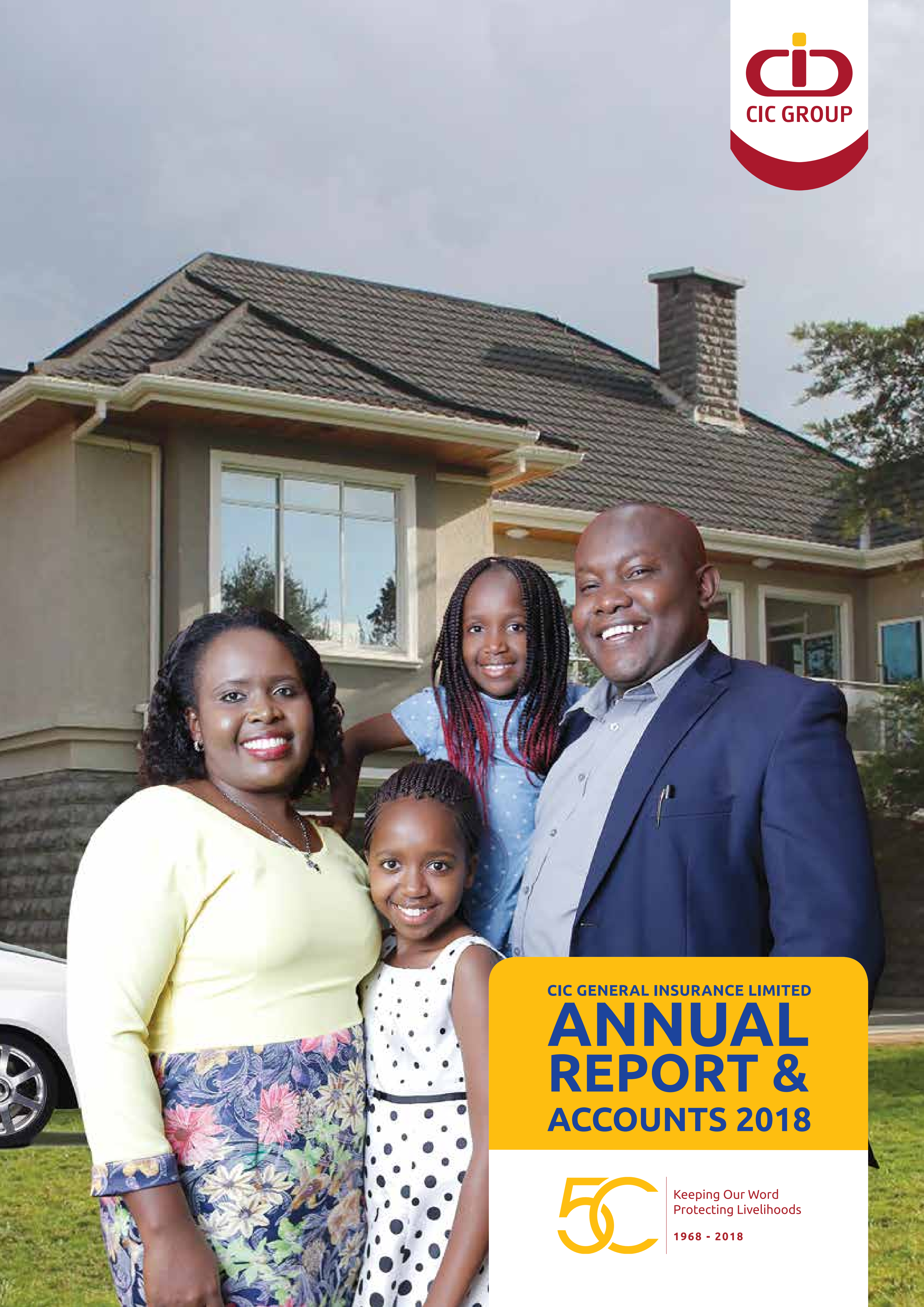

CIC GROUP

CIC GENERAL INSURANCE LIMITED

ANNUAL REPORT & ACCOUNTS 2018

50

Keeping Our Word
Protecting Livelihoods

1968 - 2018

OUR PHILOSOPHIES

1

OUR PURPOSE (MISSION)
Enable people achieve Financial security

WHO WE ARE

CIC Insurance Group is a leading Cooperative Insurer in Africa, providing insurance and related financial services in Kenya, Uganda, South Sudan and Malawi. The Group offers a wide range of products.

Keeping Our Word
Protecting Livelihoods
1968 - 2018

2

OUR VISION
To be a world class provider of insurance and other financial services

3

OUR VALUES

Integrity
- Be fair and transparent

Dynamism
- Be passionate and innovative

Performance
- Be efficient and results driven

Cooperation
- Live the cooperative spirit

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CIC GENERAL INSURANCE LIMITED
CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS

Edwin Otieno	- Chairman
Elijah Wachira	- Managing Director
Tom Gitogo	
Jonah Mutuku	
Mary Mungai	
Peter Nyigei	
Patrick Nyaga	
Judith Oluoch	

COMPANY SECRETARY
Mary Wanga
Certified Public Secretary (Kenya)
P. O. Box 59485 - 00200
Nairobi

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

SENIOR MANAGEMENT

Elijah Wachira	- Managing Director
Mary Wanga	- Company Secretary
Fred Ruoro	- General Manager-Medical Division
Dickson Ireri	- General Manager-Operations
Michael Mugo	- General Manager – CIC Town Office
Linda Otieno	- Senior Manager-Finance
Christian Ogolla	- Senior Manager-Claims
Faith Muriungi	- Senior Manager- Underwriting
Grace Nzivwa	- General Manager-Sales
Edel Njeri	- Sales Manager
Peter Itumbiri	- Human Resource Business Partner
Susan Robi	- Group Risk and Compliance Manager
Muyesu Luvai	- Group Chief Internal Auditor
Salome Ndegwa	- Actuarial Manager
Florence Kimani	- ICT Manager

AUDITORS
Ernst & Young LLP
Certified Public Accountants (Kenya)
Kenya Re Towers, Upper Hill
P. O. Box 44286 - 00100
Nairobi

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

CIC GENERAL INSURANCE LIMITED
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN OF THE 7TH ANNUAL GENERAL MEETING OF CIC GENERAL INSURANCE LIMITED TO BE HELD ON TUESDAY THE 21ST DAY OF MAY, 2019 AT 12.00 PM, CIC PLAZA II BOARDROOM ELEVENTH FLOOR TO TRANSACT THE FOLLOWING BUSINESS:

ORDINARY BUSINESS:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the Meeting.
3. To confirm the Minutes of the 6th Annual General Meeting.
4. To receive and discuss the Chairman's Report.
5. To receive, consider and if thought fit, approve the Annual Audited Financial Statements for the year ended 31st December 2018 together with the Directors', Auditor's and Governance Statement thereon.
6. To declare a dividend.
7. To consider and if thought fit, re-appoint Ernst & Young as Auditors of the Company, having expressed their willingness to continue in office in accordance with Section 721(2) of the Companies Act, No 17 of 2015 and to authorize the Directors to fix their renumeration.
8. Election of Directors:
   a. Messr Edwin Otieno who retires by rotation in accordance with Articles 103 & 105 of the Company's Articles of Association, and being eligible offers himself for re-election.
   b. To note the retirement of Director Mrs. Mary Mungai (Representative of PS Ministry of Industry, Trade & Cooperatives; who has served her full tenure.
   c. Ms. Judith Oluoch who retires by rotation in accordance with Articles 103 & 105 of the Company's Articles of Association, and being eligible offers herself for re-appointment.
9. In accordance with the provisions of section 769 (1) of the Companies Act 2015, the following Directors, being members of the Audit Committee of the Board, be confirmed to continue to serve as members of the said Committee and authorize the Board to appoint the other members of the Audit Committee.
   a. Dr. Rachel Monyoncho.
   b. Messr Patrick Nyaga.
10. To authorize the Board to fix the Directors remuneration.

Dated at Nairobi this 30.4.2019

Mwanga

BY ORDER OF THE BOARD
MARY WANGA
COMPANY SECRETARY

NOTE:
1. In accordance with section 298 (1) of the Companies Act, 2015 (Laws of Kenya) every member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his behalf and a proxy need not be a member of the Company.
2. The instrument appointing the proxy must be delivered to the Secretary not less than forty eight (48) hours before the meeting. A proxy form is provided with this notice.
3. A copy of the entire Annual Report and Financial Statements of the Company may be viewed at our Company's website *www.cic.co.ke*. A copy of the proxy form is also available on the website.

CHAIRMAN'S STATEMENT

On Behalf of the board of CIC General, I am pleased to present the annual report and financial statements for the year ended December 2018.

OVERVIEW

In 2018 Kenya's economic growth continued on an upward trajectory compared to the previous years. Kenya's economy recorded a growth of 6% compared to 4.7% in the previous year. The growth was spurred by recovery in agriculture, increased output in manufacturing and retail sectors and continued recovery of the tourism sector. Credit growth continued to be slow due to the impact of capping of interest rates with banks finding it difficult to adequately price risk hence preferring to lend to the government at the expense of the private sector. We await action on the judgement annulling rate capping and expect private sector credit growth to improve in 2019. The exchange rate was more stable in 2018 than in 2017.The Kenyan Shilling remained resilient in 2018, appreciating by 1.3% against the USD during the year to close at Kshs. 101.3, from Kshs. 103.2 in 2017. In 2018, inflation averaged 4.7% compared to the 2017 average of 8.0%. Inflation rose towards the tail end of the year to 5.7% in December, mainly due to rising fuel prices due to the implementation of the 8.0% VAT on fuel.

2019 is projected to continue growing positively with GDP expected to grow at 6.3%, the other macroeconomic indicators such as inflation, interest rates and currency exchange rates are also looking up. Global factors such as the trade wars (China and USA), Brexit, US monetary policy are on the government's watch list so as to mitigate against any adverse impacts on Kenya.

COMPANY PERFOMANCE

CIC General performed well in 2018 .The Company reported Gross written premiums of Kshs. 10.2B up from Kshs.10.1B in 2017. Profit before tax almost doubled and was recorded at Kshs.630M compared to Kshs. 335M in 2017. This was an 88% growth from 2017. Earlier adoption of IFRS 9 had an impact on our retained earnings in the 2018 results and as seen in the flat net asset growth. We like the other industry players suffered the impact of equity losses due to the poor performance of the stock markets. Our claims and expense ratios showed good improvements resulting from implementation of various strategic initiatives to turn around the business performance. Our decision to focus on underwriting and claims during a period of depressed investment income paid off.

According to IRA third Quarter report, the industry's trend of underwriting results has been declining over the last three years. During the year under review the industry recorded the highest underwriting loss of Kshs. 1.6B compared to a profit of Kshs. 556M in a similar period in 2017. The industry premium growth was also at its lowest at 3.5%.

REGULATORY ENVIRONMENT

Greater awareness of insurance and demand for products are driving changes in the insurance sector, from mergers, acquisitions, consolidations and new entrants as well as proposed new regulations. This is underpinned by changing distribution channels and driving great financial inclusion. The regulations are designed to enhance the sustainability of the sector through consumer protection.

In 2018, parliament approved for enactment changes to the Insurance Act, cap 487 which are expected to be observed by all industry players. The enforcement is intended to result in well capitalized, stable and secure industry players by June 2020. CIC General Insurance Limited has put in place measures that have seen us fully compliant as far as capital adequacy and other regulatory requirements are concerned.

OUTLOOK

We look into the future with great optimism, with focus on providing excellent customer service, leveraging on new technologies and increasing staff productivity.

ACKNOWLEDGEMENT

I sincerely appreciate and thank my fellow board members for their immense support. I thank the entire staff of CIC General for their diligent service and dedication.

I thank our shareholders for entrusting us with the responsibility of overseeing their investments and believing we can achieve greater performance.

Edwin Otieno, OGW
Chairman

BOARD OF DIRECTORS

Edwin Otieno Joseph, OGW

Peter Kipkirui Nyigei

Jonah Makau Mutuku

Mary Mungai


Judith Oluoch
Patrick Nyaga
Elijah Wachira
Tom Gitogo
Mary Noel A. Wanga

BOARD OF DIRECTORS

Edwin Otieno Joseph, OGW
CHAIRMAN

Mr. Edwin Otieno Joseph, aged 60, joined CIC Board in 2012. He is the Director representing Cooperative Insurance Society Ltd (CIS) Nairobi Region Government based societies.

Peter Kipkirui Nyigei
VICE - CHAIRMAN

Mr. Peter Kipkirui Nyigei aged 66, is the Director representing Rift Valley Region based societies and is the secretary of Sinendet Tea Multipurpose Society. Further he is a Director of Imarisha SACCO. Mr.Kipkirui is a retired teacher and principal who at one time served as a Programme Officer and a trainer in Early Childhood Education in Bomet, Nakuru, Baringo and Kericho Counties. The Director has undergone General Insurance Business training and is a member of the Institute of Director.

Jonah Makau Mutuku
DIRECTOR

Mr. Jonah Makau Mutuku aged 71, is the Director representing Coast and North Eastern Province based Societies and is the Chairman of Mafanikio SACCO. He is a retired teacher and serves at ACK St. Philips Church. He is also a lay Canon of the Cathedral of the Anglican Church of Mombasa Diocese. Mr. Mutuku is a Delegate of Co-op Holdings Co-operative Society (the anchor shareholder of Cooperative Bank). He is also a member of the Institute of Directors of Kenya.

Mary Njeri Mungai
DIRECTOR

Mrs. Mary Mungai aged 61, is the Commissioner for Co-operatives Development in the Ministry of Industry, Trade and Cooperatives. The Director holds an MSC in Agricultural Economics from Purdue University in USA and a BSC in Agriculture from the University of Nairobi. Mrs. Mungai has over 36 years' experience and skills in policy analysis, policy development, project design and project evaluation. She has held various leadership positions in the Ministry of Agriculture and Ministry of Cooperatives and has overseen implementation of various government and development partners. Mary is a member of the Institute of Directors of Kenya.

Tom Gitogo
DIRECTOR

Mr. Tom Gitogo aged 50, is the Group Chief Executive Officer. Tom has an MBA in Strategic Management and holds a BSc in Civil Engineering from the University of Nairobi. He is a Fellow member of the Institute of Chartered Accountants in England and Wales (ICAEW) and a member of the Institute of Certified Public Secretaries of Kenya. Tom is also a Fellow member of ICPAK and a Fellow member of the Kenya Institute of Management. He is the Deputy Chairman of the Association of Kenya Insurers (AKI) and the Chairman of its Life Insurance Council. Tom also sits in the Life Insurance Committee of the African Insurance Organization (AIO). Tom is also a Member of the Institute of Directors of Kenya. He is a Board member of ICMIF (International Cooperative and Mutual Insurance Federation).

Patrick Nyaga
DIRECTOR

Mr. Patrick Nyaga, aged 51, has over 25 years working experience mainly in auditing and banking. He is the Director representing Co-operative Bank (K) in CIC Board. He has worked in various senior positions in banking and is currently the Group Finance and Strategy Director - Cooperative Bank of Kenya Limited. He previously served at Barclays Bank as the Regional Head of Assurance and at KPMG (EA), with the main focus being audit of financial institutions in Kenya and the region. He holds a Master of Business Administration from Strathmore Business School and a Bachelor of Commerce Degree in Accounting. He is a Certified Public Accountant (K) and a member of ICPAK. He is also a member of the Institute of Directors of Kenya and has undergone training in several Corporate Governance courses including General Insurance Business.

Judith Oluoch
DIRECTOR

Ms. Judith Oluoch, aged 49 years, joined CIC General Board in January 2016 as an Independent Director. She has a Bachelor of Education from Moi University, MBA from Kenyatta University, Board Competence -Female Futures (Oslo and Akershus University), Certified Human Resource Professional (CHRP III), and Higher National Diploma in Human Resource Management. She has over twenty years of experience in Academia, Institutional Development, Corporate Governance and Human Resource in various organizations.

Previously worked for Centre in Corporate Governance as Training and Education Manager, Lecturer Kenyatta University, Kenya Polytechnic (currently Technical University of Kenya). Currently she is the Head of Business Development at Civil Society Urban Development Platform (CSUDP) and an independent consultant in corporate governance and human resource. She is a member of Kenya Institute of Directors Kenya and Institute of Human Resource Management (IHRM).

Elijah Wachira
DIRECTOR

Elijah aged 51, is the Managing Director CIC General Insurance. He holds an MBA in Strategy and Marketing from the University of Nairobi and a Bachelor of Arts from Egerton University. He is a member of Chartered Insurance Institute (CII) of London and Marketing Society of Kenya (MSK). He has a wealth of experience in general insurance business in both Kenya and the East African Region. He is specialized in strategy formulation and implementation. Elijah joined CIC in 2015.

Mary Noel A. Wanga
COMPANY SECRETARY

Ms. Wanga aged 50, is the Company Secretary and an Advocate of the High Court of Kenya with over 21 years' experiences both as a practicing and corporate lawyer. She joined CIC in 2008 as a Company Secretary and Legal Advisor.
Ms. Wanga is a Certified Public Secretary CPS (K) and holds a Bachelor of Law Degree, Bachelor of Social Legislation, and Post Graduate Diploma in Kenya Laws and Diploma in Insurance (AIIK). She is also a Member of the Institute of Directors Kenya, Insurance Institute of Kenya, LSK, ACIArb and ICPSK. She is an accredited governance auditor.

MANAGING DIRECTOR'S STATEMENT

On behalf of the management team of CIC General it is my pleasure to present the Annual Report and Financial Statements for the year ended 31st December 2018.

OVERVIEW

Performance in an insurance organization like CIC General Insurance Ltd is determined by underwriting and investment results. In underwriting we mainly evaluate risks to arrive at terms of acceptance, and ensure proper management of the risk and any claims that may result during the period of insurance. Clients usually pay premiums for the professional services rendered. These premiums are invested for investment returns.

The investment environment in 2018 was fairly unpredictable despite the political calm that followed the March 9th handshake between the President and the Leader of the Opposition. Capping of interest rates continued to impact heavily on access to credit to the private sector and on the investment returns reported by the financial players. The stock market faced the biggest losses due to a decline in equities following foreign investor outflows that hit frontier and emerging markets as they showed little confidence in their performance. Kenya was particularly affected following the strained relations with the International Monetary Fund (IMF) after failure to complete two reviews of the program that ended in September 2018. The property market growth slowed down due to impact of all these macro-economic factors.

On a positive outlook, real Gross Domestic Product is expected to grow by 6.3% in 2019 because of improved business and political environment, market confidence and continued macroeconomic stability. The President's current strong push for full implementation of the Big Four agenda which focuses on manufacturing, affordable housing, universal health coverage, and food security is envisaged to transform the nation by addressing socio-economic challenges, and accelerate economic growth to at least 7% every year going forward.

INDUSTRY PERFORMANCE

The insurance industry growth rate continued on a downward trend as per 2018 quarter four IRA report. Insurance premiums registered a growth of 3.5% compared to 6.6% as at the end of 2017. Profits for the industry likewise declined by 396%.The decline in performance can mainly be attributed to poorly priced risks, poor investment returns, increased fraud and high management expenses. CIC General's premiums grew at 1%. CIC General however defied the industry profitability trends by growing at 88% compared with 2017.

COMPANY PERFORMANCE

The company reported a gross written premium of KShs 10.2B up from KShs 10.1B in 2017. This is 1% growth. Medical business premiums grew by 27% from KShs 2.3B in 2017 to KShs 2.9B in 2018, while the non-medical general business premiums closed at KShs 7.3B down from KShs 7.8B in 2017. The decline in premium growth of non-medical general business was deliberate and anticipated out of management's decision to be selective in risk acceptance and pricing, with the aim of growing underwriting profits. This decision led to improved quality of business written. Investment and other income dropped from KShs 884M in 2017 to KShs 669M, mainly due to the impact of equity losses. We were also negatively impacted by the continued capping of interest rates on banks.

Loss ratio improved from 67% in 2017 to 66% in 2018, with improvement in Motor and Liability loss ratios. Expense ratio dropped from 29% in 2017 to 22% in 2018 following a robust cost management strategy. Overall our combined ratio also improved from 107% to 100% in the year under review. The company's profits before tax grew by 88% from KShs 335M in 2017 to KShs 630M in 2018. Total equity grew from KShs 3.99B to KShs 4.14B due to growth in profits.

The 2018 financial results are a reflection of the continued implementation of the 2017-2021 strategic plan initiatives themed "profitable growth whilst maximizing stakeholder satisfaction". Some of the broad initiatives that bore fruits in 2018 include product repricing based on analytics, claims management, deliberate focus in cost containment, digitization of business processes, efficiency in operations, improved customer service and employee development and engagement.

Growing the topline profitably was a key strategic focus area where we continued to relentlessly pursue acquisition of new profitable accounts and renewed profitable policies. We ensured that our sales force were effective through training and performance management. We also continued to actively engage our intermediaries without whose support, the good growth in profits would not have been realized.

On pricing, we implemented a policy where rates were scientifically determined based on the risk profile of the customer. This led to a reduction in rates for some clients and increase in others. Overall, we retained a big number of happy customers. In addition we saw good growth in micro business particularly agriculture, Corporates, SME's, NGO's, a rise in individual customers, and Cooperatives.

Claims management was another key focus area. To this end we opened an assessment center to examine all motor private vehicles involved in accidents to inform decisions relating to the nature of damage and repairs required. Our aim was to contain garage costs and improve the customer experience in the process. The results were encouraging where in addition to saving on claims costs, we experienced shorter turnaround times which pleased our customers, and had better distribution of works amongst garages and assessors who are our stakeholders. We continued to implement the cost containment strategies across the company with caution not to hamper business operations.

During 2018 we acquired a new state of the art general business underwriting system, that will see CIC General's underwriting and claims management process significantly improve. We believe that this will result in highly satisfied intermediaries and clients. We will continue with the implementation of the system into 2019. As a team we also focused on fully implementing the medical system referred to as E-Oxygen. CIC General will now be able to directly link with clients and providers through web portals and mobile applications for faster reliable service. The heavy investment in ICT infrastructure is intended to make the customer experience in CIC like no other. Feedback received so far attests to the huge milestones we have realised in our objective towards having the happiest customer.

Our employees have continued to be a pivotal component of our strategic objectives and their engagement is key. We have continued to employ various initiatives to retain engagement at very high levels including but not limited to various recognition methods, training and creating an open environment, where they can work and express themselves freely towards building a better company.

