218
Death, maturity and surrender benefits	**744,907**	**660,701**
Interest payable on deposit administration contracts	**832,683**	**865,198**
Others	**348,532**	**722,622**
	8,088,006	**3,644,939**

10. Finance costs

	GROUP		COMPANY	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
Interest on financial liabilities at amortised cost	25,512	95,179	25,512	97,254
	25,512	95,179	25,512	97,254

Notes (Continued)

11. Other operating expenses

	GROUP		COMPANY	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
Staff costs (Note 12)	1,014,408	996,069	-	-
Auditors remuneration	16,156	17,751	2,447	2,447
Depreciation (Note 20)	100,669	116,144	-	-
Amortisation of intagible assets (Note 22)	19,805	68,437	-	-
Impairment charge for doubtful receivables	9,646	58,164	-	-
Operating lease rental - land and buildings	82,203	53,351	-	-
Directors' fees	8,445	14,222	4,352	3,492
Repairs and maintenance	26,259	91,042	-	-
Advertising	127,157	34,830	-	-
legal and other professional fees	57,893	30,163	2,643	3,195
Others	673,482	670,108	9,444	4,510
	2,136,123	2,150,281	18,886	13,644

12. Staff cost

	GROUP	
Employee benefits expense includes the following:	**2013 Shs' 000**	2012 Shs' 000
Salaries and wages	778,145	715,193
Social security benefit costs	36,610	41,650
Retirement benefit cost	**20,090**	**37,080**
Other	**179,563**	**202,146**
	1,014,408	**996,069**

The number of persons employed by the Group at the end of the year was 372 (2012: 342)

13. Investment in subsidiaries and associates

Associates

	GROUP	
	2013 Shs' 000	2012 Shs' 000
As at 1January 2013	61,948	355,400
Additions to Strategis Insurance (Tanzania) Limited shares	9,979	-
Share of (loss)/profit after tax	**(7,387)**	**23,704**
Dividend received	**-**	**(30,312)**
Share of Fair Value Reserve	**5,528**	**17,847**
Disposal of investments in Alliance Insurance Corporation Ltd.	**-**	**(303,154)**
Currency adjustment	**(27)**	**(1,537)**
As at 31 December	**70,041**	**61,948**

The disposal of the Group's interest in Alliance Insurance Corporation Tanzania Limited in 2012 realised a gain of Shs. 193,185,000.

13. Investment in subsidiaries and associates (Continued)

The summarised financial information of the associates is as follows:

31 December 2013	Total Assets Shs'000	Total Liabilities Shs'000	Revenue Shs'000	Loss after tax Shs'000	% interest held Shs'000
Strategis Insurance (Tanzania) Limited	197,674	96,668	179,664	(17,163)	43.04%
31 December 2012	Total Assets Shs'000	Total Liabilities Shs'000	Revenue Shs'000	Loss after tax Shs'000	% interest held Shs'000
Strategis Insurance (Tanzania) Limited	412,380	258,573	272,827	60,500	39.18%

Subsidiaries

The Company's interest in its subsidiaries, all of which are unlisted and all of which have the same year end as the Company, were as follows:

			COMPANY	
	Beneficial Ownership	**Country of incorporation**	**2013 Shs'000**	**2012 Shs'000**
CfC Life Assurance Limited	100%	Kenya	1,826,254	1,826,254
Heritage Insurance Company (K) Limited	100%	Kenya	741,287	741,287
The Heritage Insurance Company (T) Limited	60%	Tanzania	-	-
Azali Limited	100%	Kenya	-	-
CfC investments Limited	100%	Kenya	634,792	634,792
			3,202,333	**3,202,333**

14. Income tax expense

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

	GROUP	
	2013 Shs' 000	2012 Shs' 000
Current income tax	189,080	348,200
Deferred income tax (note 30)	3,862	(31,970)
	192,942	**316,230**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	GROUP	
	2013 Shs' 000	2012 Shs' 000
Profit before income tax	1,298,862	1,174,079
Tax at statutory tax rate of 30% (2012- 30%)	**389,659**	**352,224**
Tax effect of:		
Income not subjected to tax	**(127,115)**	**67,231**
Prior year tax under/(over) provision	**-**	**(40,928)**
Expenses not deductible for tax purposes	**(71,818)**	**40,410**
Income from associates	**2,216**	**(15,058)**
Difference between transfer from long term business and accounting profit	**-**	**(87,649)**
Income tax expense	**192,942**	**316,230**

There was no tax charge relating to components of other comprehensive income.