FUTURE OUTLOOK

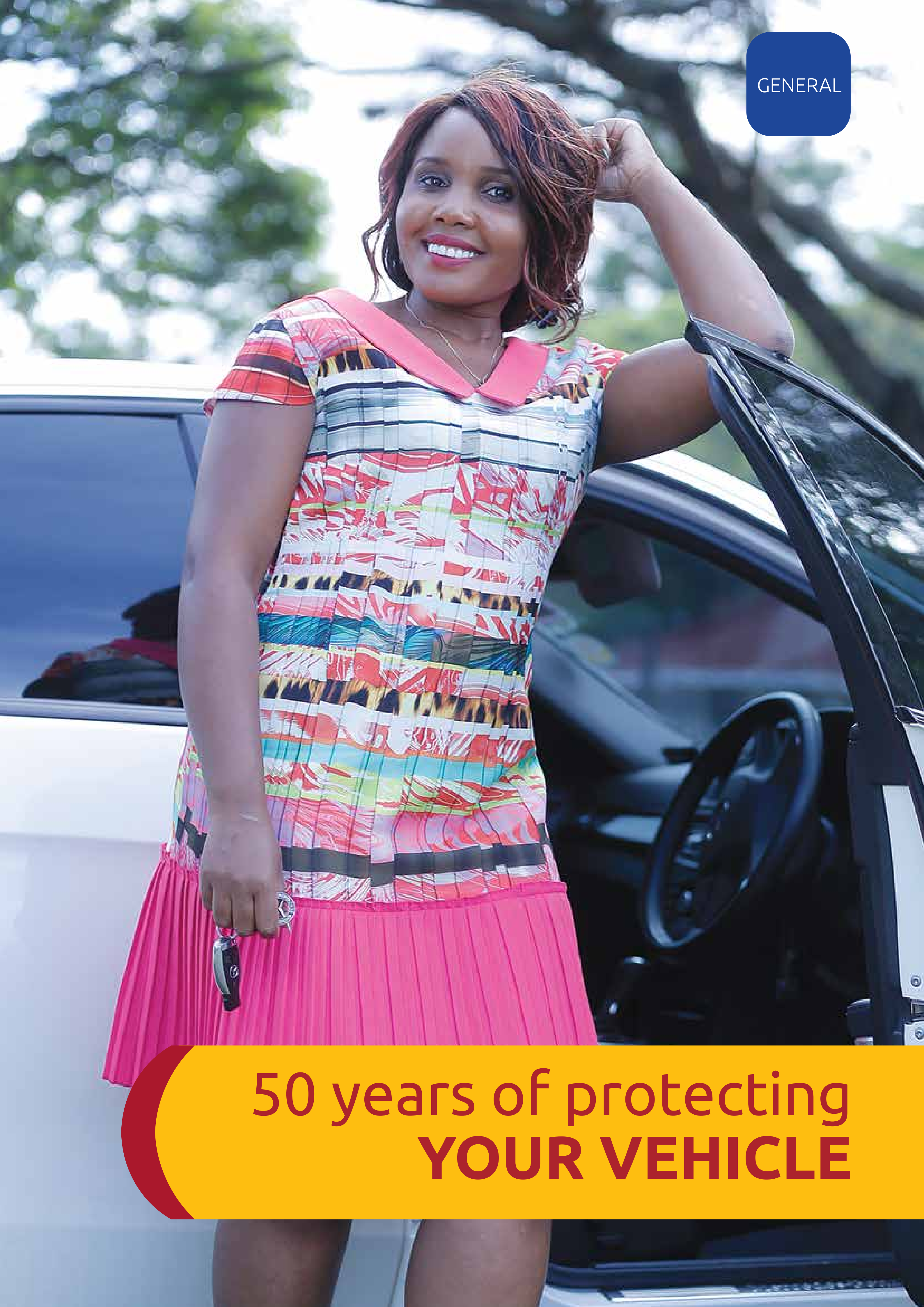
We project a very bright future for all our stakeholders: Customers and intermediaries should expect fast, friendly and accurate service. Suppliers should anticipate timely and commensurate compensation for services rendered. Our employees should expect a good working environment and rewarding careers, and shareholders should anticipate better returns on investment.

ACKNOWLEDGEMENT

I would like to take this opportunity to sincerely thank our customers and business partners for the support and confidence in CIC. I would also like to thank the board of management and staff for their hard work and dedication to the company.

Lastly I would also like to thank the board of directors for their visionary leadership and support.

Elijah Wachira
Managing Director


GENERAL
50 years of protecting
YOUR VEHICLE

SENIOR MANAGEMENT

Dickson Ireri

Elijah Wachira

Michael Mugo

Mary Noel A. Wanga


Fred Ruoro
Linda Otieno
Christian Ogolla
Faith Muriungi

SENIOR MANAGEMENT

Joseph Ngige

Salome Ndegwa

Muyesu Luvai

Susan Robi

SENIOR MANAGEMENT

Elijah Wachira

Elijah aged 51, is the Managing Director CIC General Insurance. He holds an MBA in Strategy and Marketing from the University of Nairobi and a Bachelor of Arts from Egerton University. He is a member of Chartered Insurance Institute (CII) of London and Marketing Society of Kenya (MSK). He has a wealth of experience in general insurance business in both Kenya and the East African Region. He is specialized in strategy formulation and implementation. Elijah joined CIC in 2015.

Michael Mugo

Michael aged 48, is the General Manager Metropolis. Mr. Mugo is a B.Ed. graduate from the Moi University. He has an Executive MBA from JKUAT. He has Certificate of Proficiency (COP) from the College of Insurance. He has an extensive career in Insurance having started his career as a Sales Rep. Mr. Mugo Joined CIC in 2003.

Dickson Ireri

Ireri aged 53, is the General Manager Operations. He holds a Bachelor of Commerce (Accounts Option) and a Masters of Business Administration (MBA). He is also an associate of Insurance Institute of Kenya (AIIK). Dickson is the Convenor of the Accident Technical Committee and a member of General Accident Council at the Association of Kenya Insurers(AKI). Mr. Ireri has been in the insurance industry for 27 years. He joined CIC in 1992.

Fred Ruoro

Fred aged 37, is the General Manager Medical. He holds a Bachelor's Degree in Mathematics & Physics from The University of Nairobi. Fred holds a Diploma in Management Accounting from Chartered Institute of Management Accountant (CIMA). He also attended several Leadership and Management programs, which include; Program for Management Development at Strathmore University, Accelerated Leadership Program at Centre for Creative Leadership – SA and Managing for results at Strathmore University among many others. He joined CIC in 2016.

Mary Noel A. Wanga
COMPANY SECRETARY

Ms. Wanga aged 50, is the Company Secretary and an Advocate of the High Court of Kenya with over 21 years' experiences both as a practicing and corporate lawyer. She joined CIC in 2008 as a Company Secretary and Legal Advisor.

Ms. Wanga is a Certified Public Secretary CPS (K) and holds a Bachelor of Law Degree, Bachelor of Social Legislation, and Post Graduate Diploma in Kenya Laws and Diploma in Insurance (AIIK). She is also a Member of the Institute of Directors Kenya, Insurance Institute of Kenya, LSK, ACIArb and ICPSK. She is an accredited governance auditor.

Linda Otieno

Linda aged 38, is the Senior Manager - Finance. She holds a Master of Business Administration degree in Strategic Management (UON) and a Bachelor of Science in International Business Administration from USIU. She is also a Certified Public Accountant of Kenya (CPA-K) and a registered member of ICPAK. She has over 10 years' experience in Finance in the Insurance Industry.

Christian Ogolla

Christian aged 39, is the Senior Manager – Underwriting. He holds a B.A (Financial services Management) from Edinburgh Napier University. He is also a fellow of the Chartered Insurance Institute (FCII) London and an Associate of the Arbitration Institute of Kenya (Acirb). He has over 20 years' experience in the insurance industry and joined CIC in August 2015.

Faith Muriungi

Faith aged 50, is the Senior Manager Claims. She holds a Bachelor of Commerce degree (Insurance Option). She also has a Diploma in Insurance (ACII). Mrs. Muriungi has over 20 years' experience in the insurance industry. She joined CIC in 2015.

Edel Njeri Marambu

Edel aged 50, is the Sales Manager. She holds a Bachelor's of Commerce degree. She is an Associate of Chartered Insurance Institute (ACII). Ms. Marambu has over 22 years' experience in the insurance industry. She joined CIC in 2001.

Grace Mundu

Grace aged 49, is the General Manager Sales. She holds a Master's degree in Business Administration (Strategic Management) from Daystar University and B.com (insurance option) from UON. She is A Fellow of the Insurance Institute of Kenya - FIIK and an Associate of the same Institute (AIIK). Mrs. Mundu is highly skilled in insurance and marketing with over 24 years' experience in the insurance industry. She joined CIC in 1998 and has served in various capacities culminating to the current position.

Mwenda P. Itumbiri

Mwenda aged 44, is the Human Resource Business Partner. He holds a Bachelor of Science Degree (Biochemistry) from Egerton University, a Master of Business Administration, MBA (Human Resource Management) from the University of Nairobi, a Higher Diploma in Human Resource Management from the Kenya Institute of Management, KIM and Diploma in Insurance from the College of Insurance. Mr. Mwenda is also a Certified Quality Management Systems Lead Auditor with over 18 years Leadership and Management experience, 14 of which have been in Strategic HR Leadership. He is a full member of the Institute of Human Resource Management, MIHRM, the Kenya Institute of Management, MKIM, Insurance Institute of Kenya, AIIK and the Institute of Directors, Kenya, IOD.
Mr. Mwenda has been in the insurance industry for the last 7 years. He joined CIC Insurance Group in 2012.

Florence Kimani

Florence aged 43, is the ICT Manager. She holds a Masters of Business Administration (MBA) degree in Strategic Management from Daystar University and a Bachelor of Commerce degree (Management Science) from UON. She has also attained professional commendation on Oracle Certified Professional (OCP) and a Higher Diploma in Information Technology. Mrs. Kimani has over 20 years' experience in the insurance industry. She joined CIC in 1994.

SENIOR MANAGEMENT

Joseph Ngige

Joseph aged 50, is the Sales Manager. He holds a Masters of Business Administration (MBA) in Global Business & Sustainability and a Bachelor's degree in Business Administration. He has also attained professional qualification as an Associate, Life Management Institute (ALMI). He is a member of Insurance Institute of Kenya (IIK). Mr. Ngige has over 22 years' experience in the insurance industry. He joined CIC in 2011.

Muyesu Luvai

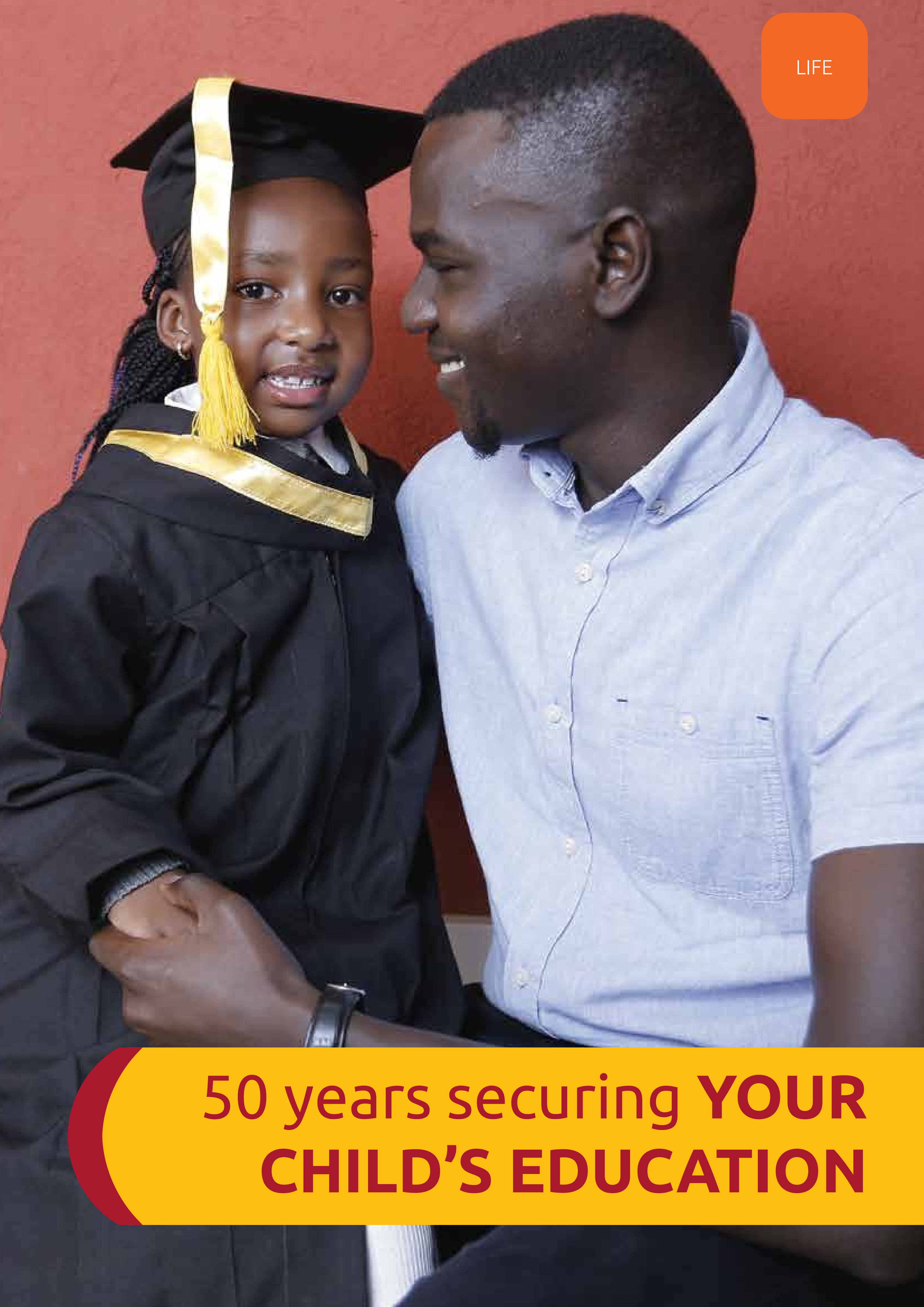
Luvai aged 42, is the Group Chief Internal Auditor. He is a Certified Public Accountant ('CPA (K)') and a member of the Institute of Certified Public Accountants of Kenya ('ICPAK'). He holds a Bachelor of Commerce degree (Marketing) from the University of Nairobi and a Master of Business Administration (MBA) degree with a concentration in Employee Relations/ Organizational Behaviour from the University of Leicester (UK). Prior to joining CIC in 2008, Mr. Luvai worked for Deloitte in the Audit & Assurance Division.

Salome Ndegwa

Salome aged 32, is the Actuarial Manager of General Business. She holds a BSC (Hons) in Actuarial science, Masters in Economical (Econometrics) and is fellow of the Institute and Faculty of Actuaries(IFoA) in the UK. Salome holds Certificates in financial econometrics, Mathematical Finance and New Managers Leadership Program from Strathmore Business School. Prior to Joining CIC Salome worked as a Lecturer in Strathmore University and Alexander Forbe(EA) in their actuarial department. She is a member of the Actuarial Society of Kenya (TASK).

Susan Robi

Susan aged 41, is the Group Risk and Compliance Manager. She is an Advocate of the High Court of Kenya holding a Bachelor of Laws ("LLB") Degree from the Makerere University and a Masters in Law and Finance from Goethe University (Institute of law and Finance) in Frankfurt Germany. Professionally Ms. Robi holds a Post Graduate Diploma from the Kenya School of Law and has 10 years of experience in various capacities and industries ranging from both Local and International Law Practice,Insurance, Finance and Risk Management. Ms.Robi joined CIC in 2011.


LIFE
50 years securing YOUR CHILD'S EDUCATION

CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

GOVERNANCE AUDITORS REPORT

Statement of the Responsibility of Directors

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organization. This responsibility includes planning, designing and maintaining governance structures through policy formulation that is necessary for efficient and effective governance of the organization. The Board is also responsible for ethical leadership, risk governance and internal control, transparency and disclosure, equitable protection and exercising of members' rights and obligations, compliance with laws and regulations, sustainability, performance management and strategy formulation and oversight.

The Board of Directors of CIC General Insurance Limited is committed to the highest standards of good corporate governance and strives for continuous improvement by identifying any loopholes and gaps in the Company's governance structures and processes. It is on this premise that the Board commissioned a governance audit, with the aim of ensuring that all processes necessary for directing and controlling the Company are in place.

The Directors have therefore ensured that the Company has undergone a governance audit for the year ended 31 December 2018, and obtained a report, which discloses the state of governance within the Company.

Governance Auditor's Responsibility

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the organization, in accordance with best governance practices as envisaged within the legal and regulatory framework. We conducted our audit in accordance with ICPSK Governance Audit Standards and Guidelines, which conform to global standards. These standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. The audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the Board has put in place a sound governance framework, which is in compliance with the legal and regulatory framework and in line with global best governance practices for the interest of stakeholders. In this regard, we issue an unqualified opinion.

CS. Calvin Nyachoti, ICPSK GA. No 00065
For Nyachoti & Partners Advocates
Date: 23 April 2018

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors of CIC General Insurance Limited strives to ensure that the company attain the highest standards of governance. The company recognizes that it has responsibilities to its shareholders, customers, employees, government agencies and business partners as well as the communities in its sphere of operations. The Board, being an arm that is bestowed with the ultimate responsibility of formulating policies, procedures and guidelines, has entrenched, prudent corporate governance structures and processes at the epicenter of the company's business operations. To this extent, the Board has adopted an appropriate Board Charter and suitable policies, and, established Board Committees with clearly defined terms of reference for performance of the Board's delegated functions.

This statement is current as at April 2019 and has been approved by the Board of Directors of CIC General Insurance Limited.

Introduction

CIC General Insurance Limited was incorporated on 29th July 2009 under certificate No. CPR/2009//7930 under Chapter 486 Laws of Kenya (Now repealed by the Companies Act No.17 of 2015) as a wholly owned subsidiary of CIC Insurance Group Limited in compliance with Insurance Regulatory Authority (IRA) directive of separating business of life and general. It was duly registered and licensed as a short term insurer on 27th November 2012.

The Board

The Board is responsible for company's sustainability and long term growth, strategy and profitability while providing direction and leadership within a framework of prudent and effective controls. The Board is therefore ultimately accountable to stakeholders for company's performance and upholding good corporate governance. In discharging that obligation, directors ensure compliance with the various laws and regulations.

Management is responsible for implementing the Board's strategy and objectives and for carrying out day to day management and control of company's affairs.

The Board's mandate incorporates principles of corporate governance guidelines as prescribed under the Insurance Act and Prudential Guidelines (IRA Corporate Governance Guidelines for Insurance and Reinsurance Companies June 2011), Memorandum and Articles of Association, The Companies Act No.17 of 2015, Kenyan Constitution 2010 as well as best practice within our jurisdiction and global level and CIC General Insurance Board Charter.

Table 1
The diagram below provides an overview of the Company's Corporate Structure.

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

The Board Charter

The Board Charter defines the relationship and interactions between the Board and Management and sets out matters expressly reserved for Board's decision. For instances it defines the Board's roles and responsibilities, powers, various Board Committees and their roles, separation of roles between the Board and Management, policies and practices of the Board that includes but not limited to the following:

i. Reviewing and approving the strategic direction of the company including:

   - Adopting business plans proposed by management for the achievement of the strategic direction set.
   - Monitoring management's performance and progress against strategy and financial objectives on an on-going basis.

ii. Approving specific financial and non-financial objectives and policies proposed by management.
iii. Reviewing processes for the identification and management of business risk and processes for compliance with key regulatory and legal areas.
iv. Delegating authority for lending and provisioning and write-off limits, with capital expenditure, investment, capital and funding proposals being reserved for the Board's approval.
v. Reviewing succession planning for both Board and Senior Management team and making senior executive appointments, organizational changes and high level remuneration issues.
vi. Providing oversight of performance against targets and objectives.
vii. Providing oversight of reporting to shareholders on the direction, governance and performance of the company as well as other processes that need reporting and disclosure.
viii. Provide oversight over the activities of the company.

The Charter is renewed at least annually.

A copy of the Board Charter is available on our website.

Each of the directors and all of the Company's management are fully committed to high standards of corporate governance, which includes embracing the following principles:

- To observe high standards of ethical and moral behaviour.
- To act in the best interests of shareholders.
- To ensure that the Company acts as a good corporate citizen and is recognised as an icon business.
- To recognise the legitimate interests of all stakeholders.
- To remunerate and promote fairly and responsibly.

The Board and the Company Secretary

The Board is assisted by the Company Secretary who is directly responsible to the Board through the Chairman on all matters to do with the proper functioning of the Board.

The Company Secretary attends all Board meetings and offers additional guidelines to the Board on matters relating to corporate governance and statutory matters.

The Company Secretary's role and responsibilities includes but not limited to the following:

- Facilitation of good information flows within the Board, its Committees and between Senior Management;
- Induction of new Directors and the on-going professional development of all Directors;
- Monitoring compliance with the Board's procedures and for advising the Board on all applicable laws and governance matters through the Chairman.

All Directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board.

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

Board Composition

The Board's composition in the financial year under review was targeted towards ensuring fair representation of the company's shareholding structure, as well as, size, optimization of appropriate mix of skill, experience, diversity, independence, gender and geographical mix to facilitate effective execution of its mandate.

The company's constitution sets a minimum of five (5) directors and a maximum of nine (9) directors including the Managing Director and the Group Chief Executive Officer.

The memorandum and Articles of Association of the company sets out the composition of the Board. The Board currently comprises of eight directors constituted as follows:

- Four non-executive directors including the Chairperson;
- Two executive directors
- Two independent directors.

The constitution of Directors provides that the executive directors are not eligible to stand for election as chairperson.

The Board Chairman Mr. Edwin Joseph Otieno is currently non-executive and his responsibilities include among others; setting the ethical tone for the Board, providing overall leadership to the Board in line with principles of collective responsibility for Board decisions that caters for the interests of the policyholders and shareholders, setting out the Board agenda for meetings and ensure adequate time is made available at each Board meeting for deliberation on all agenda items.

Detailed information on each of the Company's Director is set out in the Director's Report section of the 2018 Annual Financial Statements.