Notes (Continued)

15. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year.

	GROUP		COMPANY	
	2013 Shs' 000	**2012 Re-stated Shs' 000**	**2013 Shs' 000**	**2012 Shs' 000**
Earnings for the purpose of basic earnings per share	1,105,920	857,849	155,602	389,102
Number of shares				
Weighted average number of ordinary shares for the				
purpose of basic earnings per share (in thousands)	515,270	515,270	515,270	515,270
Earnings per share (Shs) basic and diluted	2.15	1.66	0.3	0.76

There were no potentially dilutive shares outstanding as at 31 December 2013 or 2012. Diluted earnings per share are therefore the same as basic earnings per share.

16. Ordinary share capital and share premium

Ordinary share capital

	Authorised number of shares	Issued number of shares	Ordinary share capital Shs.	Nominal value per share (Shs)
As at 1 January 2013	515,270,364	515,270,364	515,270,364	1
As at 31 December 2013	515,270,364	515,270,364	515,270,364	1

Share premium

	GROUP AND COMPANY	
	2013 Shs' 000	**2012 Shs' 000**
As at 1 January	1,701,239	1,701,239
Proposed Dividend	(515,270)	-
As at 31 December	1,185,969	1,701,239

17. Revenue and other reserves

	GROUP		COMPANY	
	2013 Shs' 000	**2012 Shs' 000**	**2013 Shs' 000**	**2012 Shs' 000**
Statutory reserve	176,180	164,768	-	-
Revaluation reserve	120,979	94,197	-	-
Currency translation reserve	(30,842)	(32,749)	-	-
Total other reserves	266,317	226,216	-	-
Revenue reserve	2,607,295	1,590,478	852,512	696,911
Proposed dividend	-	206,108	-	206,108
At end of year	**2,873,612**	**2,022,802**	**852,512**	**903,019**

Other reserves include fair value reserve arising from revaluation surplus on buildings and freehold land, which is a non distributable reserve, and statutory reserve. Currency translation reserve represents exchange rate differences arising on the translation of the foreign subsidiary. Statutory reserve represents:

a) Accumulated surpluses from the life fund whose distribution is subject to the restrictions imposed by the Kenyan Insurance Act. The Insurance Act limits the amounts of surpluses of the life business available for distribution to shareholders to 30% of the accumulated surplus of the life business. A transfer to or from retained earnings is recorded each year to ensure that only amounts available for distribution to shareholders are held in the retained earnings.
b) The Tanzania subsidiary maintains a capital reserve in accordance with the Tanzania Insurance Act. Amounts appropriated to the capital reserve are calculated at 20% of the after tax profit of the subsidiary, accumulated on an annual basis.
c) A contingency reserve is maintained by the Tanzania subsidiary as required by the Tanzania Insurance Act. The reserve is calculated annually as the greater of 3% of net written premium or 20% of the net profit. This reserve shall accumulate until it reaches the minimum paid-up share capital or 50% of the net premiums, whichever is greater.

Proposed dividends

The Directors recommend a dividend per share of Shs 1 (2012: Shs 0.40) by way of a scrip dividend with the option to elect cash. The scrip dividend is paid out of the share premium reserve.

18. Goodwill

	GROUP	
	2013 Shs' 000	2012 Shs' 000
Cost		
As at 1 January	1,254,995	1,254,995
As at 31 December	1,254,995	1,254,995

During the year, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with the life and general insurance businesses was not impaired. The recoverable amount of the businesses was assessed by reference to the Cash Generating

Units' value in use which takes into account projected cash flows for the Group entities which are referenced to the respective entities' budgets. A discount factor of 17.6% (estimate of parent company's cost of capital) was applied in the valuation.

Notes (Continued)

19. Financial investments

	GROUP	
	2013 Shs' 000	**2012 Shs' 000**
a) Financial investments-held-to - maturity (HTM)	6,494,874	7,730,557
b) Fair value through profit or loss financial assets	8,018,388	5,169,188
c) Loans and receivables	1,435,814	1,184,069
	15,949,076	14,083,814

a) Held to maturity

Treasury bills and bonds:	**2013 Shs' 000**	**2012 Shs' 000**
Short term	237,144	-
Long term	6,257,730	7,730,557
	6,494,874	7,730,557

Maturity analysis	**2013 Shs' 000**	**2012 Shs' 000**
Maturing within 1 year	1,256,740	1,793,614
Maturing after 1 year but within 5 years	2,398,373	2,553,964
Maturing after 5 years but within 10 years	1,569,155	1,847,310
Maturing after 10 years	1,270,606	1,535,669
	6,494,874	7,730,557

HTM Movement analysis	**2013 Shs' 000**	**2012 Shs' 000**
As at 1 January	7,730,557	6,622,029
Additions	60,000	1,673,601
Maturities	(1,304,720)	(574,463)
Currency adjustment	9,037	9,390
	6,494,874	7,730,557

19. Financial investments (Continued)

b) Financial assets at fair value through profit or loss

	GROUP		
	2013 Shs' 000	**2012 Re-stated Shs' 000**	2011 Re-stated Shs' 000
a) Financial investments-held-to - maturity (HTM)	2,290,494	1,130,472	2,304,363
b) Fair value through profit or loss financial assets	156,697	212,172	227,510
c) Loans and receivables	5,571,197	3,826,544	3,654,568
	8,018,388	5,169,188	6,186,441

i) Quoted shares

	GROUP		
	2013 Shs' 000	**2012 Re-stated Shs' 000**	2011 Re-stated Shs' 000
As at start of year	1,130,472	2,304,363	4,163,510
Additions	988,012	327,757	17,911
Disposals	(240,283)	(1,500,176)	(802,237)
Fair value gains/(losses)	411,335	135,733	(1,073,380)
Currency translation	958	334	(1,441)
Transfer through business reorganisation	-	(137,539)	-
As at end of year	2,290,494	1,130,472	2,304,363

ii) Unquoted shares

	GROUP		
	2013 Shs' 000	**2012 Re-stated Shs' 000**	2011 Re-stated Shs' 000
As at start of year	212,172	227,510	160,899
Additions	-	-	12,706
Disposals	(54,630)	-	-
Fair value gains/(losses)	(1,113)	16,443	54,096
Currency translation	268	79	(191)
Transfer through business reorganisation	-	(31,860)	-
As at end of year	156,697	212,172	227,510

ii) Unquoted shares

	GROUP		
	2013 Shs' 000	**2012 Re-stated Shs' 000**	2011 Re-stated Shs' 000
As at start of year	3,826,544	1,725,715	6,128,218
Restatement	-	1,301,230	
Additions	3,712,290	3,370,614	3,563,929
Disposals	(2,007,336)	(1,935,423)	(5,174,420)
Fair value gains/(loss)	39,699	437,109	(863,159)
Transfer (from)/ to HTM	-	(1,072,701)	-
As at end of year	**5,571,197**	**3,826,544**	**3,654,568**

As at 31 December 2013, CfC Life Assurance Limited had a total of Shs.1,533,427,507 (2012: Shs. 799,020,212) of government securities classified as held-to-maturity held under lien by the Central Bank of Kenya

Notes (Continued)

19. Financial investments (Continued)

c) Loans and receivables

	GROUP	
	2013 Shs' 000	**2012 Shs' 000**
Mortgage loans	565,352	482,607
Policy loans	754,199	615,992
Other loans and deposits maturing after 90 days	116,263	85,470
	1,435,814	**1,184,069**