Table 2
The Board and Committees membership.
During the financial year ended 31st December 2018, the Board and Committees was composed as follows;

DIRECTOR	BOARD	COMMITTEES	
		AUDIT & RISK	FINANCE AND INVESTMENT
Edwin Joseph	Chairman Non-Executive	*	Member
Mr. Peter Nyigei	Group Vice Chairman Non-Executive	*	Chairman Member
Tom Gitogo	Executive Group CEO	*	*
Jonah Mutuku	Non-Executive	Member	*
Mary Mungai	Non-Executive Independent	Member	*
Elijah Wachira	Executive Director	*	*
Patrick Nyaga	Non-Executive	Chairman Member	Member
Judith Oluoch	Non-Executive Independent	*	*
Dr. Rachel Monyoncho**	Non-Executive Independent	Member	*
Rosemary Sakaja**	Non-Executive Independent	*	Member

Note: 1. **Directors drawn from sister companies; namely CIC Life Assurance Limited and CIC Asset Management Limited respectively.

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

Board Tenure of Office

In accordance with the company's articles of association, one third of the directors are eligible to retire by rotation at every Annual General Meeting and if eligible, may offer themselves for re-election by shareholders. Directors who have been in office longest, as calculated from the last re-election or appointment date are required to stand for re-election and or re-appointment in the case of Independent Directors. The company has complied with this provision as highlighted in the table below. The tenure of office of an Independent Director is limited to two terms of three years each.

Table 3
Directors Period of Office

Director	Date of Appointment to the Board	Date Last Re-Appointed
Edwin Joseph	28.3.2012	21.5.2019
Peter Nyigei	28.3.2012	22.5.2018
Jonah Mutuku	28.3.2012	14.6.2017
Patrick Nyaga	28.3.2012	22.5.2018
Tom Gitogo	20.5.2015	-
Mary Mungai	20.5.2015	22.5.2018
Elijah Wachira	11.5.2016	-
Judith Oluoch*	11.5.2016	21.5.2019

Note:

** Edwin Otieno retires from the Board on 21.5.2019 by rotation in accordance with Articles 103 and 105 of the Articles of Association of the Company, and being eligible offers himself for re-election as a Non-Executive Director of the Company.*

** Mary Mungai (Independent Non-Executive Director) retires from the Board on 21.5.2019 having served her full tenure.*

** Judith Oluoch retires from the Board on 21.5.2019 by rotation in accordance with Articles 103 and 105 of the Articles of Association of the Company, and being eligible offers herself for re-appointment as an Independent Director of the Company.*

Board Appointments

CIC General Insurance Board through the Nominations Committee at CIC Insurance Group PLC (Holding Company), annually reviews the required skills mix and expertise that individual directors bring to the board. The committee set the criteria for new director appointments by having regard to the overall composition of the Board.

When considering appointments to the Board, the Nominations Committee sets out to, among other things, bring on Board individuals who:

- Are persons of integrity as defined under Chapter Six of the Constitution of Kenya;
- Have sufficient abilities and time available to perform their roles effectively.
- Brings an independent and questioning mind to their role;
- Enhances the breadth and depth of skills and knowledge to the board as a whole; and
- Enhances the experience, independence and diversity of the board as a whole.

The Board being cognizant of the fact that each director may not have experience in all facets of the business, strives to achieve and attain an appropriate mix of directors with vast experience in the fields of their professions.

All directors are appointed under formal letters of appointment outlining the key terms and conditions applicable to Director Appointments setting out Director's role and responsibilities, time commitments, induction, performance, remuneration, disclosure of outside interests, independence and confidentiality.

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

All Directors have undergone the fit and proper due diligence assessment conducted by the regulator (Insurance Regulatory Authority) and approvals granted to all directors. All Directors also have a current certificate of good conduct from the Criminal Investigation Directorate and Credit Reference Bureau.

Directors' Skills and Experience

Independent governance audit conducted by Nyachoti and Partners Advocates in February 2018, found Directors independence, skills, experience, knowledge of company and its business and competencies compliant and qualified.

Director Induction and Continuous Professional Development

Newly appointed Directors receive appropriate induction and training, specifically tailored to the company's business and operation needs. The Board has put in place a comprehensive Board Induction Policy and programme for new Directors.

In view of the changing business environment, the Directors continuously undergo relevant training in order to enhance governance practices in the interest of the company. During the year under review, CIC General Board of Directors underwent various trainings facilitated by professionals in the industry including receiving updates on industry developments on legislation, governance, corporate and significant accounting matters. In October 2018, a comprehensive training on Corporate Governance was conducted by an external consultant Dorion Associates and in early in the year 2018 the Directors underwent various trainings inter-alia, financial investments, real estate and acturial sensitaization to broaden their knowledge of the company's business and operations.

Board Evaluation

Mounting stakeholders' expectations, challenges faced by companies to operate under fluctuating economic conditions, pressures of globalization and increased regulatory requirements have brought the quality of performance of the Boards of Directors under greater scrutiny.

The Board understands the importance of board performance and effectiveness in achieving the overall objectives and goals of the company. To this end, yearly performance appraisals of individual directors, the board committees, the chairman, managing director and the company secretary is conducted through a self-assessment appraisal to provide the basis for identifying future training needs and, where necessary, explain why a re-appointment may or may not be appropriate while providing a forum through which directors can consider the ways in which the board contributes to the overall goals and strategy of the organisation. During 2018 financial year, an extensive Self-Board evaluation and its Committees was facilitated by an independent third party; Dorion Associates.

The analysis of the 2018 Board and Committee evaluation results were subsequently presented to the Board early 2019. Overall, the Board was found to be well-functioning and delivering on the majority of its responsibilities. The Board scored 4.34 (86.8%) and maintained a very good performance as in the previous evaluations of 2016 and 2017.

Conflict of Interest

The Board recognizes the importance in handling conflict of interest which is essential in creating an organized culture of transparency. The Board has adopted a conflict of interest policy setting out strict guidelines which require all directors to declare their interests, if conflicted and a register of interests is maintained by the Company Secretary. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Code of Ethics and Conduct

The Board has also adopted a Directors' Code of Ethics and Conduct which sets out written standards of conduct expected of the Directors and which aims at encouraging amongst others, honest and ethical business conduct.

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

Fraud Awareness & Whistle Blowing Policy

The Company has a zero tolerance approach to fraud and corruption and has put in place proactive and reactive measures to address both. Employees are continuously sensitized on fraud awareness and their role in identifying, preventing and reporting fraudulent and corrupt behavior. In 2018, all employees undertook an online anti-money laundering training conducted in house.

Board Meetings

The Board meets regularly, at least four (4) times a year at quarterly intervals as guided by approved Board Calendar and holds additional meetings and briefings as and when board deems appropriate. Members of Senior Management attend the meetings at the invitation of the Board.

In the year 2018, the Board convened five (5) official Board Meetings including the Annual General Meeting. The attendance at the meetings is as detailed under table 4 below.

Attendance at the Meeting

Table 4 shows a summary of the attendance record of the directors at the Main Board and Committees Meetings. A record of attendance is kept with the Company Secretary. The record of attendance at meetings is also noted in the minutes of the meeting.

Table 4

Directors	Board Meeting		Audit and Risk Committee Meeting		Finance and Investment Committee Meeting	
	(a)	(b)	(a)	(b)	(a)	(b)
Edwin Otieno – Chairman	4	4	*	*	4	4
Jonah Mutuku	4	4	*	*	*	*
Mary Mungai	4	3	4	3	*	*
Peter Nyigei	4	4	*	*	4	3
Patrick Nyaga	4	2	4	4	4	3
Judith Oluoch	4	3	*	*	*	*
Rachel Monyoncho*	*	*	4	4	*	*
Rosemary Sakaja*	*	*	*	*	4	2
Tom Gitogo	4	4	4	4	4	4
Elijah Wachira	4	4	4	4	4	4
Mary Wanga (Secretary)	4	4	*	*	4	4

Notes:

(a) Number of meetings convened during year when the director was a member
(b) Number of Meetings attended by the Director during the year
(c) * Not a Member
(d) All the directors attended the company's Annual General Meeting held on 22.05.18.
(e) All the directors attended Financial Investment & Actuarial trainings held on 22.2.18 and 29.3.18 respectively.
(f) Rosemary Sakaja was appointed member of Finance and Investment Committee, mid year.

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

Board Committees

To enhance the efficiency and depth of achieving Board responsibilities, the Board has delegated certain functions to its two standing committees to effectively deal with specialized issues; namely the Audit and Risk Committee and Finance and Investment Committee, whilst retaining the ultimate collective accountability for performance and decision making.

The Committees of the Board are listed below and each has its own clearly defined Terms of Reference indicating the purposes, goals, duties and authority of the Committee as well as qualifications for committee membership, committee structure, operations and it's reporting structure to the Board.

The Committees' Membership is structured to spread responsibility and make best use of the range of skills across the Board.

The Board receives for adoption the minutes of all Committees meetings as well as a verbal report from the Committees Chairpersons on significant areas of discussion and key decisions.

The Committees mandates are reviewed annually. The terms of reference of all the Committees were recently reviewed and updated to align to best practice both local and global practices. The Committees have mandate to invite third parties including consultants and executive management to provide opinions and expert or technical advice.

Audit and Risk Committee

The Audit and Risk committee assists the Board to monitor and review the quality integrity, adequacy and effectiveness of company's financial reporting, reliability of risk management framework and internal control systems. It provides independent oversight of the company's financial reporting and effectiveness of the internal and external audit and ensures checks and balances within the company and related institutions.

Risk Management and internal control is a continuous process and has been considered by the Board on a regular basis throughout the year including regular review of strategic and operational risk, and the associated controls and mitigating factor.

The Committee is chaired by an independent non-executive director. The Group Chief Executive Officer, the Managing Director, the Group Chief Internal Auditor, the Group Risk and Compliance Officer, the Finance Manager, the Group Chief Finance Officer, Actuarial Manager and External Auditors are standing invitees to committee meetings. The Group Chief Internal Auditor doubles up as the secretary to the Committee.

In accordance with the provision of the Companies Act 2015, the Committee Members are confirmed yearly by the shareholders at the Annual General meeting.

During the period under review the Members of the Committee were:

1. Mr. Patrick Nyaga - Chairman
2. Dr. Rachael Monyoncho
3. Mrs. Mary Mungai

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

Finance and Investment Committee

The Committee provides financial oversight to the Company. The Committee's role includes approving suitable investment guidelines and operational framework of the company's investment portfolio activities, reviewing, scrutinizing and recommending annual budgets and revision of the same, and approving major expenditures. It also guides the overall investment strategy and formulate appropriate policies for prudent financial management.

During the period under review the Members of the Committee were:

1. Mr. Peter Nyigei - Chairman
2. Mr. Edwin Otieno
3. Mr. Patrick Nyaga
4. Mrs. Rosemary Sakaja

External Actuary

The Board engaged Independent firm of Actuarial Services (East Africa) Limited (ACTSERV) for a period of three (3) years ending 31st December 2018 to prepare and submit the annual financial condition report in respect of General Insurance Business and advise on solvency position and is satisfied that the partners possess the necessary expertise and experience and satisfies the "fit and proper" criteria. The contract sets out the Actuary's operational responsibilities and advisory role in relation to the Board including rights and obligations. The Board has unlimited access to the Independent Actuary. The Board recently extended the firm's appointment for a further period of one year effective 1st January 2019.

External Auditor

The Statutory (External) Auditors are EY appointed and confirmed by the shareholders at the Annual General Meeting on 22nd May 2018 and have so far been engaged for a period of six (6) years. The Auditors managing partner has been in continuous practice for a period of at least fifteen (15) years. The Statutory Auditors certified the company's financial statements in the year 2018. The Board has recommended to the shareholders the re-appointment of the statutory auditors EY at a Shareholders Annual General Meeting to be held on 21st May 2019. The Board is satisfied that the external auditors in executing their audit duties exercise their independent judgment in line with the International Financial Reporting Standards (IFRS), Insurance Laws and Regulations and Prudential Management Policies of the insurer and that there is no conflict of interest.

Business Ethics

The company is committed to adherence to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. A formal code of ethics has been implemented to guide management, employees and stakeholders on acceptable behavior when conducting business. Mechanisms are in place for employees and other stakeholders to seek advice or report concerns about unethical or unlawful behavior anonymously in line with our whistle-blower policy published in all business units.

Personal use of Company's assets and loans to Directors

The Audit and Risk Committee reviewed and confirmed that during the financial year under review there has not been any improper personal use of the company's assets by Directors. Further, at no time during the year was there any arrangement to which the company was a party, whereby Directors acquired benefits by means of transactions in the Company's shares. There were also no loans issued to Directors' at any time during the year.

Risk Management

The Board of Directors of CIC General Business put in place Risk Management Policy and an Enterprise Risk Management framework which incorporate applicable principles and guidelines of the International Standard ISO 31000:2009 Risk Management. This Policy sets out the framework for risk management and compliance.

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

The threshold of the company's ultimate risk appetite is set by the Board through its Audit and Risk Committee and the Board, on a quarterly basis or on such routine manner it may deem necessary, monitors managements' adherence to the set risk management policy including implementation and establishment of internal controls to identify, assess and manage risks.

The company has processes to systematically identify, assess and report on both financial and non-financial material business risks. Management routinely appraises the Board on the effectiveness of the company's management of its material business risk and internal controls.

Weekly meetings are held by the Senior Executive Management Committee to give briefs on significant developments and to make major decisions collectively. Monthly management meetings are held by the Management to monitor performance and to agree on measures for improvement.

Communication with Stakeholders

The Board recognizes the importance of effective management of stakeholders to positively impact the company's achievement of its strategy and long term growth and strive to ensure the company's corporate governance framework recognizes the rights of all stakeholders. To this extent, the Board encourages active co-operation between the company and stakeholders in creating wealth and sustainability of financially sound enterprise. The Board has put in place an effective stakeholders engagement strategy.

The Board is thus committed to promoting effective and open communication with all shareholders, ensuring consistency and clarity of disclosure at all times through:

- Continuous disclosure reporting to the Insurance Regulatory Authority in line with the Insurance Act requirements;
- Its annual reports; and
- Media releases and other investor relations publications on the company's website.

Further, the company communicates to its stakeholders in the following manner:

a) Annual General Meeting
b) Investor Briefings
c) Customer service
d) Various investor group meetings
e) Industry forums
f) Individual meetings with the media and regulators.

Statement of Compliance

The Board is satisfied that the company has, to the best of their knowledge, complied with all applicable laws and conducted its business affairs in accordance within the law and regulations, national and international standards as well as policies. In accordance with the company's operating model, the Board has reviewed the attestation of Management in this regard and to the knowledge of the Board no director, employee or agent of the company acted or committed any indictable offence under the Anti-Corruption laws in conducting the business of the company in the period under review nor was involved or been used as a conduit for money laundering or any other activity incompatible with the relevant laws. The Board continues to abide by its Charter, the internal codes of conduct, the Memorandum and Articles of Association of the Company and the Terms of Reference of Board Committees. The company continues to comply with all the statutory requirements relevant to its operation as a body corporate and complies with relevant regulatory guidelines as issued from time to time.

People and Policies

The Board has established and formalized various policies, processes and systems relevant to guide the business and periodically reviews the same.

CORPORATE GOVERNANCE STATEMENT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

Succession Planning

Careful management of the Board and Senior Management succession planning is vital for the effective functioning of the board. Taking into account the company's strategy and future needs of the company, as Directors retire, candidates with requisite attributes, skills and experience are identified to ensure that the board's competence and balance is maintained and enhanced. The board has also put in place succession planning policy for C-suites executives, senior management and critical key roles within the company's management framework, which is reviewed annually.

Board Access to Information

Directors have unrestricted access to management and company information, as well as the resources required to carry out their duties and responsibilities. The directors are authorized to get independent advice on matters within their scope. The board has ensured transparency and accountability in its financial reporting and general oversight of the business.

Shareholding

The authorized share capital of the CIC General is currently Kenya Shillings Two Billion (Kshs2,000,000,000). This is divided to 100,000,000 ordinary shares of Kshs. 20/= each.

The issued capital is currently Kshs One Billion Seven Hundred Million divided into 85,000,000 shares of Kshs 20/= each.

The shareholders of the company are as follows:

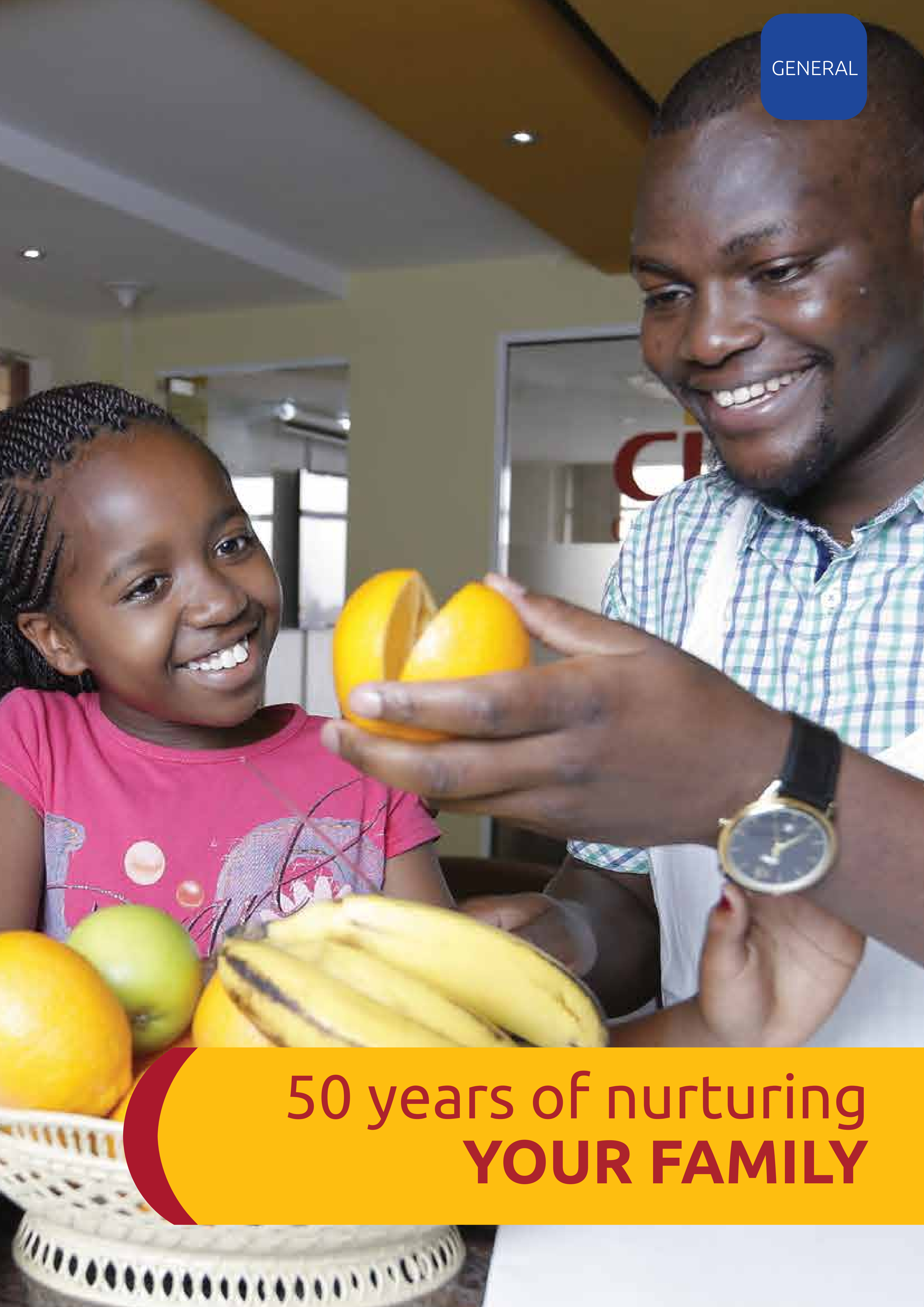
SHAREHOLDER	SHARES
CIC Insurance Group Limited	99, 999,999
Tom M Gitogo	1

Looking Ahead

The Board continues to support good governance and believes that the application of sound corporate governance principles based on ethical leadership ensures the business success and its sustainability.

Signed By Chairman on Behalf of CIC General Insurance Board

28th February 2019



50 years of nurturing **YOUR FAMILY**

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors submit their report together with the audited financial statements for the year ended 31 December 2018.

1. INCORPORATION

The Company is domiciled in Kenya where it is incorporated as a private company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 4.

2. DIRECTORATE

The directors who held office during the year and to the date of this report are set out on page 4.

3. PRINCIPAL ACTIVITIES

The principal activity of the company is the transaction of general insurance business. The company also invests in equities, government securities and properties.

4. COMPANY RESULTS

	2018 KShs '000	2017 KShs '000
Profit before taxation	630,069	335,212
Income tax expense	(249,779)	(63,337)
Profit for the year	380,290	271,875

5. DIVIDENDS

The directors recommend the payment of a first and final dividend of KShs. 2.68 per share amounting to KShs. 228 million (2017 - KShs 204 million) in respect of the year ended 31 December 2018.

6. BUSINESS REVIEW

ECONOMIC AND BUSINESS ENVIRONMENT

The Company operates in a complex economic and business environment, which has an impact on the strategies adopted by management in meeting the company objectives. The Kenyan economy registered a growth of 6.0% in 2018, which was attributable to favorable weather conditions and a stable macro environment; the factors discussed below, associated to this growth also had an impact (direct or indirect) on the company. The Kenya National Bureau of Statistics data shows that the economy grew by 6.0% in the fourth quarter of 2018 compared to 4.7% in fourth quarter of 2018. The country experienced heavy rains that impacted positively on agriculture and hydroelectric power generation. Tourism recorded the highest growth at 16.0% followed by ICT that grew 9.1%. Manufacturing sector expanded 3.1% from a contraction of 0.1% in 2017. To sustain the strong momentum, restoring credit growth will be crucial to economic stimulus. Fiscal deficit remains an impediment however the government has embarked on measures towards fiscal consolidation.

REPORT OF THE DIRECTORS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

6. BUSINESS REVIEW *(continued)*

ECONOMIC AND BUSINESS ENVIRONMENT *(continued)*

Inflation stood at 5.7% at the end of the year 2018 up from 4.5% in December 2017 driven by higher fuel, transport and food prices. The transport index was the most affected due to imposition of 8% VAT on petroleum products as well as a temporary increase in crude oil prices. Crude oil prices have continued to decline after oil producers came together to curb the shortage caused by the Iran sanctions. We expect inflation levels to be lower in 2019.

The currency gained 1.4% against the USD in 2018 supported by diaspora and agricultural inflows as well as intervention by the Central Bank of Kenya (CBK). The country's forex reserves stood at USD 8.43bn at the end of the year, which was equivalent to 5.25 months of import cover. The current account position has improved on the back of improved agricultural exports and tourism receipts giving the shilling a stable outlook.

The base lending rate by the Central Bank of Kenya (CBK) stood at 9% at end of the year. The Monetary Policy Committee (MPC) noted that inflation expectations remained well anchored within the target range, and that the economy was operating close to its potential.

The Nairobi All Shares Index and NSE - 20 lost 23.7% and 17.9% respectively; down from a gain of 17.6% and 30.4% in 2017 respectively. This was mainly attributed to foreign investor outflows that hit frontier and emerging markets as they showed little confidence in their performance. Kenya was particularly affected following uncertainty around new tax measures and lukewarm relations with the International Monetary Fund (IMF) after failure to complete two reviews of the program that ended on 14 September 2018.

COMPANY PERFOMANCE

The company's gross written premium grew to Ksh10.2B in 2018 from Ksh10.1B in 2017. Medical business was the fastest growing line of the business growing by 27% to KShs 2.9 Billion from KShs 2.3 Billion in 2017. Stringent Solvency requirements by the regulator and the poorly performing investment environment, led the company to adopt a strategy of reduced risk appetite and strict underwriting terms. Key risks facing the company and industry at large are fraudulent activities , undercutting by other players thereby causing unfair competition and challenges in collection of premiums. CIC General has however implemented various strategies and initiatives to mitigate against adverse effects of these risks. This includes adopting strict underwriting guidelines on pricing of all risks, thorough claims investigations, cost containments and aggressive collection of all current debts.

Net claims incurred grew by 7% from year 2017, with loss ratio improving from 67% in 2017 to 66% in 2018 as a result of these strategies and initiatives. In terms of investment and other income the company realised an income of KShs 669 million being a decline from KShs 885 million in 2017 which was mainly attributable to the poor performance by the stock and property markets. The company has continued to grow exponentially and reported profit before tax of KShs 630 million up from KShs 335 million reported in 2017. Shareholder's funds increased from KShs 4 billion in 2017 to KShs 4.1 billion in 2018, which is as a result of the profit earned during the year. The company's focus for the next five years is to continue generating higher growth rates in profitability through selective and strict underwriting, continuous customer focus, product & process innovation and leveraging on technology.

REPORT OF THE DIRECTORS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

7. DIRECTORS

The current directors are as shown on page 4.

8. STATEMENT AS TO DISLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and

b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

9. TERMS OF APPOINTMENT OF THE AUDITOR

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 5,000,000 has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

Mary Wanga
Secretary

28th February 2019
Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that:

(a) show and explain the transactions of the company;
(b) disclose, with reasonable accuracy, the financial position of the company; and
(c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

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

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 28th February 2019 and signed on its behalf by:

Edwin Otieno Joseph, OGW **Elijah Wachira**

Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CIC GENERAL INSURANCE LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of CIC General Insurance Limited (the Company) set out on pages 45 to 135 which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CIC General Insurance Limited as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter was addressed in the audit
Allowance for expected credit losses	
The expected credit losses on financial assets carried at amortised cost are determined under application of IFRS 9 Financial Instruments. This was a key audit matter because significant judgement was involved in determining the credit losses, amounts due from related parties, staff loan, deposits with financial institutions, deposits and commercial papers, corporate bonds and cash and bank balances as disclosed in note 38(b) Credit risk. Key areas of judgement included: • the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Company's expected credit loss model; • the identification of exposures with a significant deterioration in credit quality; • assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors; and • the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	Our audit procedures included the following: • We assessed and tested the design and operating effectiveness of the controls over the: i. data used to determine the expected credit losses on financial assets carried at amortised cost. ii. expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. • We assessed the modelling techniques/methodology against the requirements of IFRS 9 - Financial Instruments. • We assessed and tested the material modelling assumptions as well as overlays with a focus on the: i. key modelling assumptions adopted by the Company; ii. basis for and data used to determine overlays; and iii. sensitivity of the collective provisions to changes in modelling assumptions. • In addition, we assessed the adequacy of the disclosures in the financial statements.
Estimation of Insurance contract liabilities	
As disclosed in note 31 in the financial statements, Insurance contract liabilities amounted to KShs 4.3 Billion as at 31 December 2018 and constituted 50% of the company's total liabilities. Valuation of these liabilities is highly judgmental because it requires several assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims. The significant accounting judgements and assumptions are further described in note 2.	We performed the following procedures: • Review of sensitivity analysis over key judgements and assumptions. • Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems.

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Key Audit Matter
Estimation of Insurance contract liabilities *(Continued)*

Small changes in the assumptions used to value the liabilities particularly those relating to the amount

and timing of future claims, can lead to material impacts on the valuation of insurance liabilities.

The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of insurance liabilities may arise. Consequently, we have determined the valuation of insurance contract liabilities to be a key audit matter.

- We also compared samples of claims case reserves to appropriate documentation, such as reports from loss adjusters to test the controls over the valuation of individual claims reserves.

- We assessed the adequacy of the company's disclosures in respect of the assumptions used in valuation.

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Information, Report of the Directors and Statement of Director's Responsibilities as required by the Kenyan Companies Act, 2015, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in

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the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015.

In our opinion, the information given in the report of the directors on page 36-38, is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Herbert Chiveli Wasike – P/No 1485

Nairobi, Kenya

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CIC GENERAL INSURANCE LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs '000	2017 KShs '000
GROSS WRITTEN PREMIUMS	3 (a)	10,210,133	10,141,108
Gross earned premiums	3 (b)	10,671,018	9,652,993
Less:			
Reinsurance premiums ceded	3 (c)	(1,534,144)	(1,299,491)
Net earned premiums		9,136,874	8,353,502
Commissions income	4 (a)	282,090	429,835
Interest revenue calculated using the effective interest method	5(a)	588,255	-
Other investment income	5(b)	179,079	765,084
Other gains and losses	6	(98,632)	119,816
Other revenue		950,792	1,314,735
Total revenue		10,087,666	9,668,237
Commissions expenses	4 (b)	(1,429,613)	(1,323,796)
Claims and policyholders' benefits expenses			
Gross benefits and claims paid	7	(6,855,168)	(6,208,252)
Claims ceded to reinsurers	7	953,110	974,108
Gross change in insurance contract liabilities	7	(240,711)	(700,384)
Change in contract liabilities ceded to reinsurers	7	119,310	317,545
Net benefits and claims		(6,023,459)	(5,616,983)
Operating and other expenses	8 (a)	(2,001,643)	(2,392,246)
Allowance expected credit losses	8 (c)	(2,882)	-
Total benefits, claims and other expenses		(9,457,597)	(9,333,025)
Profit before taxation	8 (d)	630,069	335,212
Income tax expense	9 (a)	(249,779)	(63,337)
PROFIT AFTER TAX		380,290	271,875
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent years net of tax			
Fair value gain / (loss) on debt instruments at fair value through other comprehensive income	17	50,607	(86,226)
Other comprehensive income that will not be reclassified to profit or loss in subsequent years net of tax			
Fair value (loss) / gain on equity instruments designated at fair value through other comprehensive income	18	(2,237)	3,586
Total other comprehensive income for the year		48,370	(82,640)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		428,660	189,235

CIC GENERAL INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 KShs '000	2017 KShs '000
ASSETS			
Property and equipment	10	409,796	452,521
Investment properties	11	1,602,000	1,588,000
Intangible assets	12	107,789	44,061
Deferred tax asset	13	405,058	392,125
Financial Assets at amortised cost- Corporate Bonds	14	160,204	235,151
Financial assets at amortised cost- Government securities	15	738,625	736,346
Financial Assets at amortised cost-Loan and Receivables	16	107,496	257,145
Financial assets at fair value through other comprehensive income-Government securities	17	1,510,681	2,002,476
Financial assets at fair value through other comprehensive income-Unquoted equity investment	18	18,212	20,449
Financial Assets at fair value through profit or loss-Equity instruments	19	512,492	581,231
Financial assets at amortised cost- Deposits and commercial papers	20	76,790	310,245
Investments in collective investment schemes at fair value through Profit or loss	21	172,070	-
Receivables arising out of direct insurance arrangements	22 (a)	1,202,581	1,185,422
Receivables arising out of reinsurance arrangements	22 (b)	1,132,038	954,407
Reinsurers share of Insurance liabilities and reserves	23	1,502,185	1,657,820
Deferred acquisition costs	24	466,328	556,650
Other receivables	25	122,221	97,967
Due from related party	26 (b)	17,880	38,291
Deposits with financial institutions	27	2,380,461	1,873,854
Cash and cash equivalents	34(b)	203,932	132,463
TOTAL ASSETS		12,848,839	13,116,624
EQUITY AND LIABILITES			
Equity			
Share capital	29	1,700,000	1,700,000
Fair value deficit	30 (a)	(125,443)	(173,813)
Retained earnings	30 (b)	2,569,663	2,469,457
Total equity		4,144,220	3,995,644
Liabilities			
Insurance contracts liabilities	31	4,353,766	4,112,883
Unearned premiums reserve	32	3,974,065	4,434,950
Payables arising from reinsurance arrangements and insurance bodies	22 (c)	40,106	45,903
Other payables	33	313,894	287,542
Due to related party	26 (b)	-	161,780
Taxation payable	9 (c)	22,788	77,922
Total liabilities		8,704,619	9,120,980
TOTAL EQUITY AND LIABILITIES		12,848,839	13,116,624

The financial statements were approved by the Board of Directors on 28th February 2019 and signed on its behalf by:

Director
Edwin Otieno Joseph, OGW

Director
Patric Nyaga

Principal Officer
Elijah Wachira

CIC GENERAL INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital KShs '000 (Note 29)	Fair Value deficit KShs '000 (Note 30 (a))	Retained earnings KShs '000 (Note 30 (b))	Total KShs '000
At 1 January 2017	1,700,000	(91,173)	2,379,582	3,988,409
Dividend paid 2016 (Note 35)	-	-	(182,000)	(182,000)
Profit for the year	-	-	271,875	271,875
Other comprehensive income for the year	-	(82,640)	-	(82,640)
Total comprehensive income for the year	-	(82,640)	271,875	189,235
At 31 December 2017	1,700,000	(173,813)	2,469,457	3,995,644
At 1 January 2018	1,700,000	(173,813)	2,469,457	3,995,644
Effect of adoption of new accounting standards (Note 1(c))	-	-	(76,084)	(76,084)
At 1 January 2018 (restated)	1,700,000	(173,813)	2,393,373	3,919,560
Dividends paid 2017 (Note 35)	-	-	(204,000)	(204,000)
Profit for the year	-	-	380,290	380,290
Other comprehensive income for the year	-	48,370	-	48,370
Total comprehensive income for the year	-	48,370	380,290	428,660
At 31 December 2018	1,700,000	(125,443)	2,569,663	4,144,220

CIC GENERAL INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs '000	2017 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in)/generated from operations	34 (a)	(86,470)	559,314
Taxation paid	9 (c)	(317,847)	-
Net (used in)/ cash generated from operating activities		(404,317)	559,314
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on government securities at amortised cost	5	74,756	302,328
Interest on bank deposits	5	270,657	180,564
Interest on staff loan receivables	5	8,401	14,185
Accrued interest on corporate bonds	5	-	40,177
Interest on government securities at fair value through OCI	5	224,213	-
Dividend income	5	26,131	24,132
Purchase of Property and equipment	10	(25,316)	(37,517)
Proceeds from sale of Property and equipment	10	2,167	3,553
Purchase of intangible assets	35(c)	(81,440)	(4,667)
Purchase of corporate bonds	14	-	(21,200)
Proceeds from maturity of corporate bonds	14	1,254	21,250
Mortgage loans advanced	16	-	(40,782)
Mortgage loans repaid	16	89,968	23,251
Other loans repaid	16	65,070	85,595
Purchase of government securities at fair value through OCI	17	(155,560)	(1,455,800)
Proceeds of maturity of government securities	17	-	120,250
Proceeds from disposal of government securities	17	686,740	687,000
Purchase of government securities at amortised cost	15	-	(100,000)
Proceeds of maturity of government securities at amortised cost	15	-	25,300
Proceeds from disposal of quoted equity investments at fair value through profit or loss	19	1,622	4,082
Purchase of quoted equity investments at fair value through profit or loss	19	(62,365)	(176,431)
Investments in deposits in non-financial institutions	20	(20,000)	(754,675)
Proceeds of maturity of deposits in non-financial institutions	20	5,729	980,760
Proceeds of maturity of Investment in fixed deposits	27	(596,112)	(37,444)
Investment in restricted deposits	27	(135,829)	(92,385)
Additions to investment in collective investment schemes	21	(298,982)	-
Maturities on investment in collective investment schemes	21	382,001	-
Net cash generated from/(used in) investing activities		463,105	(208,474)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	36	(204,000)	(182,000)
Net cash used in financing activities		(204,000)	(182,000)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(145,212)	168,840
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,467,537	1,298,697
CASH AND CASH EQUIVALENT AT 31 DECEMBER	34 (b)	1,322,325	1,467,537

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

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

For the purposes of reporting under the Kenyan Companies Act, 2015 in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

(a) Basis of preparation

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

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

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

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

(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period

As at 1 January 2018 the company adopted IFRS 9 – Financial instruments, and Amendments to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts) - for the first time. The nature and effect of the changes because of adoption of these new accounting standards are described below.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period *(continued)*

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2022 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9: Financial Instruments to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for certain designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. The Company has adopted IFRS 9 Financial Instruments, prospectively with an initial application date of 1 January 2018. Refer to note 1(b) for detailed discussion on adoption of IFRS 9: Financial Instruments.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The effect of adopting IFRS 9 as at 1 January 2018 was, as follows:

	1-Jan-18 KShs'000'
Assets	
Corporate Bonds	73,698
Mortgage Loans	(4,757)
Deposits and Commercial Papers	287
Other receivables	247
Due to related parties	17
Deposits with financial institutions	6,592
Total adjustment on Equity	
Retained earnings	76,084

There was no effect on the cashflow on adoption of IFRS 9,

The nature of these adjustments is as described below:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period *(continued)*

Classification and Measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through Profit or loss, amortised cost or fair value through OCI. The classification is based on two criteria: the company's business model for managing the assets and whether the instruments contractual cashflows represent solely payments of principal and interest in the principal amount outstanding.

The assessment of the company's business model was made as of the date of initial application, 1 January 2018.The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did have a significant impact on the company. The company continued to measure at Fair value all financial assets previously held at fair value held under IAS 39 except for corporate bonds now measured at amortised cost. The following are the changes in the classification of the company's financial assets:

- Loans to staff, cash and cash equivalents, fixed deposits, other receivables were classified as Loans and receivables as at 31 December 2017; they are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

- Unquoted equity securities classified as Available for Sale (AFS) financial assets as at 31 December 2017, were classified and measured as equity instruments at fair value through OCI beginning 1 January 2018.

- Equity securities classified at fair value though profit or loss financial assets as at 31 December 2017 remained to be in fair value through profit or loss.

- Quoted Government securities classified as Available for Sale (AFS) financial assets as at 31 December 2017, were classified and measured as Debt instruments at fair value through OCI beginning 1 January 2018. The Company expects not only to hold the assets to contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

- Government securities and deposits and commercial paper classified as Held to maturity financial assets as at 31 December 2017, were classified and measured as Debt instruments at amortised cost. beginning 1 January 2018.

- Corporate Bonds classified as Financial Assets at Fair Value through Profit or Loss as at 31 December 2017, been reclassified to financial assets at amortised cost beginning 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period *(continued)*

IFRS 9 Financial Instruments (continued)

In summary, upon the adoption of IFRS 9, the Company had the following required or elected reclassifications as at 1 January 2018.

		IFRS 9 Measurement category		
	KShs'000'	Fair value through Profit or Loss KShs'000'	Amortised cost KShs'000'	Fair value through OCI KShs'000'
IAS 39 Measurement category				
Fair value through profit or loss				
Corporate bonds**	235,151	-	161,452	-
Quoted equity investments at fair value through profit or loss	581,231	581,231	-	-
Loans and receivables				
Loans to staff*	257,145	-	261,902	-
Other receivables*	97,967	-	97,720	-
Due from related party*	38,291	-	38,274	-
Available for sale				
Government securities classified as available for sale	2,002,476	-	-	2,002,476
Unquoted equity investments classified as available for sale	20,449	-	-	20,449
Held to maturity				
Government securities held to maturity	736,346	-	736,346	-
Deposits and* commercial papers	310,245	-	309,958	-
Deposits with financial institutions	1,873,854	-	1,873,854	-
	6,153,155	581,231	3,479,506	2,022,925

* The change in carrying amount is a result of additional impairment allowance. See the discussion on impairment below.

** As of 1 January 2018, the Company classified all corporate bonds portfolio as debt instruments at amortised cost. These instruments met solely payment of interest and principal (SPPI) criterion, were not actively traded and were held with the intention to collect contractual cash flows and without the intention to sell. The fair value of the portfolio as at 31 December 2017 was KShs 161,4 million which was taken as the gross carrying amount on 1 January 2018. The effective interest rate applied on the portfolio was the nominal rates for the specific corporate bonds since none was issued at a discount or premium.

The amount of interest income recognised on the corporate bonds was NIL. The fair value of the corporate bond that the Company still held at 31 December 2018 was KShs 233 Million (31 December 2017 KShs 235 Million). Their change in fair value over 2018 that would have been recorded in profit or loss had these bonds continued to be revalued through profit or loss, would have been KShs 0.97 Million (2017: KShs 1.05 Million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period *(continued)*

IFRS 9 Financial Instruments (continued)

Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of IFRS 9 the Company recognized additional impairment on the Company Corporate bonds by KShs 73 million, Deposits and commercial papers KShs 0.3 million, other receivables and intercompany balances KShs 0.2 million, deposits with financial institutions Ksh6.6 million. The company also recognised reduced impairment charge in loans to staff amounting to KShs 4.8 million. This resulted in a decrease in retained earnings of KShs 76 million, as at 1 January 2018.

	IFRS 9 Measurement category		
	Allowance for Impairment under IAS 39 as at 31 December 2017 KShs '000'	Re-measurement KShs '000'	ECL under IFRS 9 as at 1 January 2018 KShs '000'
Corporate bonds	-	73,698	73,698
Loans to staff	11,589	(4,757)	6,832
Deposits and commercial papers	-	287	287
Other receivables	-	247	247
Due from related party	-	17	17
Deposits with financial institutions	-	6,592	6,592
	11,589	76,084	87,673

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard supersedes all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period *(continued)*

IFRS 15 Revenue from Contracts with Customers (continued)

The company adopted the new standard on 1 January 2018 using the modified retrospective method. IFRS 15 does not have an impact on interest, dividend income and premiums revenue which have been scoped out of IFRS 15. In addition, adoption of IFRS 15 did not have a material impact on recognition of pension administration fees by the company since based on the assessment, pension administration fees passed the five-step model framework of revenue recognition required by IFRS 15 as outlined below:

Step 1: Identify the contract(s) with the customer
The company have formal agreements in place with its customers who are mainly the medical schemes to run the schemes on their behalf.

Step 2: Identify the performance obligation in the contract
The obligation of the company as stipulated in the agreement is to carry out the administration of the various medical schemes. The performance obligation is not complex, since it involves only one obligation which is that of rendering administration services.

Step 3: Determine the transaction price
The agreement clearly stipulates the transaction price i.e. that the company who acts as the administrator shall make a yearly charge known as administration fee payable out of the Medical funded scheme and this shall be between KShs 1,200- KShs1,500 per member per annum and charged on a monthly basis. There are no variable considerations in the contract and has no significant financing component.

Step 4: Allocate the transaction price to the performance obligation in the contract
At end of every month the company will charge administration fee based on the membership.

Step 5: Recognize revenue when (or as) each performance obligation is satisfied
Administration fees is recognised over time as the company satisfies its performance obligation;the customer is billed on a monthly basis as the performance obligation is satisfied. The revenues from medical funds represent 0.12 % of the total revenue from the company's operations as a result no further disclosures have been made.

Several other amendments and interpretations apply for the first time in 2018 as shown below, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective

	Effective for accounting period beginning on or after
IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2	1 January 2018
Transfers of Investment Property (Amendments to IAS 40)	1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters	1 January 2018
IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by - investment choice	1 January 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period *(continued)*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

New or revised standards	Effective for accounting period beginning on
IFRS 16 Leases	1 January 2019
IFRIC Interpretation 23 Uncertainty over income tax treatments	1 January 2019
Amendments to IAS 28: Long-term interests in associates and joint ventures	1 January 2019
IFRS 3 Business Combinations - Previously held interests in a joint operation	1 January 2019
IFRS 11 Joint Arrangements - Previously held interests in a joint operation	1 January 2019
IAS 12 Income Taxes - Income tax consequences of payments on financial instrument classified as equity	1 January 2019
IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IFRS 3: Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
The Conceptual Framework Financial Reporting	1 January 2020
IFRS 17 Insurance contracts	1 January 2022
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or indefinitely Joint Venture	Effective date deferred indefinitely

The above new standards and amendments to existing standards issued but not yet effective are not expected to have an impact on the Company except for, IFRS 16 and IFRS 17, as listed below:

IFRS 16 'Leases'

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). A lessee measures lease liability at the present value of future lease payments. A lessee measures lease asset, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IFRS 16 Leases (continued)

Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios). IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

During 2018, the company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

	KShs '000
Assets	
Property and equipment (right-of-use assets)	87,044
Liabilities	
Lease liabilities	110,409
Net impact on equity	(23,365)

On adoption of IFRS 16 on 1 January 2019, the company's retained earnings will reduce. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17. The future minimum rentals under non-cancellable operating leases as at 31 December has been disclosed in note 36 (operating leases).

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short- duration which typically applies to certain non-life insurance contracts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period *(continued)*

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non- distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Company has started a project to implement IFRS 17, which is currently being done ins phases the first is the change in the software's currently being used .The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

(c) Revenue recognition

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of the cover provided by the contract and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Gross earned premiums comprise the total premiums receivable for the respective accounting period which is under consideration and are recognised up to the end of the reporting period, there no rebates offered on the premiums. Unearned premiums are those proportions

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(c) Revenue recognition *(continued)*

Gross premiums (continued)

of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Reinsurance premiums and claims on the face of the statement of profit or loss have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business is managed.