20. Property and Equipment

	Building on leasehold land	Motor Vehicles	Furniture and equipment	Computer equipment	Total
Cost / valuation	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
As at 1 January 2013	725,732	69,099	695,642	274,287	1,764,760
Additions	8,045	-	28,411	8,228	44,684
Disposals	(1,769)	(5,396)	(2,949)	(164)	(10,278)
Reclassification from investment					
property (Note 21)	2,931	-	1,892	300	5,123
Revaluation gain	38,260	-	-	-	38,260
Currency adjustment	-	37	16	-	53
As at 31 December 2013	**773,199**	**63,740**	**723,012**	**282,651**	**1,842,602**
Depreciation					
At 1 January 2013	946	37,818	419,197	209,200	667,161
charge for the year	4,595	13,161	73,324	9,320	100,400
Disposals	(1,636)	(5,395)	(2,828)	(153)	(10,012)
Currency adjustment		26	126		152
As at 31 December 2013	**3,905**	**45,610**	**489,819**	**218,367**	**757,701**
Net book amount					
As at 31 December 2013	**769,294**	**18,130**	**233,193**	**64,284**	**1,084,901**

There were no items of property and equipment pledged by the Group to secure liabilities. Buildings were revalued as at 31 December 2013, by Tyson's Limited and Lloyd Masika Limited, independent valuers, on the basis of the market value for existing use. The resultant revaluation surplus was credited to the revaluation reserve.

20. Property and Equipment (Continued)

	Building on leasehold land	Motor Vehicles	Furniture and equipment	Computer equipment	Total
Cost / valuation	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
As at 1 January 2012	622,975	96,923	706,344	240,103	1,666,345
Additions	19,570	11,937	43,074	25,403	99,984
Disposals	-	(40,165)	(44,224)	(2,016)	(86,405)
Reclassification from investment					-
property (Note 21)	28,978	-	-	-	28,978
Revaluation gain	54,211	-	-	-	54,211
Currency adjustment	-	404	817	428	1,649
Other transfers			**(10,369)**	**10,369**	**-**
As at 31 December 2012	**725,732**	**69,099**	**695,642**	**274,287**	**1,764,760**
Depreciation					
At 1 January 2012	1,803	61,358	362,857	183,776	609,794
charge for the year	(857)	13,313	76,675	27,013	116,144
Disposals	-	(37,178)	(21,118)	(2,016)	(60,312)
Currency adjustment		**325**	**783**	**427**	**1,535**
As at 31 December 2012	**946**	**37,818**	**419,197**	**209,200**	**667,161**
Net book amount					
As at 31 December 2012	**724,786**	**31,281**	**276,445**	**65,087**	**1,097,599**

21. Investment property

	GROUP	
	2013 Shs' 000	**2012 Shs' 000**
As at January	710,449	623,553
Additions	-	4,468
Disposal	**(55,000)**	**-**
Reclassification to property and equipment (Note 20)	**(2,931)**	**(28,978)**
Net gain from fair value adjustments	**189,682**	**111,406**
As at 31 December	**842,200**	**710,449**

Investment properties are stated at fair value. This has been determined based on independent valuations performed by Lloyd Masika Limited and Tysons Limited (professional valuers) as at 31 December 2013/12 for CfC Life and 30 November 2013 for Heritage Insurance Company Kenya Limited. The fair values represent the amount at which the assets could be exchanged between knowledgeable willing buyer and seller at an arm's length transaction at the date of the valuation. The valuations are performed on an annual basis and the fair value gains and losses are recognised as investment gains in the income statement.

The investment property rental income earned by the Group from its investment property leased out under operating leases as at 31 December 2013 amounted to Shs 55 million (2012: Shs 47 million)

Notes (Continued)

22. Intangible assets

	GROUP	
	2013 Shs' 000	**2012 Shs' 000**
Cost		
As at 1 January	376,433	359,614
Additions	4,285	15,937
Currency adjustment	95	882
As at 31 December	**380,718**	**376,433**
Amortisation		
As at 1 January	308,939	239,648
Charge for the year	19,803	68,437
Currency adjustment	95	854
As at 31 December	328,742	308,939
Net book amount as at 31 December	**51,976**	**67,494**

23. Reinsurers share of insurance liabilities

	GROUP	
Reinsurer's share of;	**2013 Shs' 000**	**2012 Shs' 000**
Unearned premium	1,489,900	1,276,218
Notified claims outstanding	1,950,573	659,958
Claims incurred but not reported	381,631	104,716
	3,822,104	2,040,892
As at 31 December	**380,718**	**376,433**

Amounts due from re-insurers in respect of claims already paid by the Group on contracts that are reinsured are included in reinsurance receivables on the statement of financial position.

24. Cash and cash equivalents

	GROUP		COMPANY	
	2013 Shs' 000	**2012 Shs' 000**	**2013 Shs' 000**	**2012 Shs' 000**
Cash at bank and in hand	438,641	527,123	37,223	54,638
Short term bank deposits (maturing within 90 days)	6,014,342	5,506,570	-	-
Cash and cash equivalents (excluding bank overdrafts)	6,452,983	6,033,693	37,223	54,638

25. Insurance contract liabilities

	GROUP	
	2013 Shs' 000	**2012 Re-stated Shs' 000**
Short term (non-life) insurance contracts		
Reported claims and claims handling expenses	3,140,701	1,837,007
Claims incurred but not reported	621,705	348,127
Long term insurance contracts		
Reported claims and claims handling expenses	192,056	152,737
Actuarial value of long term liabilities	**6,366,465**	**5,185,247**
	10,320,927	**7,523,118**

25. Insurance contract liabilities (continued)

(i) Short term insurance contracts

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2013 and 2012 are not material.

The Group uses chain-ladder techniques to estimate the ultimate cost of claims and the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims.

(ii) Long term insurance contracts

The Company determines its liabilities on the long-term insurance contracts on a realistic basis, namely the Gross Premium Valuation (GPV) method.

The GPV method makes explicit assumptions on expected future deaths, investment returns, lapses, expenses and bonuses as well as margins for uncertainty on these assumptions. Assumptions used are based on recent experience investigations conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

The liabilities are determined by the Company on the advice of the consulting actuary and actuarial valuations are carried out on an annual basis. The latest actuarial valuation of the Company's life fund was undertaken as at 31 December 2013 by the consulting actuaries – AON Actuaries and Consultants (Pty) Limited.

Valuation assumptions:

The significant valuation assumptions for the actuarial valuation as at 31 December 2013 are summarised below.

i) Mortality

The GPV basis uses 100% of the SA85/90 ultimate mortality table plus an AIDS allowance of 100% of the AB1 Select and Ultimate tables (2008 ASSA model). Mortality assumption is based on recent mortality investigation conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

For Group Life contracts which are only valued as an IBNR, there is a mitigating effect of changing premium rates on an annual basis as contracts are reviewed annually and no mortality guarantees are offered.

ii) Investment returns

The GPV actuarial valuation as at 31 December 2013 used an expected future investment return of 12.8% compounded annually for individual long term insurance contracts and annuity business. On the GPV basis the valuation interest rate assumption allows for a margin over the expected future investment return, hence strengthening the prudence in the GPV valuation basis.

The weighted average rate of return on a Fair Value basis as earned by the assets backing the life fund for the year ended 31 December 2013 was 10.62% p.a. (2012: 25.59% p.a.) and the average over the last three years was 9.77% p.a

iii) Expenses and expense inflation

The current level of management expenses is taken to be an appropriate expense base for the GPV basis. The expense assumption is derived from the recent expense investigation. The purpose of the investigation was to split of expenses between initial and renewal expenses. The result of the investigation showed that the initial and renewal expenses decreased in real terms comparative to prior year.

For the GPV basis an appropriate assumption is made on the increase of renewal expenses. An expense inflation of 9.2% (2012: 9.0%) is assumed.

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Notes (Continued)

25 Insurance contract liabilities (continued)

iv) Withdrawals

The GPV method allows assumptions to be set on the rate of termination of an insurance contract following a failure to pay premiums (lapse) or the voluntarily termination before the insurance contract maturity (surrender) per policy year.

The withdrawal assumption is derived from recent withdrawal experience investigation conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

iv) Sensitivity analysis

The GPV method is not very sensitive to changes in most of the key assumptions used in determining the actuarial liabilities. For example the worsening of mortality assumption by 100% will result in an increase in actuarial liabilities of not more than 3%.

The Company markets long-term insurance contracts with fixed and guaranteed terms only. For liabilities under these contracts key assumptions are unchanged for the duration of the contract.