Commission income

Commission income is recognised in profit and loss in the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods

Investment income

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the effective interest rate (EIR) method. Under both IFRS 9 and IAS 39, interest income is recognised using EIR method for all financial assets for all financial assets measured at amortised cost. Similar to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39, interest income on interest bearing financial assets measured at fair value through OCI under IFRS 9 is also recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore the amortised cost of the financial asset) is calculated taking into account transaction costs and any discount or premium on acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The company recognises interest income using the EIR method.

The company calculates interest income on financial assets, other than those considered credit impaired, by applying the EIR to the gross carrying amount of the asset.

Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Revenue recognition *(continued)*

Investment income (continued)

Rental income is on a straight-line basis over the lease term. The excess of rental income on a straight-line over cash received is recognised as an operating lease asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Realised / unrealised gains and losses

Realised / unrealised gains and losses recorded in the statement of profit or loss on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transactions, more details on the on how the gains have been arrived has been discussed in the specific policies relating to the assets.

(d) Claims and policyholders' benefits expenses

Gross benefits and claims paid

General insurance and health claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. The reserve for outstanding claims is computed on the basis of the best information available at the time the records for the year are closed and include additional provisions for claims incurred but not reported ("IBNR") at the end of each reporting period based on the Company's experience as per the requirement of Kenyan Insurance Act and related regulations, this is in line with the requirements of IFRS 4.

Reinsurance claims

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

(e) Expenses

Expenses are recognised in the profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably and is independent from transactions with equity participants. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of property and equipment).

(i) When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognised in profit or loss on the basis of systematic and rational allocation procedures. This is often necessary in recognising the income associated with the using up of assets such as property and equipment in such cases the expense is referred to as a depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting period in which the economic benefits associated with these items are consumed or expire.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(e) Expenses *(continued)*

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

(f) Deferred acquisition costs

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

The deferred acquisition costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of profit or loss.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period.

DACs are derecognised when the related contracts periods elapses.

(g) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment, as described in note (2), whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the profit or loss. Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in note (2) have been met.

(h) Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company 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 Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer term receivables (classified as reinsurance assets) that are

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(h) Reinsurance contracts held *(continued)*

dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the year.

(i) Taxation

Current Income tax

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act. Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Current income tax assets or liabilities are based on the amount of tax expected to be paid or recovered in respect of the taxation authorities in the future. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

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

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

Deferred Income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The deferred tax liability shall be recognised except when it arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The accounting of deferred tax movements is driven by the accounting treatment of the underlying transaction that lead to the temporary differences. Deferred tax relating to items recorded in profit or loss is recognised in profit or loss, while deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss in other comprehensive income

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(h) Reinsurance contracts held *(continued)*

Deferred Income tax (continued)

or equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales taxes and premium taxes

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

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

(j) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses except for buildings which is measured based on revalued amounts .

Increases in the carrying amount of buildings arising on revaluation are dealt with through other comprehensive income and accumulated under a separate heading of revaluation surplus in the statement of changes in equity. However, if an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss, decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. There was no revaluation surplus as at 31 December 2018 refer to note 10.

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

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

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

Buildings are measured according to the revaluation model stated at fair value, which reflects market conditions at the reporting date.

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Property and equipment *(continued)*

down immediately to its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on derecognition of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings. The date of disposal of an item of property, and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied The amount of consideration to be included in the gain or loss arising from the derecognition of property and is determined in accordance with the requirements for determining the transaction price in IFRS 15.

The residual value, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end are adjusted prospectively, if appropriate.

(k) Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is initially recognised at cost including the transaction costs. The investment properties are carried at fair value representing the open market value at the reporting date determined by annual valuations carried out by Crystal Valuers Limited as at 31 December 2018 and 31 December 2017. Gains or losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate.

The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

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

Investment properties are derecognised when either they have been disposed off (i.e., at the date the recipient obtains control) or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to profit or loss. The date of disposal of an item of investment property is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied The amount of consideration to be included in the gain or loss arising from the derecognition of Investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets.

The useful lives of intangible assets are assessed as either finite or indefinite. The company does not have assets with indefinite life and hence the amortisation is calculated using the straight line method to write down the cost of each licence or item of software over its estimated useful life (four years).

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

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised. The date of disposal of an item of intangible asset is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied The amount of consideration to be included in the gain or loss arising from the derecognition of intangible is determined in accordance with the requirements for determining the transaction price in IFRS 15.

(m) Accounting for leases

Determination

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

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the company is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term,

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(m) Accounting for leases

Determination (continued)

the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The Company is both lessee and a lessor.

(n) Employee Benefits

Defined contributions provident fund

The Company operates a defined contribution post-employment providen fund for eligible employees. The fund is funded by contributions from the employees and the company. The assets of the fund are held and administered independently of the company's assets.

Statutory pension scheme

The Company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute and are currently at KShs 200 per employee per month. The Company's contributions to the defined contribution schemes are charged to profit or loss as they fall due.

Leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

(o) Provisions

General provisions

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(o) Provisions *(continued)*

Onerous contracts

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceeds the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

(p) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

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

(q) Other financial liabilities and insurance contract liabilities

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

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

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

Insurance contract liabilities include the outstanding claims provision, the provision for incurred but not reported and the provision for premium deficiency.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Financial and insurance liabilities

Insurance contract liabilities and reinsurance liabilities

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. It is assumed that premiums are earned uniformly over the contract period. The company used the 1/365th method in computing this reserve. The 1/365th is a time apportionment method of premium whereby the unearned premium reserve is the aggregate of unearned premium calculated on a pro-rata basis, in respect of the premiums relating to the unexpired periods of the respective insurance policies at the end of the reporting period. These commissions are recognised over the period in which the related revenues are earned.

The estimate of the incurred claims that have not yet been reported to the Company (IBNR) is computed using the basic chain ladder method. The basic assumption using this method is that claims will emerge in a similar way in each development year.

At each reporting date, an assessment is made to determine whether there is any overall excess of expected claims and deferred acquisition costs (DAC) over unearned premiums by using an existing liability adequacy test as laid out under the Kenyan Insurance Act. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency. Refer to note 38 for further information on insurance risk.

(s) Fair value measurement

The company measures financial instruments classified as financial assets at fair value through OCI and financial assets at fair value through profit or loss including investment properties at fair value at each reporting date.

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

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

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Fair value measurement *(continued)*

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

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

Involvement of external valuers is decided upon annually by the senior finance and investment manager who discusses the basis and assumptions with the valuer. This is then approved by the group Chief Finance Officer. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above Fair value related disclosures have been made in note 11 and note 39.

(t) Financial instruments (IFRS 9)

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

Date of recognition

Financial assets and liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of other receivables and amount due from related parties, which do not contain significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs

For a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Financial instruments (IFRS 9) *(continued)*

Financial assets (continued)

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets to collect contractual cash flows;
  and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of other receivables and amount due from related parties, which do not contain significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs

In order for a financial asset to be classified and measured at amortised cost or at fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include, Cash and cash equivalents, Other assets, Fixed deposit, Deposits and commercial paper, Government securities, staff loans and Corporate bonds.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(t) Financial instruments (IFRS 9) *(continued)*

Financial assets (continued)

Financial assets at fair value through OCI (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
  and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company's financial assets classified as debt instruments at fair value through OCI, include Government securities.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The company has designated its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading.

The Company's financial assets designated at fair value through OCI (equity instruments) is the unquoted equity investments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above,

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(t) Financial instruments (IFRS 9) *(continued)*

Financial assets (continued)

debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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

Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:
- The rights to receive cash flows from the asset have expired
  or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

Derecognition due to substantial modification of terms and conditions

The company derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new instrument, with the difference recognised as derecognition gain or loss. When assessing whether or not to derecognise an instrument, amongst others, the Company considers the following factors: introduction of an equity feature, change in counterparty and if the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result into cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(t) Financial instruments (IFRS 9) *(continued)*

Financial assets (continued)

Impairment of financial assets

Overview of ECL principles

As described in Note 1(b) the adoption of IFRS 9 has fundamentally changed the Company's financial assets loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Company has been recording the allowance for expected credit losses for all financial assets at amortised cost except insurance and reinsurance receivables, in this section all referred to as 'financial instruments'. . Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD

When estimating the ECLs, the Company considers three scenarios (a base case, optimistic (upside) and pessimistic (downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call it earlier.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(t) Financial instruments (IFRS 9) *(continued)*

Impairment of financial assets (continued)

The company allocates its assets subject to ECL calculations into these categories determined as follows:
- 12MECL (Stage 1) -The 12mECL is calculated as the portion of the LTECL that represents the ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring within 12 months following the reporting date.
- LTECL (Stage 2)-This is recorded when a financial instrument has shown a significant increase in credit risk since origination.
- Impairment (Stage 3) -For debt instruments considered credit-impaired, the Company recognises the lifetime expected credit losses for these instruments.

Forward looking information

In its ECL models, the company relies on a broad range of forward looking information as economic inputs, such as:
- GDP Growth rate
- Central Bank Base rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Company did not provide detailed information on how the forecast economic conditions have been incorporated in the determination of ECL because the impact is not significant.

Write offs

Financial assets are written off either partially or in entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount Any subsequent recoveries are credited to credit loss expense. There were no write offs over the period reported in these financial statements.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities include other payables, amounts due to related parties.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(t) Financial instruments (IFRS 9) *(continued)*

Financial assets (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Company has no liabilities in this category and has not designated any.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to other payables and amount due to related parties

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(t) Financial instruments (IFRS 9) *(continued)*

Financial assets (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amountisreported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. Income and expenses will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(u) Financial instruments (IAS 39)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Purchases and sales of financial instruments are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets

The Company classifies its financial assets and liabilities into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets. Management determines the appropriate classification of its financial instruments at initial recognition. Financial assets are initially recognised at fair value plus, in the case of all financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at the fair value of consideration to be received for rendering a service plus any transaction costs incurred.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(u) Financial instruments (IAS 39) *(continued)*

Financial instruments (IAS 39) (continued)

After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method (EIR) less impairment. Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in profit or loss. Gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables comprise Staff loans, other receivables, and cash and bank balances.

Held-to-maturity financial assets

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

After initial measurement, held-to-maturity financial assets are measured at amortised cost, using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Financial assets held to maturity comprise government securities held under lien by the Central Bank of Kenya for the Commissioner of Insurance in accordance with Kenyan Insurance Act, fixed deposit with financial institutions, other deposits and commercial papers.

Available-for-sale financial assets

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

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

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

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

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(u) Financial instruments (IAS 39) *(continued)*

Impairment of financial assets (continued)

that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost- loans and receivables

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

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

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

Available-for-sale financial investments

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

In the case of equity investments classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(u) Financial instruments (IAS 39) *(continued)*

Available-for-sale financial investments (continued)

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

Financial liabilities and equity instruments issued by the Company

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

Classification as debt or equity

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or as payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, payables and financial guarantee contracts, net of directly attributable transaction costs.

The Company's financial liabilities include other payables and due to related parties.

Subsequent measurement

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

Loans and borrowings and payables

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

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

This category generally applies to payables arising from reinsurance arrangements and insurance bodies and other payables.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(u) Financial instruments (IAS 39) *(continued)*

Financial liabilities (continued)

Financial guarantee contracts

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

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenditure will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(v) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investment comprising of fixed deposits with financial institutions with original maturities of three months or less. and are subject to an insignificant risk of changes in value.

(w) Dividends

Dividends on ordinary shares are charged directly to equity in the period in which they are declared and approved. Dividends for the year that are approved after the reporting date are not recognised as a liability at the reporting date.

(x) Events after the reporting date

If the Company receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Company will assess if the information affects the amounts that it recognises in the Company's financial statements. The Company will adjust the amounts recognised in its financial statements to reflect any adjusting events even after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Company will not change the amounts recognised in its financial statements but will disclose the nature of the non-adjusting event and

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(x) Events after the reporting date *(continued)*

Financial liabilities (continued)

an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable. The entity's owners have no power to amend the financial statement after issue.

(y) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Incremental costs attributable to the issue or cancellation of equity instruments are recognised directly in equity, net of tax if applicable.

(z) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period
  Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
  Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting periods.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the company. Such changes are reflected in the assumptions when they occur.

Premiums collected by intermediaries

Premiums collected by intermediaries (agents and brokers), but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Incurred but not reported claims (IBNR)

Estimates must be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, as well as by significant business lines. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. This amount is determined using actuarial rates based on the different classes as determined by the Kenya Insurance Regulatory Authority (note 31)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

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

Impairment of financial assets

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For other receivables and fixed deposits, the Company applies a simplified approach in calculating ECLs.

Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. See note 39(b)or financial assets that are subject to impairment assessment.

Impairment of premium receivables

The Company reviews its individually significant balances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes judgements about the debtor's financial situation. These estimate to provide all debts over 120 days is based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance (note 22).

Operating lease commitments – Company as lessor

The Company has entered commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Income taxes

The Company is subject to income taxes in Kenya. Significant judgement is required in determining the Company's provision for income taxes and to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

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

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values as well as determining the category in which the financial instruments are classified in the fair value hierarchy. The judgements include considerations of inputs such as liquidity risk, credit risk and price volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 39 for further discussion.

Revaluation of property and investment properties

The Company carries certain classes of property and equipment at fair value, with changes in fair value being recognised in the other comprehensive income. Land and buildings were valued based on open market value by independent valuers, Crystal Valuers Limited. For investment properties valuation methodologies were used by reference to properties off similar nature location and condition among other factors which are highly judgemental.

Refer to note 10 and 11 where detailed assumptions have been disclosed.

Contingent liabilities

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

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

Tax Assessment

The Kenya Revenue Authority (KRA) carried out a tax audit in the year and gave a tax assessment of KShs 55 million on account of corporation tax and excise duty. The company has objected to the assessment and the matter is at the Tax Appeals Tribunal. The management is of the opinion that the outcome of their appeal will be favourable hence no provision has been made for any tax liability that may arise from this assessment in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

3. PREMIUMS

		2018 KShs '000	2017 KShs '000
(a)	Gross written premiums		
	Medical	2,862,964	2,257,659
	Motor	4,740,583	4,907,575
	Fire	826,572	825,916
	Engineering	223,527	351,105
	Personal accident	277,941	336,679
	Theft	506,909	458,488
	Miscellaneous accident	186,693	308,506
	Marine	113,042	132,239
	Liability	98,665	214,651
	Others (workmen compensation and micro-solutions)	373,237	348,290
		10,210,133	10,141,108
(b)	Gross earned premiums		
	Medical	2,797,847	1,931,609
	Motor	4,992,115	4,945,477
	Fire	879,986	721,462
	Engineering	304,361	279,052
	Personal accident	300,608	317,718
	Theft	493,054	440,303
	Miscellaneous accident	219,447	236,541
	Marine	119,250	137,737
	Liability	169,498	269,441
	Others (workmen compensation and micro-solutions)	394,852	373,653
		10,671,018	9,652,993

Reconciliation of Gross Written Premiums and Gross Earned Premiums		
Gross written premiums	10,210,133	10,141,108
Movement in Unearned Premium Reserve (note 32)	460,885	(488,115)
Gross earned premiums	10,671,018	9,652,993

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

3. PREMIUMS

(c) Reinsurance premium

Reinsurance premium comprise the total premiums for the whole cover provided by contracts entered and are recognised on the date on which the policy incepts.

	2018 KShs '000	2017 KShs '000
Medical	66,361	29,697
Motor	161,129	105,616
Fire	453,236	457,738
Engineering	146,477	275,579
Personal accident	65,119	55,275
Theft	33,066	26,740
Miscellaneous accident	201,175	262,474
Marine	47,387	71,152
Liability	36,183	142,470
Others (workmen compensation and micro-solutions)	49,067	15,391
Reinsurance share of decrease in UPR* (note 32)	274,944	(142,641)
	1,534,144	1,299,491

*UPR – Unearned Premium Reserve

4. (a) COMMISSION INCOME

	2018 KShs '000	2017 KShs '000
Engineering	50,993	114,181
Fire	165,479	171,968
Liability	6,593	37,962
Marine	12,424	23,305
Miscellaneous	34,880	63,492
Others	11,721	18,927
	282,090	429,835

(b) COMMISSIONS EXPENSE

	2018 KShs '000	2017 KShs '000
Engineering	59,012	55,484
Fire	209,888	173,572
Liability	32,697	40,357
Medical	241,740	196,784
Motor	613,976	602,124
Marine	23,613	20,170
Miscellaneous	27,784	29,184
Theft	91,659	81,473
Personal accident	56,977	60,117
Workmen's compensation	72,267	64,531
	1,429,613	1,323,796

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

5. INVESTMENT INCOME

		2018 KShs '000	2017 KShs '000
(a)	Interest revenue calculated using the effective interest method		
	Interest on financial assets at amortised cost – debt instruments	74,756	302,328
	Interest on financial assets at amortised cost - corporate bonds	-	430
	Interest income from deposits and commercial papers (note 20)	7,949	44,239
	Interest on bank deposits	270,657	180,564
	Amortisation of financial assets at amortised cost	2,279	(6,987)
	Interest on financial assets at fair value through other comprehensive income – debt instruments	224,213	64,718
	Interest on staff loan receivables	8,401	14,185
		588,255	
(b)	Other investment income		
	Rental income from Investment properties	164,170	142,809
	Fair value loss realised on reclassification of government securities in prior periods	(11,222)	(1,334)
	Dividend income	26,131	24,132
		179,079	-
	Total investment income	767,334	765,084
	Investment income earned on financial assets, analysed by category of asset is as follows:		
	Financial assets at fair value through profit or loss	26,127	24,562
	Financial assets at amortised cost	364,042	321,216
	Financial assets at fair value through other comprehensive income	212,991	40,177
	Investment Income earned on non-financial assets	164,174	140,141
	Loans and receivables	-	238,988
	Total investment income	767,334	765,084

6. OTHER GAINS AND LOSSES

	2018 KShs '000	2017 KShs '000
Fair value gains/(loss) on revaluation of building (note 10)	1,260	(2,720)
Fair value gains on investment properties (note 11)	14,000	52,000
Fair value (loss)/gains on quoted equity investments at fair value through profit or loss (note 19)	(129,482)	49,748
Fair value loss on corporate bonds (note 14)	-	(1,057)
Gain on disposal of property and equipment	2,167	3,111
Fair value loss from investments in collective investment schemes (note 21	(200)	-
Miscellaneous income*	13,623	18,734
	(98,632)	119,816

*Miscellaneous income includes medical administration fees, sale of scraps, and sale of tenders.

7. CLAIMS AND POLICYHOLDERS BENEFITS EXPENSES

	2018 KShs '000	2017 KShs '000
Claims and policyholders benefits payable:		
Gross benefits and claims paid	6,855,168	6,208,252
Claims ceded to reinsurers	(953,110)	(974,108)
Gross change in insurance contract liabilities	240,711	700,384
Change in contract liabilities ceded to reinsurers	(119,310)	(317,545)
	6,023,459	5,616,983

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

8. (a) OPERATING AND OTHER EXPENSES

The following items have been charged in arriving at profit before taxation:

	2018 KShs '000	2017 KShs '000
Staff costs (note 8 (b))	972,836	876,724
Auditor's remuneration	5,000	4,500
Directors' fees	18,091	20,469
Directors' emoluments	20,859	30,053
Depreciation of property and equipment (note 10)	69,302	70,066
Amortisation of intangible assets (note 12)	17,712	22,174
Impairment charge for doubtful premium receivables	64,645	500,000
Premium tax	94,846	93,797
Staff welfare	233,884	224,549
Utilities	179,490	179,669
Printing and stationery	43,073	53,580
Sales promotion	11,706	7,962
Business advertising and promotion	113,836	139,958
Professional fees	103,304	103,847
Statutory returns	25,173	24,956
Impairment charge for staff loans	-	11,589
Leave expenses	2,743	6,362
Other expenses*	25,143	21,991
	2,001,643	2,392,246

*Other expenses relate to tender costs, postage, donations, entertainment, purchase of newspapers and journals, and other general expenses.

(b) STAFF COSTS

	2018 KShs '000	2017 KShs '000
Staff costs include the following:		
- Salaries	902,435	812,408
- Pension costs	57,183	52,252
- Leave pay	13,218	12,064
	972,836	876,724

(c) Expected credit losses:

	2018	2017
-Corporate bonds (note 14)	(6)	-
-Deposit and commercial papers (Note 20)	99	-
-Deposit of financial instruments (Note 27)	2,061	-
-Due from related party (Note 26)	444	-
-Loans receivables (Note 16)	(631)	-
-Other receivables (Note 25)	915	-
	2,882	-

(d) PROFIT BEFORE TAX

	2018	2017
The profit before tax is stated after charging:		
Depreciation on property and equipment	69,301	70,066
Auditor's Remuneration	5,000	4,500
Amortisation of intangible assets	17,712	22,174
Staff costs	972,836	876,724
Provision for doubtful premium receivables	64,645	500,000

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

9. TAXATION

(a) Statement of profit or loss

	2018 KShs '000	2017 KShs '000
Current tax on taxable income at 30% (2017:30%)	272,113	217,806
Prior year under provision	(9,400)	-
Deferred tax credit (note 13)	(12,934)	(154,469)
	249,779	63,337

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

	2018 KShs '000	2017 KShs '000
Profit before taxation	630,069	335,212
Tax calculated at a tax rate of 30% (2017:30%)	189,021	100,564
Tax effect of expenses not deductible for tax*	(3,353)	(79,269)
Tax effect of income not subject for tax**	73,511	42,042
Prior year under/(credit) provision	(9,400)	-
Taxation charge for the year	249,779	63,337

*These expenses are valuation fees, fringe benefit tax, excess pension contributions, loss on valuation of shares etc.
** These incomes are dividend income and interest on infrastructure bond.

The effective income tax rate is 39% (2017: 19%).