26. Amounts payable under deposit administration contracts

	GROUP		
	2013 Shs' 000	**2012 Re-stated Shs' 000**	2011 Re-stated Shs' 000
As at 1 January	10,465,499	9,300,122	8,703,273
Opening balance adjustment	-	20,277	-
Pension fund deposit received	1,722,239	3,673,027	1,832,836
Surrenders and annuities paid	(1,916,665)	(1,757,843)	(1,650,081)
Interest payable to policy holders	832,684	927,112	351,828
GPV liabilities adjustment	-	185,816	62,266
Transfer through business reorganisation	-	(1,883,012)	-
As at 31 December	11,103,757	10,465,499	9,300,122

27. Unearned premiums reserve

This reserve represents the liability for short term business contracts where the Group's obligations are not expired at the year end. Movements in the reserve are shown below:

	GROUP	
	2013 Shs' 000	**2012 Shs' 000**
As at 1 January	2,325,273	2,242,031
Increase in the year	329,261	64,433
Currency adjustment	10,020	18,809
As at 31 December	**2,664,554**	**2,325,273**

28. Other liabilities

	GROUP		COMPANY	
	2013 Shs' 000	**2012 Shs' 000**	**2013 Shs' 000**	**2012 Shs' 000**
Amounts due to related Companies	76,164	142,122	111,248	143,410
Accrued expenses	293,254	263,220	-	14,237
Other liabilities	543,872	625,568	59,287	-
	913,290	1,030,910	170,535	157,647

29. Contingent liabilities and commitments

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

Capital commitments

Capital expenditure on property and equipment contracted for at the reporting date amounted to Shs 40.7 million. In addition, Shs 129.0 million (2012: Shs 236.5 million) of capital expenditure on property and equipment were authorised by the directors but not contracted for as at the reporting date.

Operating lease commitments

The Group leases various outlets under non-cancellable operating lease. The lease terms are between 1 and 5 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

30. Deferred income tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of 30% (2012: 30%). The movement on the deferred income tax account is as follows:

a) Deferred tax asset

	GROUP		
	2013 Shs' 000	**2012 Shs' 000**	2011 Shs' 000
As at start of year	50,119	37,400	16,095
(Credit)/Charge to profit or loss	(3,862)	31,970	1,385
Charge to equity	18,780	(19,251)	19,920
As at 31 December	65,037	50,119	37,400

	1 January 2013	**Credit/ (Charge) to IS**	Credit/ (Charge) to equity	31 December 2013
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**
Property and equipment	9,206	1,664	-	10,870
Other provisions	54,172	(5,613)	18,694	67,253
Fair value gains	(13,363)	-	-	(13,363)
Currency translation	104	87	86	277
Net deferred tax asset	50,119	(3,862)	18,780	65,037

	1 January 2012	**Credit/ (Charge) to IS**	Credit/ (Charge) to equity	31 December 2012
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**
Property and equipment	7,789	1,417	-	9,206
Other provisions	9,329	44,843	-	54,172
Fair value gains	20,510	(15,179)	(18,694)	(13,363)
Currency translation	(228)	889	(557)	104
Net deferred tax asset	37,400	31,970	(19,251)	50,119

Notes (Continued)

30. Deferred income tax (Continued)

a) Deferred tax asset (Continued)

	1 January 2011	Credit/ (Charge) to IS	Credit/ (Charge) to equity	31 December 2011
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Property and equipment	6,006	1,783	-	7,789
Other provisions	10,089	(760)	-	9,329
Fair value gains	-	-	20,510	20,510
Currency translation	-	362	(590)	(228)
Net deferred tax asset	16,095	1,385	19,920	37,400

b) Deferred tax liability

	GROUP		
	2013 Shs' 000	2012 Shs' 000	2011 Shs' 000
As at 1 January	340,736	172,874	-
Charge/(credit) to profit or loss	11,478	167,862	172,874
As at 31 December	352,214	340,736	172,874

	Statutory reserves Shs' 000	Other reserves Shs' 000	Total Shs' 000
As at 1 January 2012	74,181	98,693	172,874
Statement of changes in equity charge	151,502	16,263	167,765
As at 31 December 2012	225,683	114,956	340,639

	Statutory reserves Shs' 000	Other reserves Shs' 000	Total Shs' 000
As at 1 January 2011	-	-	-
Statement of changes in equity charge	74,181	98,693	172,874
As at 31 December 2011	74,181	98,693	172,874

	1 January 2011	Credit/ (Charge) to IS	Credit/ (Charge) to equity	31 December 2011
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Property and equipment	7,789	1,315	-	9,104
Other provisions	8,250	29,058	-	37,308
Fair value gains	20,510	2,114	(49,847)	(27,223)
Currency translation	(590)	(517)	884	(223)
Net deferred tax asset	35,959	31,970	(48,963)	18,966

31. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	GROUP	
	2013 Shs' 000	**2012 Shs' 000**
Profit before income tax	1,298,862	1,174,079
Interest income	(1,835,132)	(1,768,121)
Depreciation (Note 20)	100,400	116,144
Amortisation of intangible assets (Note 22)	19,803	68,437
Gain on sale of property and equipment	-	(8,861)
Share of income from associate (Note 13)	7,387	(23,704)
Amortisation of prepaid operating lease rentals	-	11
Fair value gain on investment property (Note 7)	(182,151)	(111,406)
Foreign exchange gain	-	545
Dividend and rental income	(415,908)	(170,505)
Impairment charges for doubtful receivables	(9,646)	(58,164)
Other net investment expenses	302,755	(698,042)
Finance costs	25,512	95,179
Gain on sale financial investments	(30,748)	(536,186)
Fair value through the profit or loss	(463,112)	(228,529)
Impairment loss on available for sale assets	-	18,930
Change in;		
-technical provisions	1,782,021	2,576,513
-trade and other payables	(115,640)	201,043
-trade and other receivables	526,945	(641,700)
	1,011,348	**5,663**
	COMPANY	
	2013 Shs' 000	**2012 Shs' 000**
Profit before taxation	155,602	389,102
-trade and other payables	12,884	2,143
-trade and other receivables	500,000	(500,000)
	668,486	**(108,755)**

32. Borrowings

	GROUP		COMPANY	
	2013 Shs' 000	**2012 Shs' 000**	**2013 Shs' 000**	**2012 Shs' 000**
Term Loan	-	479,796	-	479,796
At end of year	-	479,796	-	479,796

During the year the Company repaid the entire term loan that it had received from NIC Bank Limited. The Company incurred a total interest charge of Shs. 25.5 million (2012: Shs. 95 million) at a weighted average rate of 17.25% (2012: 19.84%).

Notes (Continued)

33. Related party transactions

The Group is controlled by Liberty Holdings Limited incorporated in the Republic of South Africa. The ultimate parent of Liberty Holdings Limited is Standard Bank Group Limited, which is incorporated in South Africa. There are other companies which are related to Liberty Kenya Holdings Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

a) Gross premiums written

	GROUP	
	2013 Shs' 000	2012 Shs' 000
CfC Stanbic Bank Ltd.	280,702	207,911
Alliance Insurance Corporation Ltd.	-	4,743
Strategis Insurance Tanzania Ltd.	45,881	39,951
STANLIB Kenya Ltd.	9,292	5,567
	335,875	258,172

b) Claims incurred

	GROUP	
	2013 Shs' 000	2012 Shs' 000
CfC Stanbic Bank Limited	2,098	1,907
Strategis Insurance Tanzania Ltd.	-	28,088
STANLIB Kenya Ltd.	1,238	1,125
	3,336	**31,120**

c) Rental income

	GROUP	
	2013 Shs' 000	2012 Shs' 000
CfC Stanbic Bank Ltd.	7,950	7,492
STANLIB Kenya Ltd.	6,205	4,903
	14,155	12,395

d) Interest income and (expense)

	GROUP		COMPANY	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
CfC Stanbic Bank Ltd.	96,467	150,485	-	-
CfC Life Assurance Ltd.	-	-	-	(2,849)
Heritage Insurance Company Kenya Ltd.	-	-	-	(2,647)
	96,467	150,485	-	(5,496)

e) Dividend income

	GROUP		COMPANY	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
CfC Life Assurance Ltd.	-	-	-	100,000
Heritage Insurance Company Kenya Ltd.	-	-	200,000	400,000
	-	-	200,000	500,000