(c) Statement of financial position

	2018 KShs '000	2017 KShs '000
At 1 January	77,922	(139,884)
Current tax charge for the year	272,113	217,806
Paid during the year	(317,847)	-
Prior year under provision	(9,400)	-
	22,788	77,922

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROPERTY AND EQUIPMENT

2017	Building CIC Plaza II KShs '000	Motor vehicles KShs '000	Computers KShs '000	Furniture, fittings and equipment KShs '000	Total KShs '000
COST OR VALUATION					
At 1 January 2017	229,000	19,612	77,493	422,448	748,553
Additions	14,483	-	1,549	21,485	37,517
Elimination at revaluation	(6,763)	-	-	-	(6,763)
Elimination on disposal	-	(7,700)	-	-	(7,700)
Revaluation gain*(note 6)	(2,720)	-	-	-	(2,720)
At 31 December 2017	234,000	11,912	79,042	443,933	768,887
ACCUMULATED DEPRECIATION					
At 1 January 2017	-	18,950	63,879	177,493	260,322
Elimination on disposal	-	(7,259)	-	-	(7,259)
Charge for the year	6,763	221	7,077	56,005	70,066
Elimination on revaluation	(6,763)	-	-	-	(6,763)
At 31 December 2017	-	11,912	70,956	233,498	316,366
CARRYING AMOUNT					
At 31 December 2017	234,000	-	8,086	210,435	452,521

2018	Building CIC Plaza II KShs '000	Motor vehicles KShs '000	Computers KShs '000	Furniture, fittings and equipment KShs '000	Total KShs '000
COST OR VALUATION					
At 1 January 2018	234,000	11,912	79,042	443,933	768,887
Additions	4,881	-	6,757	13,678	25,316
Elimination on revaluation	(6,141)	-	-	-	(6,141)
Elimination on disposal		(9,903)	-	-	(9,903)
Revaluation gain*(note 6)	1,260	-	-	-	1,260
At 31 December 2018	234,000	2,009	85,799	457,611	779,419
ACCUMULATED DEPRECIATION					
At 1 January 2018	-	11,912	70,956	233,498	316,366
Elimination on disposal	-	(9,903)	-	-	(9,903)
Charge for the year	6,141	-	5,750	57,410	69,301
Elimination on Revaluation	(6,141)	-	-	-	(6,141)
At 31 December 2018	-	2,009	76,706	290,908	369,623
CARRYING AMOUNT					
At 31 December 2018	234,000	-	9,093	166,703	409,796

**As at 31 December 2018 the company had accumulated revaluation losses which had been posted in the profit or loss amounting to 23 Million, the gains at the end of the year therefore have been posted in the profit or loss to offset the previously recognised gains.*
No property and equipment were pledged as security or held under lien. There are no contractual commitments for the acquisition of property and equipment.
In 2018, the company sold motor vehicle with a total net carrying amount of NIL for a cash consideration of 2,167,000.
In 2017, the company sold multivehicle with a net carrying amount of KShs 441 Million for a cash consideration of KShs 3,553,000 The net gains on these disposals were recognised as part of other other gains or losses income in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

11. INVESTMENT PROPERTIES

	CIC Plaza II KShs'000	Kajiado Land KShs'000	TOTAL KShs'000
2017			
At 1 January	916,000	620,000	1,536,000
Fair value gain (note 6)	20,000	32,000	52,000
At 31 December	936,000	652,000	1,588,000
2018			
At 1 January	936,000	652,000	1,588,000
Fair value gain (note 6)	-	14,000	14,000
At 31 December	936,000	666,000	1,602,000

There are no contractual commitments in respect of the investment properties.
Net rental income on CIC Plaza 2 arising from operating lease arrangements has been disclosed in note 4 to the financial statements.

CIC Plaza II was revalued on 31 December 2018 by registered valuers, Crystal Valuers Limited, on the basis of open market value. Crystal Valuers Limited are industry specialists in valuing these types of investment properties. In arriving at the value of the investment properties, the valuer used capitalization of the rental income using the year purchase method. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

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

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

Valuation technique	Significant unobservable Inputs	Average
Capitalized rent income (year purchase) method		
	Net annual rent	152,982,540
	Annual rent growth rate	7%
	Discounting rate	13%

Considering the physical economic parameters in the country and the trends in property markets, management is of the opinion that there will not be significant change in the inputs to the valuation method during the year. Valuations are performed on an annual basis and the fair value gains and losses are recorded within the profit or loss. The fair valuation basis takes into account the existing use and the tenancies and also considers the normal lease structure for similar buildings.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

11. INVESTMENT PROPERTIES *(continued)*

On the other hand, Kajiado plots are based on market value that is price at which an interest in a property might reasonably be expected to be sold by a private treaty at the date of valuation assuming:

a) a willing buyer, willing seller;
b) a reasonable period within which to negotiate the sale by taking into account the nature of the property;
c) values will remain static throughout the period;
d) the property will be freely exposed to the market within reasonable publicity;

no account is taken of an individual bid by a special purchaser.

The rental income earned from the investment property has been disclosed in noted 5. The tenants significantly incur costs for maintenance for the rented property. The company have entered into operating lease arrangements.

12. INTANGIBLE ASSETS

	2018 KShs '000	2017 KShs '000
COST		
At 1 January	108,702	63,208
Additions	2,784	45,494
Work in progress	78,656	-
At 31 December	190,142	108,702
ACCUMULATED ARMORTISATION		
At January	64,641	42,467
Charge for the year	17,712	22,174
At 31 December	82,353	64,641
CARRYING AMOUNT		
At 31 December	107,789	44,061

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

13. DEFERRED TAXATION

	2018 KShs'000	2017 KShs'000
Accelerated capital allowance on motor vehicles and equipment	32,778	26,834
Provision for doubtful premium receivables	376,784	358,256
Allowance for expected credit losses	865	
Accrued leave provision	7,857	7,035
Gratuity provision*	13,526	-
Provision for other financial assets	865	-
Deferred tax on valuation investment property*	(27,617)	-
Net deferred tax asset	405,058	392,125
The movement in the deferred tax account is as follows:		
At 1 January	392,125	237,656
Deferred tax credit (note 9 (a))	12,933	154,469
At 31 December	405,058	392,125

* Deferred tax gratuity has been included in the financial statements for the first time in the year.

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2017: 30%).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

14. FINANCIAL ASSETS AT AMORTISED COST - CORPORATE BONDS

The credit quality of each corporate bond is assessed and is acceptable within the parameters used to measure and monitor credit risk.	2018 KShs '000	2017 KShs '000
ABC Bank Limited	51,036	51,053
Housing Finance Company of Kenya	11,610	11,606
Chase Bank Limited	72,888	72,888
Centum Limited	64,873	64,851
Family Bank Limited	10,264	10,260
Kenya Electricity Generating Company Limited	1,277	2,552
East Africa Breweries Limited	21,949	21,941
Allowance for expected credit losses on adoption of IFRS 9	(73,699)	
Allowance for expected credit loss (note 8(a))	6	-
	160,204	235,151
Maturity analysis:		
Maturing within three months	-	-
Maturing after 3 months	160,204	235,151
At 31 December	160,204	235,151
The movement in the corporate bonds is as follows:		
At 1 January	235,151	235,828
Additions	-	21,200
Maturities	(1,254)	(21,250)
Accrued interest on corporate bonds	-	430
Fair value loss	-	(1,057)
Allowance for expected credit loss on Corporate Bonds	(73,693)	-
At 31 December	160,204	235,151

Refer to note 39 for fair value disclosures.

15. GOVERNMENT SECURITIES CLASSIFIED AT AMORTISED COST

	2018	2017
At 1 January	736,346	413,633
Reclassification from government securities held as available for sale	-	255,000
Additions	-	100,000
Maturities	-	(25,300)
Discount / Amortisation	2,279	(6,987)
At 31 December	738,625	736,346
Government securities maturing		
Within 1 year	20,005	-
In 1-5 years	412,794	306,199
In over 5 years	305,826	430,147
At 31 December	738,625	736,346

Government securities at amortised cost of KShs 738.6 million (2017 - KShs 736.3 million) relates to treasury bonds held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Kenyan Insurance Act. Refer to note 39 for fair value disclosures.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

16. FINANCIAL ASSETS AT AMORTISED -LOANS RECEIVABLE

The loans refer to loans given to staff and have collateral held on them, on resignation, the credit quality of each loan is assessed and is acceptable within the parameters used to measure and monitor credit risk.

Mortgage loans:	2018 KShs '000	2017 KShs '000
At 1 January	162,381	144,850
Advanced in the year	-	40,782
Allowance for expected credit loss on mortgage loans	(3,565)	-
Repayments in the year	(89,968)	(23,251)
At 31 December	68,848	162,381
Maturity profile of mortgage loans:		
Within 1 year	10	10
In 1-5 years	6,167	17,610
In over 5 years	62,671	144,761
	68,848	162,381
Other staff loans:		
At 1 January	94,764	191,948
Repayment in the year	(65,070)	(85,595)
Allowance for expected credit loss on other loans (Note 8 (c)	631	-
Allowance for expected credit losses on adoption of IFRS 9	(3,266)	
Impairment of Staff Loans	11,589	(11,589)
At 31 December	38,648	94,764
Maturity profile of other loans:		
Within 1 year	1,502	1,754
In 1-5 years	10,621	32,357
In over 5 years	26,525	60,653
	38,648	94,764
Total	107,496	257,145

An analysis of changes in the gross carrying amount and corresponding ECL allowances debt instruments at fair value through OCI and at amortised cost has been disclosed in note 38(b).

Refer to note 39 for fair value disclosures.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – GOVERNMENT SECURITIES

	2018 KShs '000	2017 KShs '000
At 1 January	2,002,476	1,696,486
Additions	155,560	1,455,800
Reclassification to government securities at amortised cost	-	(255,000)
Maturities	-	(120,250)
Disposal	(686,740)	(687,000)
Fair value loss realised on reclassification	(11,222)	(1,334)
Fair value gain / (loss)*	50,607	(86,226)
At 31 December	1,510,681	2,002,476
Government securities maturity analysis		
In 1-5 years	-	83,773
In over 5 years	1,510,681	1,918,703
At 31 December	1,510,681	2,002,476

An analysis of changes in the gross carrying amount and corresponding ECL allowances debt instruments at fair value through OCI and at amortised cost has been disclosed in note 37(b). Refer to note 39 for fair value disclosures.

* The gains or losses are not taxable.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI – UNQUOTED EQUITY INVESTMENTS

	2018 KShs '000	2017 KShs '000
Shares held in Co-op Holding Co-operative Society Limited	18,212	20,449
The movement in available-for-sale investments is as follows:		
At 1 January	20,449	16,863
Fair value (loss) / gain*	(2,237)	3,586
At 31 December	18,212	20,449

The shares held in Co-op Holding Co-operative Society Limited were acquired before the initial public offer (IPO) in 2009 and are not listed at the Nairobi Securities Exchange Limited (NSE). These shares are not available to the public market, they can only be sold to other members of the Co-operative entity at a specified agreed value. Thus, the agreed price represents the exit price for these shares. They are to be valued at the higher of 60% of the average of the month's quoted Co-operative Bank of Kenya Limited shares at the Nairobi Securities Exchange Limited or KShs 13.70 per shareholders agreement. In the current year the shares have been valued at KShs 8.55 which approximates the fair value. In 2018, the Company received NIL dividends from its FVOCI equities. The company did not dispose of or derecognise any FVOCI equity instruments in 2018.

* The gains or losses are not taxable.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - QOUTED EQUITY INSTRUMENTS

	2018 KShs '000	2017 KShs '000
At 1 January	581,231	359,134
Additions during the year	62,365	176,431
Disposals	(1,622)	(4,082)
Fair value (loss) /gain	(129,482)	49,748
At 31 December	512,492	581,231

At the reporting date, these are valued at the closing price at the Nairobi Securities Exchange on the last day of trading in the year. Refer to note 39 for fair value disclosures.

20. FINANCIAL ASSETS AT AMORTISED COST- DEPOSITS AND COMMERCIAL PAPERS

	2018 KShs '000	2017 KShs '000
DEPOSITS		
CIC Society Limited	13,818	14,379
CIC - Unit Trusts	-	255,289
COMMERCIAL PAPERS		
Crown Paints Kenya Limited	40,518	40,577
Longhorn Publishers Limited	22,840	-
Allowance for expected credit loss on commercial papers on adoption of IFRS 9	(287)	-
Allowance for expected credit loss on commercial papers (Note 8 (c))	(99)	-
	76,790	310,245
Maturity analysis:		
Maturing within three months	22,840	295,866
Maturing after 3 months	54,336	14,379
	(287)	-
Allowance for expected credit loss on commercial papers on adoption of IFRS 9		
Allowance for expected credit loss on commercial papers (Note 8 (c))	(99)	-
Total deposits and commercial papers	76,790	310,245
Movement:		
At 1 January	310,245	829,942
Additions	20,000	710,436
Maturities	(5,729)	(980,760)
Interest on deposits and commercial papers	7,949	44,239
Transfer to deposits with financial institutions	-	(293,612)
Transfer to Investments in collective investment schemes	(255,289)	-
Allowance for expected credit loss on commercial papers on adoption of IFRS 9	(287)	-
Allowance for expected credit loss on commercial papers (Note 8 (c))	(99)	-
At 31 December	76,790	310,245

An analysis of changes in the gross carrying amount and corresponding ECL allowances in due from related parties has been disclosed in note 38(b). Refer to note 39 for fair value disclosures.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

21. INVESTMENTS IN COLLECTIVE INVESTMENT SCHEMES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 KShs '000	2017 KShs '000
At 1 January		
Reclassification on adoption of IFRS 9	255,289	-
Additions	298,982	-
Maturities	(382,001)	-
Fair value loss on investments in collective investment schemes	(200)	-
At 31 December	172,070	-

22. RECEIVABLES ARISING OUT OF INSURANCE AND REINSURANCE ARRANGEMENTS

(a) RECEIVABLES ARISING OUT OF DIRECT INSURANCE ARRANGEMENTS

Receivables arising out of direct insurance arrangements relate to premiums earned which had not been received as a result of risks underwritten as at the reporting date.

	2018 KShs'000	2017 KShs'000
At 1 January	1,185,422	1,225,276
Gross written premiums	10,210,133	10,141,108
Provision for doubtful receivables	(1,258,831)	(1,194,186)
Payments received	(8,934,143)	(8,986,776)
At 31 December	1,202,581	1,185,422
Past due but not impaired		
1-30 Days	305,913	475,494
31-60 Days	313,252	376,148
61-90 Days	241,319	284,313
91-120 Days	342,097	49,467
	1,202,581	1,185,422
At 1 January	1,194,186	694,186
Increase in Provisions	64,645	500,000
At 31 December	1,258,831	1,194,186

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

22 (b) RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

Receivables arising out of reinsurance arrangements relate to premiums ceded, commission receivable, claims payment and recoveries which had not been recovered from reinsurers as at the reporting date.

	2018 KShs'000	2017 KShs'000
At 1 January	954,407	814,260
Increase in claims paid that have reinsurance recoveries	373,263	565,197
Reinsurance recoveries receipts	(195,632)	(425,050)
At 31 December	1,132,038	954,407
Past due but not impaired		
1-30 Days	111,785	59,942
31-60 Days	171,068	56,441
61-90 Days	226,588	207,461
91-120 Days	622,597	630,563
	1,132,038	954,407

22 (c) PAYABLES ARISING FROM REINSURANCE ARRANGEMENTS AND INSURANCE BODIES

Payables arising out of reinsurance arrangements relate to premiums ceded, which had not been paid to reinsurers as at the reporting date.

	2018 KShs'000	2017 KShs'000
1 January	45,903	105,333
Decrease in reinsurance payables	(5,797)	(59,430)
31 December	40,106	45,903

23. REINSURERS' SHARE OF INSURANCE LIABILITIES AND RESERVES

Reinsurers' share of:	2018 KShs'000	2017 KShs'000
- insurance contract liabilities (note 31)	1,054,279	934,970
- unearned premium and unexpired risks (note 33)	447,906	722,850
	1,502,185	1,657,820

Amounts due from reinsurers in respect of claims already paid by the company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the Statement of Financial Position. Movements in the above reinsurance assets are shown in note 31.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

24. DEFERRED ACQUISITION COSTS

	2018 KShs '000	2017 KShs '000
At 1 January	556,650	461,057
New acquisition costs	122,127	174,704
Amortisation charge	(212,449)	(79,111)
At 31 December	466,328	556,650

Deferred acquisition costs relate to insurance contracts as explained in note 3(f).

25. OTHER RECEIVABLES

	2018	2017
Staff advances	11,986	10,680
Prepayments	2,940	2,586
Medical fund administration scheme	34,736	1,303
Motor vehicle benefits recoverable	-	-
Rent receivable	45,444	7,668
Other receivables	28,277	75,730
Allowance for expected credit loss on other receivables on adoption of IFRS 9	(247)	-
Allowance for expected credit loss on other receivables (Note 8 (c))	(915)	-
	122,221	97,967

An analysis of changes in the gross carrying amount and corresponding ECL allowances in due from related parties has been disclosed in note 38(b).

The carrying amounts of the other receivables approximates their fair values.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

26. RELATED PARTY BALANCES

The company is a subsidiary of CIC Insurance Group PLC, incorporated in Kenya, which owns 100% shares of the company. The ultimate parent company is Co-operative Insurance Society Limited. CIC Asset Management Limited, CIC Life Assurance Limited and CIC General Insurance Limited are related through common shareholding. The provisions for expected credit losses made on related party balances during the year was Kshs. 462,000r (2017: nil). The amounts due from related parties are non- interest bearing and the balances are not secured. The Managing Director is entitled to a gratuity of 25% of the basic salary. There were no commitments made between the company and any related party.

The following are transactions and outstanding balances with the related parties as at 31 December.

		2018 KShs '000	2017 KShs '000
(a)	Transactions with related parties *		
(i)	Receipts from related parties		
	CIC Insurance Group PLC	1,567,470	1,375,491
	CIC Life assurance Limited	353,293	1,696,165
	CIC Asset Management Limited	172,910	169,351
		2,093,673	3,241,007
(ii)	Payments to related parties		
	CIC Insurance Group PLC	1,737,526	1,547,453
	CIC Life Assurance Limited	321,742	1,694,827
	CIC Asset Management Limited	176,236	148,424
		2,235,504	3,390,704

* In helping to reduce the administration burden there will be situations where one entity will pay expenses or receive premiums on behalf of its sister entities or subsidiaries. These transactions therefore relate to the receipts to and payments from related parties to reimburse the entity paying on behalf of the others or allocating the premiums received by the entity on behalf of the others.

		2018 KShs '000	2017 KShs '000
(b)	Due from:		
	CIC Life Assurance Limited	6,740	38,291
	CIC Asset Management Limited	2,859	-
	CIC Insurance Group PLC	8,743	-
	Allowance for expected credit loss on related party balances on adoption of IFRS 9	(18)	-
	Allowance for expected credit loss on related party balances (Note 8 (c))	(444)	-
		17,880	38,291
	Due to:		
	CIC Insurance Group PLC	-	161,313
	CIC Asset Management Limited	-	467
		-	161,780

An analysis of changes in the gross carrying amount and corresponding ECL allowances in due from related parties has been disclosed in note 38(b).
The carrying amounts of the related party balances approximates their fair values.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

26. RELATED PARTY BALANCES *(continued)*

(c) Loans to directors of the company

The company did not advance loans to its directors in 2018 (2017: Nil).

(d) Key management remuneration

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

	2018 KShs '000	2017 KShs '000
Short-term employment benefits:		
Directors 'emoluments – fees	30,610	29,970
Leave allowance	1,310	1,354
Salary	114,152	74,709
Car allowance	4,635	10,695
National Social Security Fund (NSSF)	30	27
Pension contribution	8,420	6,417
	159,157	123,172

27. DEPOSITS WITH FINANCIAL INSTITUTIONS

	2018 KShs '000	2017 KShs '000
The Co-operative Bank of Kenya Limited	1,458,373	1,284,858
Housing Finance Company of Kenya Limited	-	32,730
Credit Bank Limited	73,366	41,491
Gulf African Bank Limited	63,310	10,093
United Bank of Africa (Kenya) Limited	53,319	26,062
Victoria Commercial Bank Limited	56,677	40,835
NIC Bank Limited	109,722	-
Kenya Women Microfinance Bank Limited (KWFT)	52,522	10,648
Jamii Bora bank Limited	-	20,073
Transnational Bank Limited	-	21,067
KCB Bank Kenya Limited*	521,825	385,997
Allowance for expected credit loss on deposits on adoption of IFRS 9	(6,592)	-
Allowance for expected credit Loss on deposits (Note 8 (c))	(2,061)	-
	2,380,461	1,873,854
Maturity analysis:		
Maturing within three months	1,118,393	1,335,074
Maturing after 3 months	1,270,721	538,780
Allowance for expected credit loss on deposits on adoption of IFRS 9	(6,592)	-
Allowance for expected credit loss on deposits (Note 8 (c))	(2,061)	-
	2,380,461	1,873,854

* With the exception of deposits with KCB Bank Limited, which are held as collateral for staff loans, all the other deposits are available for use by the Company and have no lien conditions attached to them. The weighted average interest rate earned on the deposits during the year was 2.5 % (2017- 2.5%).

The carrying amounts of the fixed deposits approximates their fair values.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

28. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2018 %	2017 %
Government securities	12.75	12.5
Corporate bonds	12.50	12.85
Mortgage loans	6	6
Deposits with financial institutions	10.50	12.78

29. SHARE CAPITAL

	31 December 2018		31 December 2017	
	Number of shares (in '000)	Share Capital KShs '000	Number of shares (in'000)	Share capital KShs '000
Authorised ordinary shares of KShs 20 each:				
At 1 January and at 31 December	100,000	2,000,000	100,000	2,000,000
Issued and fully paid up share capital:				
At 1 January and at 31 December	85,000	1,700,000	85,000	1,700,000

30. (a) FAIR VALUE DEFICIT

The fair value reserve represents fair value gains/(loss) arising from financial assets at fair value through other comprehensive income and is not distributable as dividends.

(b) RETAINED EARNINGS

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

31. INSURANCE CONTRACTS LIABILITIES

Gross claims reported, claims handling expense 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 2017 and 2018 are not material.

The Company uses chain-ladder techniques to estimate the ultimate cost of claims and the Incurred but not reported provision. Chain-ladder technique is used as is an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development considering when the earliest material claim arose, 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.

2018

Accident Year	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	2018 KShs'000'	Total KShs'000'
Estimated ultimate claims cost						
at end of accident year	4,410,961	4,372,655	5,855,649	4,568,583	4,647,470	24,021,182
one year later	4,738,575	5,969,581	6,628,190	6,195,376	-	23,531,721
two years later	6,348,218	6,563,367	6,915,435	-	-	19,827,020
three years later	6,399,196	6,780,597	-	-	-	13,179,793
four years later	6,889,835	-	-	-	-	6,889,835
Current estimate of cumulative claims	6,889,835	6,780,597	6,915,435	6,195,376	4,647,470	31,428,712
Less: cumulative payments to date	(6,456,534)	(6,060,679)	(6,434,601)	(5,517,236)	(3,921,603)	(28,390,654)
Gross outstanding claims notified provision	433,301	719,918	480,834	678,140	725,867	3,038,058
Liability incurred but not reported claims	-	-	-	-	-	1,315,708
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	4,353,766

IBNR claims expense is determined in line with the minimum rates as prescribed by the Kenya Insurance Regulatory Authority

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

31. INSURANCE CONTRACTS LIABILITIES *(continued)*

2017

Accident Year	2013 KShs'000'	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	Total KShs'000'
Estimated ultimate claims cost						
at end of accident year	3,886,436	4,410,961	4,538,520	5,855,649	4,793,011	23,484,577
one year later	4,311,453	4,738,575	5,969,581	6,628,190	-	21,647,799
two years later	4,347,712	6,348,218	6,563,367	-	-	17,259,297
three years later	5,239,957	6,399,196	-	-	-	11,639,153
four years later	5,545,718	-	-	-	-	5,545,718
Current estimate of cumulative claims	5,545,718	6,399,196	6,563,367	6,628,190	4,793,011	29,929,482
Less: cumulative payments to date	(5,277,827)	(6,160,260)	(5,813,251)	(6,044,430)	(3,788,625)	(27,084,393)
	267,891	238,936	750,116	583,760	1,004,386	2,845,089
Liability incurred but not reported claims	-	-	-	-	-	1,267,794
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	4,112,883

IBNR claims expense is determined in line with the minimum rates as prescribed by the Kenyan Insurance Regulatory Authority

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

31. INSURANCE CONTRACT *(continued)*

Net claims reported, claims handling expense 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 2017 and 2018 are not material.

2018

Accident Year	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	2018 KShs'000'	Total KShs'000'
Estimated ultimate claims cost at end of accident year	4,834,742	4,657,587	3,286,055	4,492,266	3,755,396	21,026,046
One year later	345,987	389,403	260,047	285,075	-	1,280,512
Two years later	31,155	57,013	48,319	-	-	136,487
Three years later	14,104	23,175	-	-	-	37,279
Four years later	3,819	-	-	-	-	3,819
Current estimate of cumulative claims	5,229,807	5,127,178	3,594,421	4,777,341	3,755,396	22,484,143
Less: cumulative payments to date	(5,091,725)	(4,641,046)	(3,271,690)	(4,319,468)	(3,176,434)	(20,500,363)
	138,082	486,132	322,731	457,873	578,962	1,983,780
Liability incurred but not reported claims	-	-	-	-	-	1,315,707
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	3,299,487

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

31. INSURANCE CONTRACT LIABILITIES *(continued)*

Net claims reported, claims handling expense 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 2016 and 2017 are not material.

2017

Accident Year	2013 KShs'000'	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	Total KShs'000'
Estimated ultimate claims cost at end of accident year	3,721,928	4,815,024	4,604,680	3,191,747	3,649,073	19,982,452
One year later	432,951	341,911	363,930	227,447	-	1,366,239
Two years later	34,803	21,902	37,685	-	-	94,390
Three years later	6,240	9,225	-	-	-	15,465
Four years Later	2,888	-	-	-	-	2,888
Current estimate of cumulative claims	4,198,810	5,188,062	5,006,295	3,419,194	3,649,073	21,461,434
Less: cumulative payments to date	(4,089,394)	(5,006,985)	(4,489,433)	(3,019,582)	(2,945,921)	(19,551,315)
	109,416	181,077	516,862	399,612	703,152	1,910,119
Liability incurred but not reported claims	-	-	-	-	-	1,267,794
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	3,177,913

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

31. INSURANCE CONTRACT LIABILITIES *(continued)*

	2018 KShs '000	2017 KShs '000
Claims reported and claims handling expenses:		
At 1 January	3,177,913	2,438,392
Claims incurred in the year	6,023,632	6,947,773
Payments for claims and claims handling expenses	(5,902,058)	(6,208,252)
At 31 December	3,299,487	3,177,913
Comprising:		
At 31 December:		
Gross amounts	4,353,766	4,112,883
Reinsurers share (note 23)	(1,054,279)	(934,970)
	3,299,487	3,177,913

Movement in insurance contract liabilities is shown below in note 32.

32. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE

	Gross KShs '000	Reinsurance KShs '000	Net KShs '000
2018			
Notified claims	2,845,089	(934,970)	1,910,119
Incurred but not reported	1,267,794	-	1,267,794
At 1 January 2018	4,112,883	(934,970)	3,177,913
Cash paid for claims settled in year	(6,855,168)	953,110	(5,902,058)
Increase in liabilities arising from:			
- Current year claims	5,005,336	(586,282)	4,414,054
- Prior year claims	2,090,715	(486,137)	1,604,578
At 31 December 2018	4,353,766	(1,054,279)	3,299,487
Notified claims	3,038,058	(1,054,279)	1,983,779
Incurred but not reported	1,315,708	-	1,315,708
At 31 December 2018	4,353,766	(1,054,279)	3,299,487
2017			
- Notified claims	2,507,683	(784,277)	1,723,406
- Incurred but not reported	904,817	(189,831)	714,986
At 1 January 2017	3,412,500	(974,108)	2,438,392
Cash paid for claims settled in year	(6,208,252)	912,434	(5,295,818)
Increase in liabilities arising from:			
- Current year claims	4,622,172	(536,308)	4,085,864
-Prior year claims	2,286,463	(336,988)	1,949,475
At 31 December 2017	4,112,883	(934,970)	3,177,913
Comprising:			
Notified claims	2,845,089	(934,970)	1,910,119
Incurred but not reported	1,267,794	-	1,267,794
At 31 December 2017	4,112,883	(934,970)	3,177,913

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

32. PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS *(continued)*

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

2018	Gross KShs '000	Reinsurance KShs '000	Net KShs '000
At 1 January	4,434,950	(722,850)	3,712,100
Gross written premiums	10,210,133	1,534,144	11,744,277
Gross earned premiums	(10,671,018)	(1,259,200)	(11,930,218)
Decrease in the year (net)	(460,885)	274,944	(185,941)
At 31 December	3,974,065	(477,906)	3,526,159
2017			
At 1 January	3,946,835	(580,209)	3,366,626
Gross written premiums	10,141,108	1,299,491	11,440,599
Gross earned premiums	(9,652,993)	(1,442,132)	(11,095,125)
Increase in the year (net)	488,115	(142,641)	345,474
At 31 December	4,434,950	(722,850)	3,712,100

33. OTHER PAYABLES

	2018 KShs '000	2017 KShs '000
Sundry payables*	165,777	139,145
Payroll creditors	52,603	45,837
Premium received in advance	50,221	60,010
Staff annual leave pay provision	26,191	23,448
Rent deposits	19,102	19,102
	313,894	287,542

All amounts are payable within one year.
*The sundry payables relate to professional fees payable, accrued cost of software payable, audit fees payable, stamp duty accrued and withholding taxes accrued and medical funds.

The carrying amounts of the other payables approximates their fair values.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

34. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of profit before tax to cash generated from operations:

	Notes	2018 KShs '000	2017 KShs '000
Profit before taxation		630,069	335,212
Adjustments for:			
Interest on government securities at amortised cost	5	(74,756)	(302,328)
Interest on bank deposits	5	(270,657)	(180,564)
Interest on staff loan receivables	5	(8,401)	(14,185)
Interest on government securities at fair value through other comprehensive income	5	(224,213)	(40,177)
Interest income from deposits and commercial papers		(7,949)	
Dividend income	5	(26,131)	(24,132)
Loss on investment on collective investments	5	200	
Accrued interest on corporate bonds	5	-	-
Discount on government securities at amortised cost	5	(2,279)	6,987
Gain on disposal of property and equipment		(2,167)	(3,111)
Depreciation on property and equipment	10	69,301	70,066
Fair value gains on revaluation on buildings	10	(1,260)	2,720
Fair value gains on revaluation on investment property	11	(14,000)	(52,000)
Amortisation of intangible assets	12	17,712	22,174
Fair value loss on corporate bonds	14	-	1,057
Accrued interest on corporate bonds	14	-	(430)
Fair value loss / (gain) on quoted equity investments at fair value through profit or loss	19	129,482	(49,748)
Fair value loss on available for sale government securities reclassified	15	11,222	1,334
Impairment charge for staff Loans	16	(631)	11,589
Write back on corporate bonds		(6)	-
Impairment on deposits and commercial papers		99	-
Impairment on deposits with financial institutions		2,064	-
Impairment on other receivables		1,360	-
Provision for doubtful premium receivables	8	64,645	500,000
Provision for outstanding leave	8	2,743	6,362
Working capital changes;			
Increase in receivables arising out of direct insurance arrangements	21	(81,804)	(460,146)
Increase in receivables arising out of reinsurance arrangements	21	(177,631)	(140,147)
Decrease / (Increase) in reinsurer share of reserves and liabilities	22	155,635	(103,505)
Decrease / (Increase) in deferred acquisition costs	23	90,322	(95,593)
(Increase) / Decrease in other receivables	24	(25,418)	44,083
Increase in related party balances	25	(141,831)	(176,697)
Increase in outstanding claims provision	30	240,883	700,383
(Decrease) / Increase in unearned premium reserve	32	(460,885)	488,116
Increase in other payables	33	23,609	71,424
Decrease in amounts due to reinsurers and other insurance bodies (net)		(5,797)	(59,430)
Net cash (used in)/ generated from operations		(86,470)	559,314

b) Cash and cash equivalents

	Notes	2018 KShs '000	2017 KShs '000
Bank and cash balances		203,932	132,463
Deposits with banks maturing within 3 months	27	1,118,393	1,335,074
		1,322,325	1,467,537

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

35. DIVIDENDS

	2018 KShs'000	2017 KShs'000
Declared and paid during the year Final dividend for 2018 KShs 2.68 per share (2017: KShs 2.4 per share)	204,000	182,000
Proposed for approval at the annual general meeting (not recognised as a liability.)	228,000	204,000

There are no income tax consequences attached to the payment of dividends in either 2018 or 2017 by the company to its shareholders.

Dividend on ordinary shares

a) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.

b) Payment of dividend is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders respectively.

36. CONTINGENCIES AND COMMITMENTS

a. Legal proceedings and regulations

The company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

The company is also subject to insurance solvency regulations and has complied with all the solvency regulations. There are no contingencies associated with the company's compliance or lack of compliance with such regulations.

b. Capital commitments, operating leases and bank guarantees

	2018 KShs '000	2017 KShs '000
Bank guarantees	187,514	168,519

In common practice with the insurance industry in general, the company tenders for business. Such tenders require that a guarantee or performance bond is placed with a bank.

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

	2018 KShs '000	2017 KShs '000
Committed but not contracted for	94,975	180,093

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

36. CONTINGENCIES AND COMMITMENTS *(continued)*

Operating leases

The company has entered commercial property leases on its investment property portfolio, consisting of the company's surplus office buildings. These non–cancellable leases have remaining terms of between two and five years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions

Future minimum lease rentals receivable under non–cancellable operating leases as at 31 December are as follows:

	2018 KShs '000	2017 KShs '000
Within one year	71,085	79,470
After one year but not more than two years	63,048	134,494
After two years but not more than five years	-	-
Total operating lease rentals receivable	134,133	213,964

The company has entered commercial leases on certain property and equipment. These leases have an average life of between three and five years, with no renewal option included in the contracts. There are no restrictions placed upon the company by entering into the leases.

Future minimum rentals payable under non–cancellable operating leases as at 31 December are, as follows:

	2018 KShs '000	2017 KShs '000
Within one year	35,887	32,197
After one year but not more than five years	98,459	115,167
More than five years	-	-
Total operating lease rentals payable	134,346	147,364

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

37. RISK MANAGEMENT FRAMEWORK

a. Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a company policy framework which sets out the risk profiles for the company, risk management, control and business conduct standards for the company's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Company.

The board of directors approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

b. Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and shareholders
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value

The operations of the Company are also subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy at 100 % to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise. The Company has met all of these requirements throughout the financial year.

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Kenyan Insurance Regulatory Authority (IRA). These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.
The company had capital adequacy ratio of 137% as compared to 100% which is the minimum as per IRA requirements.

The Company's capital management policy for its insurance and non–insurance business is to hold sufficient capital to cover the statutory requirements based on the IRA directives, including any additional amounts required by the regulator.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

37. RISK MANAGEMENT FRAMEWORK *(continued)*

b. Capital management objectives, policies and approach *(continued)*

Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics. An important aspect of the Company's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The primary source of capital used by the Company is total equity. The Company also utilises, where it is efficient to do so, sources of capital such as reinsurance and securitisation, in addition to more traditional sources of funding.

The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

The Company has made no significant changes, from previous years, to its policies and processes for its capital structure.

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

	2018 KShs '000	2017 KShs '000
Share capital	1,700,000	1,700,000
Fair value deficit	(125,443)	(173,813)
Retained earnings	2,569,663	2,469,457
	4,144,220	3,995,644

The company had no external financing at 31 December 2018 and 31 December 2017.

c. Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

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

37. RISK MANAGEMENT FRAMEWORK *(continued)*

d. Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk. The Company manages these positions within an ALM framework that has been developed to achieve long–term investment returns in excess of its obligations under insurance. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance.by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Company's ALM is:

Integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities

As an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance.

38. INSURANCE AND FINANCIAL RISK

a. Insurance risk

The Company purchases reinsurance as a part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and a non–proportional basis. The majority of proportional reinsurance is quota–share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non–proportional reinsurance is primarily excess–of–loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess–of–loss reinsurance vary by product line.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the reporting date.

The Company principally issues the following types of general insurance contracts: motor, household, commercial and business interruption. Healthcare contracts provide medical expense coverage to policyholders and are not guaranteed as renewable. Risks under non–life insurance policies usually cover twelve months duration.

For general insurance contracts, {the most significant risks arise when there is fire, motor accidents, property losses or medical claims For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements. These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

a. Insurance risk *(continued)*

The Company uses commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.
The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 50% of shareholders' equity on a gross basis and 10% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 2% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The table below sets out the concentration of insurance contract liabilities by type of contract:

	31 December 2018			31 December 2017		
	Gross liabilities KShs '000	Reinsurance of liabilities KShs '000	Net liabilities KShs '000	Gross liabilities KShs '000	Reinsurance of liabilities KShs '000	Net Liabilities KShs '000
Engineering	60,233	(39,722)	20,511	111,878	(57,550)	54,328
Fire	94,970	(38,831)	56,139	132,983	(50,978)	82,005
Liability	768,484	(636,973)	131,511	778,974	(632,518)	146,456
Marine	39,178	(2,082)	37,096	29,109	(318)	28,791
Motor	2,512,817	(248,328)	2,264,489	2,254,358	(159,127)	2,095,231
medical	281,108	(2,811)	278,297	216,352	(2,164)	214,188
Others	596,976	(85,531)	511,445	589,229	(34,478)	554,751
Total	4,353,766	(1,054,278)	3,299,488	4,112,883	(937,133)	3,175,750

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The insurance claim liabilities are sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

38. INSURANCE AND FINANCIAL RISK *(continued)*

It should be noted that movements in these assumptions are non–linear. The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

31/12/2018	Change in assumptions	Increase/ (decrease) on gross Liabilities	Increase/ (decrease) on net Liabilities	Increase/ (decrease) on profit before tax	Increase/ (decrease) on equity
Average Claim Cost	+10/-10	131,570	85,520	46,049	13,814
Average number of claims	+10/-10	121,030	78,669	42,360	12,708
31/12/2017					
Average Claim Cost	+10/-10	126,779	82,406	44,372	13,311
Average number of claims	+10/-10	119,779	77,856	41,922	12,576

b. Financial risks

i. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

A Company credit risk policy which sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Net exposure limits are set for each counterparty or group of counterparties, and industry segment (i.e., limits are set for investments and cash deposits, and minimum credit ratings for investments that may be held).

The Company maintains strict control limits by amount and terms on net open derivative positions. The amounts subject to credit risk are limited to the fair value of "in the money" financial assets against which the Company either obtains collateral from counterparties or requires margin deposits. Collateral may be sold or repledged by the company and is repayable if the contract terminates or the contract's fair value falls. Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

The credit risk in respect of customer balances incurred on non–payment of premiums or contributions will only persist during the grace period of 120 days specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2018 and 2017 is the carrying amounts as presented in the statement of financial position.

During the year, no credit exposure limits were exceeded.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*

i. Credit risk *(continued)*

The Company's internal rating process

The Company's investment team prepares internal ratings for financial instruments that is (Financial assets at amortised cost- Government securities, Financial Assets at amortised cost- Corporate Bonds, Financial Assets at amortised cost-Loan, Financial Assets at amortised cost-Commercial Papers,Due from related party,Deposits with financial institutions, and Cash and bank balances) in which counterparties are rated using internal grades. The ratings are determined incorporating both qualitative and quantitative information from Standards and Poors (S&P), ratings supplemented with information specific to the counterparty and other external information that could affect the counterparty's behavior. These information sources are first used to determine whether an instrument has had a significant increase in credit risk.

The Company's internal credit rating grades is as follows:

Internal rating grade	Internal rating description	Standard and Poors (S&P)rating
0	High grade	AAA
1	High grade	A-
2	Standard grade	BBB+
3	Sub-standard grade	BB+
4	Past due but not impaired	CCC+
5	Individually impaired	D

Significant increase in credit risk, default and cure

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument is subject to 12mECL or LTECL that is (Financial assets at amortised cost- Government securities, Financial Assets at amortised cost- Corporate Bonds, Financial Assets at amortised cost-Loan, Financial Assets at amortised cost-Commercial Papers, Due from related party,Deposits with financial institutions,Other receivables and Cash and bank balances , the Company assesses whether there has been a significant increase in credit risk since initial recognition.

The Company considers that there has been a significant increase in credit risk when any contractual payments are more than 30 days past due. In addition, the Company also considers a variety of instances that may indicate unlikeness to pay by assessing whether there has been a significant increase in credit risk. Such events include:

- Internal rating of the counterparty indicating default or near default
- The counterparty having past due liabilities to public creditors or employees
- The counterparty filing for bankruptcy application
- Counterparty's listed debt or equity suspended at the primary exchange because of rumours or facts of financial difficulties.

The Company considers a financial instrument defaulted and, therefore, credit impaired for ECL calculations in all cases when the counterparty becomes 90 days past due on its contractual payments. The Company may also consider an instrument to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full. In such cases, the Company recognises a lifetime ECL.

In rare cases when an instrument identified as defaulted, it is the Company's policy to consider the financial instrument as "cured" and therefore re-classified out of credit-impaired when none of the default criteria have been present for at least twelve consecutive months.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*
b. Financial risks *(continued)*
i. Credit risk *(continued)*

Credit risk exposure by credit rating

The table below provides information regarding the credit risk exposure of the company by classifying assets according to the Company's credit ratings of counter parties.

	High grade KShs '000	Standard grade KShs '000	Past due but not impaired KShs '000	Individually impaired KShs '000	Total KShs '000
Financial assets at amortised cost					
- Government securities	738,625	-	-	-	738,625
Financial Assets at amortised cost					
- Corporate Bonds	161,008	-	-	72,888	233,896
Financial Assets at amortised cost-Loan					
and Receivables	113,333	-	363	-	113,696
Financial Assets at amortised cost					
-Commercial Papers	77,176	-	-	-	77,176
Due from related party	18,342	-	-	-	18,342
Deposits with financial institutions	2,389,114	-	-		2,389,114
Other receivables	123,383				123,383
Cash and bank balances	203,932	-	-	-	203,932
Total financial assets at amortised cost	3,824,913				3,898,164
Financial assets at fair value through OCI					
- Government securities	1,510,681	-	-	-	1,510,681
	5,335,594	-	363	72,888	5,408,845

The company actively manages its product mix to ensure there is no significant concentration of credit risk

Impairment losses on financial investments subject to impairment assessment.

Debt instruments measured at FVOCI

The table below shows the fair values of the Company's debt instruments at FVOCI by credit risk, based on the Company's internal credit rating system.

Internal rating grade	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
High grade	1,510,681	-	-	1,510,681
Standard grade	-	-	-	-
Total Gross Amount	1,510,681	-	-	1,510,681
ECL	-	-	-	-
Total Net Amount	1,510,681	-	-	1,510,681

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Debt instruments measured at FVOCI (continued)

An analysis of changes in the fair value amount and corresponding ECLs is, as follows:

2018	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Fair value amount as at 1 January	2,002,476	-	-	2,002,476
New assets purchased	100,000	-	-	100,000
Assets matured	(686,740)	-	-	(686,740)
Changes in fair value	39,385	-	-	39,385
AFS interest reclassification	55,560			55,560
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	1,510,681	-	-	1,510,681
ECL as at 1 January	-	-	-	-
New assets	-	-	-	-
Assets matured	-	-	-	-
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	-	-	-	-

Debt instruments at amortised cost

The table below shows the credit quality and maximum exposure to credit risk based on the Company's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances. Details of the Company's grading system are explained above.