33. Related party transactions (Continued)

f) Investment management expenses

	GROUP	
	2013 Shs' 000	2012 Shs' 000
STANLIB Kenya Ltd.	80,950	61,800
	80,950	61,800

g) Outstanding balances with related parties

i) Accounts receivable	2013 Shs' 000	2012 Shs' 000
Strategis Insurance Tanzania Ltd.	432	38,300
STANLIB Kenya Ltd.	7,368	10,581
CfC Stanbic Bank Ltd.	4,351	-
Liberty Life Assurance Uganda Ltd.	4,159	48
Liberty Health (RSA) Ltd.	636	-
Mac Group Ltd.	173,653	-
	190,599	48,929

ii) Accounts Payable	GROUP		COMPANY	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
CfC Stanbic Bank Ltd.	16,299	11,083	-	6,519
Strategis Insurance Tanzania Ltd.	-	36,744	-	-
CfC Investments Ltd.	-	-	106,669	106,669
Heritage Insurance Company Kenya Ltd.			8,720	
STANLIB Kenya Ltd.	2,165	7,243	-	-
CfC Stanbic Holdings Ltd.	-	10,866	-	10,866
Liberty Africa Holdings Ltd.	40,223	70,451	-	-
	58,687	136,387	115,389	124,054

These amounts are unsecured and have no specific repayment period.

h) Financial investments

	GROUP		COMPANY	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
CfC Stanbic Bank balances and deposits	548,505	1,099,542	-	44,705
CfC Stanbic Bank corporate bonds	349,864	408,893	-	-
CfC Stanbic Holdings Ltd equity investments	23,316	11,501	-	-
	921,685	1,519,936	-	44,705

i) Key management compensation

	GROUP		COMPANY	
	2013 Shs' 000	2012 Shs' 000	2013 Shs' 000	2012 Shs' 000
Salaries and other employment benefits	277,502	210,378		-
	277,502	210,378	-	-

	GROUP	
	2013 Shs' 000	2012 Shs' 000
Fees for services as a director	4,351	3,492
	4,351	3,492

Shareholding

Shareholding

i) Top ten shareholders

	Number of shares held	Shareholding %
1. Liberty Holdings Limited	292,762,096	56.82%
2. African Liaison and Consultants Services Limited	156,098,266	30.29%
3. Sovereign Trust Limited	14,441,154	2.80%
4. Standard Chartered Nominees	9,932,200	1.93%
5. Archer and Wilcock Nominees Limited	6,125,000	1.19%
6. Kingway Nominees Limited	5,198,498	1.01%
7. The Government of Kenya	4,342,548	0.84%
8. Kenyalogy.Com Limited	1,361,436	0.26%
9. CfC Stanbic Noninees Ltd A/C 1030653	1,171,400	0.23%
10. CfC Stanbic Noninees Ltd A/C 1030819	890,600	0.17%

ii) Distribution of shareholding

	Number of shareholders	Number of shares held	Shareholding %
1-500	1,753	369,779	0.0718%
501-5,000	1,463	2,558,761	0.4966%
5,001-10,000	463	3,531,446	0.6854%
10,001-100,000	323	9,299,484	1.8048%
100,001-1,000,000	30	8,078,296	1.5677%
Over 1,000,000	9	491,432,598	95.3737%
Total	4,041	515,270,364	100%

To: The Company Secretary
Liberty Kenya Holdings Limited
P O Box 30390 - 00100
NAIROBI

PROXY FORM

I/ We, ____

of P O BOX ____

being a member of LIBERTY KENYA HOLDINGS LIMITED hereby appoint

of ____

or failing him ____

of ____

as my/ our proxy to vote on my/ our behalf at the Annual General Meeting of the Company to be held on Wednesday, 21st May 2014 and at any adjournment thereof.

Dated this ____________________ day of ____________________ 2014

Signed ____________________

Name ____________________

Note: The Proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.