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Performing				
High grade	161,008	-	-	161,008
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	161,008	-	-	161,008
(ECL)/Write backs	(804)	-	-	(804)
Total Net Amount	160,204	-	-	160,204

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Debt instruments measured at FVOCI (continued)

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	162,263	-	72,888	235,151
New assets purchased	-	-	-	-
Assets matured	(1,251)	-	-	(1,251)
Accrued interest capitalised	(4)	-	-	(4)
Amount written off	-	-	(72,888)	(72,888)
Amortisation / Discount	-	-	-	-
Movement between 12mECLand LTECL				
At 31 December	161,008	-	-	161,008
ECL as at 1 January	810	-	-	810
New assets	-	-	-	-
Assets matured	(6)	-	-	(6)
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	804	-	-	804

Government Securities

Internal rating grade

	Stage 1	Stage 2	Stage 3	Total
Performing				
High grade	738,625	-	-	738,625
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	738,625	-	-	738,625
(ECL)/Write backs	-	-	-	-
Total Net Amount	738,625	-	-	738,625

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Government Securities (continued)

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	736,346	-	-	736,346
New assets purchased	-	-	-	-
Assets matured	-	-	-	-
Accrued interest capitalised	-	-	-	-
Amortisation / Discount	2,279	-	-	2,279
Movement between 12mECLand LTECL	-	-	-	-
At 31 December	738,625	-	-	738,625

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	-	-	-	-
New assets	-	-	-	-
Assets matured	-	-	-	-
Unwind of discount	-	-	-	-
Movement between 12mECLand LTECL	-	-	-	-
At 31 December	-	-	-	-

Loans Receivable

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Performing				
High grade	113,333	-	-	113,333
Standard grade	-	-	-	-
Past due but not impaired	363	-	-	363
Non-performing				
Individually impaired	-	-	-	-
Total Gross	113,696	-	-	113,696
(ECL)/Write backs	(6,200)	-	-	(6,200)
Total Net Amount	107,496	-	-	107,496

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Loans Receivable (continued)

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	257,145	-	-	257,145
New assets purchased	-	-	-	-
Assets matured	(143,449)	-	-	-143,449
Accrued interest capitalised	-	-	-	-
Amortisation / Discount	-	-	-	-
Movement between 12mECLand LTECL				
At 31 December	113,696	-	-	113,696

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	11,589	-	-	11,589
New assets	-	-	-	-
Assets matured	(5,389)	-	-	(5,389)
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	6,200	-	-	6,200

Deposits with financial institutions

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Performing				
High grade	2,389,114	-	-	2,389,114
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	2,389,114	-	-	2,389,114
(ECL)/Write backs	(8,653)	-	-	(8,653)
Total Net Amount	2,380,461	-	-	2,380,461

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Deposits with financial institutions *(continued)*

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	2,009,680	-	-	2,009,680
New assets purchased	3,289,779	-	-	3,289,779
Assets matured	(3,001,839)	-	-	(3,001,839)
Accrued interest capitalised	91,494	-	-	91,494
Amortisation / Discount	-	-	-	-
Movement between 12mECLand LTECL				
At 31 December	2,389,114	-	-	2,389,114

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	6,592	-	-	6,592
New assets	1,078	-	-	1,078
Assets matured	983	-	-	983
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	8,653	-	-	8,653

Commercial papers

	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	77,176	-	-	77,176
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	77,176	-	-	77,176
(ECL)/Write backs	(386)	-	-	(386)
Total Net Amount	76,790	-	-	76,790

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Commercial papers (continued)

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	310,245	-		310,245
New assets purchased	20,000	-		20,000
Assets matured	(5,729)	-		(5,729)
Accrued interest capitalised	7,949	-		7,949
Amortisation / Discount	-	-		-
Transfer to Investments in collective investment schemes	(255,289)			(255,289)
Movement between 12mECLand LTECL				
At 31 December	77,176	-	-	77,176

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	287	-	-	287
New assets	77	-	-	77
Assets matured	22	-	-	22
Unwind of discount				
Movement between 12m ECL and LTECL	386	-	-	386

Due from related party

	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	18,342	-	-	18,342
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	18,342	-	-	18,342
(ECL)/Write backs	(462)	-	-	(462)
Total Net Amount	17,880	-	-	17,880

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Due from related party (continued)

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	(123,489)	-	-	(123,489)
New assets purchased	2,235,504	-	-	2,235,504
Assets matured	(2,093,673)	-	-	(2,093,673)
Accrued interest capitalised	-	-	-	-
Amortisation / Discount	-	-	-	-
Transfer to Investments in collective investment schemes	-	-	-	-
Movement between 12mECLand LTECL	-	-	-	-
At 31 December	18,342	-	-	18,342

	Stage 1	Stage 2	Stage 3	Total
				17
ECL as at 1 January	17	-	-	675
New assets	675	-	-	(230)
Assets matured	(230)	-	-	
Unwind of discount				
Movement between 12m ECL and LTECL				
	462	-	-	462

Other receivables

	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	123,383	-	-	123,383
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	123,383	-	-	123,383
(ECL)/Write backs	(1,162)	-	-	(1,162)
Total Net Amount	122,221	-	-	122,221

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Other receivables (continued)

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	97,967	-	97,967	97,967
New assets purchased	72,869	-	72,869	72,869
Assets matured	(47,453)	-	(47,453)	(47,453)
Accrued interest capitalized	-	-	-	-
Amortisation / Discount		-	-	-
Transfer to Investments in collective investment schemes	-	-	-	-
Movement between 12mECLand LTECL	-	-	-	-
At 31 December	123,383	-	123,383	123,383

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January				
New assets	247	-	247	247
Assets matured	915	-	915	915
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	1,162	-	1,162	1,162

Age analysis of financial assets past due but not impaired

31 December 2018	< 30 days KShs '000	31 to 60 days KShs '000	61 to 90 days KShs '000	91 to 120 days KShs '000	Total past–due but not impaired KShs '000
Reinsurance assets	568,333	718,551	686,011	661,328	2,634,223
Insurance receivables	305,913	313,252	241,319	342,097	1,202,581
Total	874,246	1,031,803	927,330	1,003,425	3,836,804
31 December 2017	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Reinsurance assets	722,850	1,449,856	395,569	43,952	2,612,227
Insurance receivables	475,494	376,148	284,313	49,467	1,185,422
Total	1,198,344	1,826,004	679,882	93,419	3,797,649

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*
i. Credit risk *(continued)*

Impaired financial assets

At 31 December 2018, there are impaired insurance assets of KShs 1.3B (2017: KShs 1.2B).

For assets to be classified as" past–due and impaired" contractual payments must be in arrears for more than 120 days. No collateral is held as security for any past due or impaired assets.

The Company records impairment allowances for receivables arising out of direct insurance arrangements in a separate impairment allowance account. A reconciliation of the allowance for impairment losses for loans and receivables is, as follows:

	2018 KShs '000	2017 KShs '000
At 1 January	1,194,186	694,186
Charge for the year	64,645	500,000
At 31 December	1,258,831	1,194,186

Collateral

No collateral is held in respect of the receivables that are past due but not impaired.

Financial assets neither past due nor impaired

There were no financial assets that are neither impaired nor past due as at 31 December 2018.

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*

ii. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out–flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A Company's liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance obligations.
- Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- The Company's catastrophe excess–of–loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

Maturity profiles

The following table summarises the maturity profile of the financial assets, financial liabilities and insurance contract liabilities of the Company based on remaining undiscounted contractual obligations, including interest payable and receivable.

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums have been excluded from the analysis as they are not contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The Company also has committed lines of credit that it can access to meet liquidity needs.

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

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*

ii. Liquidity risk *(continued)*

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

31 December 2018	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000
Financial assets:				
Government securities at amortised cost	20,667	-	1,252,085	1,272,752
Corporate bonds	-	67,494	120,091	187,585
Government securities at fair value through other comprehensive income	-	-	3,128,004	3,128,004
Equity investments:				
- At fair value through profit or loss	-	-	512,492	512,492
- At fair value through other comprehensive income	-	-	18,212	18,212
Loans receivable	-	1,512	105,984	107,496
Receivables arising out of reinsurance arrangements	1,132,038	-	-	1,132,038
Receivables arising out of direct insurance arrangements	587,556	615,025	-	1,202,581
Deposit with Financial Institutions	2,380,461	-	-	2,380,461
Due from related party	17,880	-	-	17,880
Cash and cash equivalents	203,932	-	-	203,932
Total financial assets	4,342,534	684,031	5,136,868	10,163,433
Financial liabilities:				
Insurance contract liabilities	4,353,766	-	-	4,353,766
Payables arising from reinsurance arrangements	-	40,106	-	40,106
Other payables	313,892	-	-	313,892
Bank Guarantees	-	187,514	-	187,514
Total financial liabilities	4,667,658	227,620	-	4,895,278
Net liquidity gap	(325,124)	456,411	5,136,868	5,268,155

38. INSURANCE AND FINANCIAL RISK *(continued)*

b. Financial risks *(continued)*

ii. Liquidity risk *(continued)*

31 December 2017	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000
Financial assets:				
Government securities classified as held to maturity	-	-	1,359,974	1,359,974
Corporate bonds	-	-	289,477	289,477
Government securities classified as available for sale	-	-	4,291,332	4,291,332
Equity investments:				
- At fair value through profit or loss	-	-	581,231	581,231
- Available for sale	-	-	20,449	20,449
Loans receivable	46,573	57,156	519,803	623,532
Receivables arising out of reinsurance arrangements	954,407	-	-	954,407
Receivables arising out of direct insurance arrangements	851,642	333,780	-	1,185,422
Deposit with Financial Institutions	1,873,854	-	-	1,873,854
Due from related party	38,291	-	-	38,291
Cash and cash equivalents	131,951	-	-	131,951
Total financial assets	3,896,718	390,936	7,062,266	11,349,920
Financial liabilities:				
Insurance contract liabilities	4,112,883	-	-	4,112,883
Payables arising from reinsurance arrangements	-	45,903	-	45,903
Due to related party	-	-	161,780	161,780
Bank Guarantees	-	168,579	-	168,579
Other payables	287,542	-	-	287,542
Total financial liabilities	4,400,425	214,482	161,780	4,776,687
Liquidity Gap	(503,707)	176,454	6,900,486	6,573,233

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*

c. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The company's market risk policy sets out the assessment and determination of what constitutes market risk for the company. Compliance with the policy is monitored and exposures and breaches are reported to the company's risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with their expectations.

The company stipulates diversification benchmarks by type of instrument and geographical area, as the company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt currencies are all constant

(i) Currency risk

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

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest risk.

The company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Interest on floating rate instruments is re–priced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

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. The Financial assets at amortised cost- Deposits and commercial papers and staff loans are not affected by interest rate risk because the rates are agreed at the beginning of the contract financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

38. INSURANCE AND FINANCIAL RISK *(continued)*
c. Market risk *(continued)*

(ii) Interest rate risk *(continued)*

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

	Effect on profit due to an increase /decrease of 5% in interest rates	
	2018 KShs '000	2017 KShs '000
Government securities	14,948,450	19,292,650
Corporate bonds	(200)	21,500
Mortgage loans	420,050	709,250
Deposits with financial institutions	13,532,850	7,450,800

(iii) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices (other than those arising from interest rate or foreign exchange rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

The company is exposed to equity securities price risk as a result of its holdings in investments, classified as financial assets at fair value through profit or loss as well as financial assets classified as available for sale. Exposure to equity securities in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Equity price risk is as a result of fluctuation of prices at the Nairobi Securities Exchange Limited (NSE).

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

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

Equity investment through profit or loss represents 96% (2017: 96%) of total equity investments. If equity market indices had increased/ decreased by 5%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, the profit for the year would increase/ decrease by KShs 6,474,100 (2017: KShs 2,487,400).

(iv) Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

39. FAIR VALUE MEASUREMENT

The company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

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

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

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

The table below shows an analysis of assets recorded at fair value by level of the fair value hierarchy, however, it does not include instruments whose fair value approximates the carrying amount.

31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amount
Assets:					
Mortgage loans	-	34,428	-	34,428	68,848
Other staff loans	-	24,995	-	24,995	38,648
Corporate bonds		153,796	-	153,796	160,204
Equity investments classified:					
- At fair value through profit or loss	512,492	-	-	512,492	512,492
- At fair value through other comprehensive income	-	18,212	-	18,212	18,212
Investments in collective investment schemes at fair value through Profit or loss		172,070		172,070	172,070
Financial assets at amortised cost- Deposits and commercial papers		73,718		73,718	76,790
Financial assets at amortised cost - Government securities	753,034	-	-	753,034	738,625
Government securities at fair value through other comprehensive income	1,510,681	-	-	1,510,681	1,510,681
Owner occupied property and equipment*	-	-	409,795	409,795	409,795
Investment properties*	-	-	1,602,000	1,602,000	1,602,000
	2,776,207	477,219	2,011,795	5,265,221	5,308,365

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

39. FAIR VALUE MEASUREMENT *(continued)*

31 December 2017	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amount
Assets:					
Mortgage loans	-	64,196	-	64,196	162,381
Other staff loans	-	57,652	-	57,652	94,764
Corporate bonds	162,263	-	72,888	235,151	235,151
Equity investments classified:					
-At fair value through profit or loss	581,231	-	-	581,231	581,231
-As available for sale	-	20,449	-	20,449	20,449
	2,002,476	-	-	2,002,476	2,002,476
Government securities classified as available for sale Deposits and commercial papers	-	308,047	308,047	-	310,245
Government Securities classified as held to maturity	750,711	-	-	750,711	736,346
Owner occupied property and equipment*	-	-	452,521	452,521	452,521
Investment properties*	-	-	1,588,000	1,588,000	1,588,000
	3,496,681	450,344	2,421,456	5,752,387	6,183,564

**The gains/ (losses) arising from revaluation of investment property and property and equipment have been disclosed in the statement of profit or loss. Refer note 10 for further details.*

Valuation techniques used in determining fair value of financial assets and liabilities

Instrument	Level	Valuation basis	Inputs
Investments in collective investments schemes at fair value through profit or loss		Net Asset Value	Current unit price of underlying unitised assets.
Deposits and commercial paper		Discounted Cash Flow	Implied Yield to Maturity
Corporate bonds	2	Discounted Cash Flow	Implied Yield to Maturity
Mortgages and other loans	2	Discounted Cash Flow (DCF)	Average Market interest rates 13%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

39. FAIR VALUE MEASUREMENT *(continued)*

The significant unobservable inputs used in the fair value measurements categorised in level 3 of the fair value hierarchy as at 31 December 2018 are as shown below.

Instrument	Level	Valuation basis	Sensitivity of input to the fair value
Investment properties*	3	Capitalised rent income method	Increase/(decrease) in discount of 5% would decrease/(increase) fair value by KShs 80.1 million.
Owner occupied property and equipment	3	Capitalised rent income method	Increase/(Decrease) in annual rent of 5% would (decrease)/increase the fair value by by Ksh 7.6 million Increase/(Decrease) in annual growth rate of 5% would (decrease)/increase the fair value by Ksh 10.8 million Increase/(decrease) in discount of 5% would decrease/(increase) fair value by KShs 20.5 million. Increase/(Decrease) in annual rent of 5% would (decrease)/increase the fair value by by Ksh 1.9 million Increase/(Decrease) in annual growth rate of 5% would (decrease)/increase the fair value by Ksh 2.7 million

**The sensitivities for some of property (Kajiado Land) was not provided since the valuation was on market values of similar properties, the quantitative unobservable inputs were neither reasonably available nor developed by the entity.*

Reconciliation of fair value measurement under Level 3 hierarchy

2018	At 1 January	Contributions/ Additions /Transfer from level 2	Disposals/ Settlements	Fair value gain/(loss) recognised in profit or loss	At 31 December
Investment property	1,588,000	-	-	14,000	1,602,000
Owner-occupied property	234,000	-	-	-	234,000
	1,822,000	-	-	14,000	1,836,000
2017					
Corporate bonds	73,945	-	-	(1,057)	72,888
Investment property	1,536,000	-	-	52,000	1,588,000
Owner-occupied property	234,000	-	-	-	234,000
	1,843,945	-	-	50,943	1,894,888

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

40. HOLDING COMPANY

The parent company is CIC Insurance Group PLC which is ultimately owned by Co-operative Insurance Society Limited. Both are incorporated and domiciled in Kenya

41. INCORPORATION

The company is incorporated in Kenya under the companies Act and is domiciled in Kenya.

42. CURRENCY

The financial statements are presented in Kenya shillings thousands (KShs '000'), which is also the company's functional currency.

CIC GENERAL INSURANCE LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2018

	C.A.R & Engineering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Commercial Shs.'000	Motor Pool Shs.'000	Medical insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Workmen's Comp. Shs.'000	Misc. Accident Shs.'000	Micro solutions Shs.'000	Total 2018 Shs.'000
Gross premium written	223,527	95,399	731,172	98,665	113,042	2,329,735	2,410,848	-	2,862,964	277,941	506,909	373,239	161,556	25,136	10,210,133
Unearned premium transferred in	297,730	31,111	330,057	108,997	37,994	1,052,539	1,151,419	-	969,116	76,017	135,399	123,024	111,921	9,624	4,434,948
Unearned premium c/f	216,895	31,252	276,502	38,164	31,785	961,479	990,948	-	1,034,234	53,351	149,254	127,450	54,031	8,721	3,974,066
Gross earned premium	304,362	95,258	784,727	169,498	119,251	2,420,795	2,571,319	-	2,797,846	300,607	493,054	368,813	219,446	26,039	10,671,015
Reinsurance premium	(238,319)	(14,305)	(502,705)	(97,671)	(57,542)	(87,217)	(89,533)	-	(54,111)	(71,298)	(25,596)	(44,265)	(244,726)	(6,855)	(1,534,143)
Net earned premium	66,043	80,953	282,022	71,827	61,709	2,333,578	2,481,786	-	2,743,735	229,309	467,458	324,548	(25,280)	19,184	9,136,872
Gross claims paid	26,571	27,865	207,262	224,067	49,138	1,861,547	1,559,548	-	2,061,393	84,626	109,186	228,220	92,714	323,031	6,855,168
Outstanding claims c/f	60,233	6,165	88,805	768,484	39,178	1,285,853	1,224,872	2,092	281,108	77,156	125,563	304,883	83,365	5,837	4,353,594
Outstanding claims transferred in	111,878	14,514	118,469	778,974	29,109	1,149,967	1,102,298	2,092	216,352	89,733	82,097	275,515	53,407	88,478	4,112,883
Gross claims incurred	(25,074)	19,516	177,598	213,577	59,207	1,997,433	1,682,122	-	2,126,149	72,049	152,652	257,588	122,672	240,390	7,095,879
Recoveries	12,663	(303)	(82,934)	(152,199)	(8,218)	(212,174)	(209,259)	-	(52,337)	(33,654)	(13,637)	(48,165)	(122,203)	(150,000)	(1,072,420)
Net incurred Claims	(12,411)	19,213	94,664	61,378	50,989	1,785,259	1,472,863	-	2,073,812	38,395	139,015	209,423	469	90,390	6,023,459
Commission receivable	50,993	4,624	160,855	6,593	12,424	-	-	-	-	5,005	3,995	2,721	34,880	-	282,090
Commissions payable	59,012	17,804	192,083	32,697	23,613	292,219	321,757	-	241,740	56,977	91,659	72,267	24,604	3,180	1,429,612
Net commission	8,019	13,180	31,228	26,104	11,189	292,219	321,757	-	241,740	51,972	87,664	69,546	(10,276)	3,180	1,147,522
Management Expenses	34,736	28,003	104,453	15,204	45,136	444,129	566,013	-	227,260	105,202	180,916	76,176	49,874	7,404	1,884,506
Premium Tax	2,628	1,121	8,595	1,160	1,329	27,386	28,339	-	33,654	3,267	5,959	4,387	1,899	294	120,018
Total	37,364	29,124	113,048	16,364	46,465	471,515	594,352	-	260,914	108,469	186,875	80,563	51,773	7,698	2,004,524
Total claims expenses and commissions	(4,392)	32,393	125,892	87,482	62,178	2,077,478	1,794,620	-	2,315,552	90,367	226,679	278,969	(9,807)	93,570	7,170,981
Underwriting profit/(loss)	33,071	19,436	43,082	(32,019)	(46,934)	(215,415)	92,814	-	167,269	30,473	53,904	(34,984)	(67,246)	(82,084)	(38,633)

The revenue account was approved by the board of directors on 28th February 2019 and was signed on its behalf by:

Chairman
Edwin Otieno Joseph, OGW

Director
Patric Nyaga

Principal Officer
Elijah Wachira

APPENDIX II

GLOSSARY OF INSURANCE TERMS
FOR THE YEAR ENDED 31 DECEMBER 2018

Assumptions	The underlying variables which are taken into account in determining the value of insurance liabilities.
Benefits and claims experience variation	The difference between the expected and the actual benefit
Claims development table	A table that compares actual claims paid and current estimates of claims with previously reported estimates of the same claims, demonstrating the sufficiency or otherwise of those previous estimates.
Deferred expenses – deferred acquisition costs (DAC)	Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts which are deferred and brought to account as expenses of future reporting periods.
General insurance	An insurance contract which provides coverage other than life insurance to the policyholder. Examples include motor, household, third party liability, marine and business interruption. Short-term life and health insurance is also frequently classified as general insurance.
*Financial risk**	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non–financial variable that the variable is not specific to a party to the contract.
*Insurance contract**	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Incurred but not report (IBNR)	Claims to be made by a policyholder, but not yet reported to the insurance company.
*Insurance risk**	Risk, other than financial risk, transferred from the holder of a contract to the issuer.
Liability adequacy test	An annual assessment of the sufficiency of insurance to cover future insurance obligations.
Outstanding claims provision	Comprises claims reported by the policyholder to the insurance company, and IBNR claims.
Premiums earned	In the case of general insurance business, earned premium is the proportion of written premiums (including, where relevant, those of prior accounting periods) attributable to the risks borne by the insurer during the accounting period. For non-life insurance contracts, the premium income attributable to the insurance risks borne by the insurer in the reporting period that is, after adjusting for the opening and closing balances of unearned premium.
Premiums written	Premiums to which the insurer is contractually entitled becoming due for payment in the accounting period.
Reinsurance	Insurance risk that is ceded to another insurer to compensate for losses, but the ultimate obligation to the policyholder remains with the entity who issued the original insurance contract.

FORM OF PROXY
CIC GENERAL INSURANCE LIMITED

(Incorporated in the Republic of Kenya under the Companies Act No. 17 of 2015) Annual General Meeting dated 21st May 2019 at 12:00 p.m. At CIC Plaza II, Nairobi.

I/We____ID Number ____________________________

Member/ CDS Account Number ____

of (address) ______________________________ Mobile Number_________________________________

Being a member of CIC General Insurance Limited and entitled to _________________________ vote hereby appoint

Name(s) ____ ID Number ___________________________

of (address) ____

or, failing him, the duly appointed Chairman of the meeting to be my/our Proxy, to vote on my/our behalf at the Annual General Meeting of the Company to be held on 21st May 2019 at 12:00 p.m. at CIC Plaza II, Nairobi or at any adjournment thereof.

As witness to my/our hands this _______________________ day of _______________ 2019

Signature(s) ____

Notes

1. This proxy form is to be delivered to CIC General Insurance Limited, CIC Plaza, Mara Road and of P.O. Box 59485-00200 Nairobi email address generalbusiness@cic.co.ke from the date hereof until 10:00 a.m on 19th May 2019 failing which it will be invalid.

2. A proxy form must be in writing and in the case of an individual shall be signed by the shareholder or by his attorney and in the case of a corporation the proxy must be either under its common seal or signed by its attorney or by an officer of the corporation.

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Keeping Our Word
Protecting Livelihoods

1968 - 2018

CIC GENERAL INSURANCE LIMITED

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GENERAL • LIFE • HEALTH •ASSET

CIC GROUP