CIC GROUP

CIC LIFE ASSURANCE LIMITED ANNUAL REPORT & ACCOUNTS 2018

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Keeping Our Word
Protecting Livelihoods

1968 - 2018

OUR PHILOSOPHIES

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

1

OUR PURPOSE (MISSION)
Enable people achieve Financial security

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 LIFE ASSURANCE LIMITED
CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS

H G Hunyu	- Chairman
J Kionga	- Ag. Managing Director
T Gitogo	- Group Chief Executive Officer
G O Owuor	
M O Wambia	
V Leseya	- Retired on 23/05/2018
Dr. R Monyoncho	
J Patel	- Appointed on 01/06/2018

COMPANY SECRETARY
Mary Wanga
Certified Public Secretary (Kenya)
P.O. Box 59485 - 00100
NAIROBI

REGISTERED OFFICE
CIC Plaza
7th Floor
Upper Hill, Mara Road
P.O. Box 59485 - 00200
NAIROBI

SENIOR MANAGEMENT

J. Kionga	- Ag. Managing Director
M. Wanga	- Company Secretary
M. Luvai	- Group Chief Internal Auditor
S. Robi	- Risk and Compliance Manager
R. Nyakenogo	- General Manager - Cooperatives
T. Kanja	- Senior Manager, Finance
S. Ochieng	- Senior Manager, Claims
M. Magoma	- Human Resources Business Partner
C. Onduru	- Operations Manager
D. Wambugu	- Business Development Manager
N. Supa	- Business Development Manager
J. Gitau	- Pension Administration Manager
J. Waititu	- ICT Manager
T. Kihanya	- General Manager (Alternative channels)
S. Ndegwa	- Actuarial Manager
J. Wamae	- Underwriting Manager

AUDITORS
Ernst & Young LLP
Certified Public Accountants
Kenya-Re, Upper Hill
3 Ragati Close, Upperhill
P.O. Box 44286-00100
NAIROBI

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

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

CIC GROUP

CIC LIFE ASSURANCE LIMITED
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN OF THE 7TH ANNUAL GENERAL MEETING OF CIC LIFE ASSURANCE LIMITED TO BE HELD ON TUESDAY 21ST DAY OF MAY, 2019 AT 1.00 PM AT 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 approve 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 Reports 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) the Companies Act, No.17 of 2015 and to authorize the Directors to fix their renumeration.

8. Election of Directors:

    a. To note the retirement of Director Mr. Harrison Githae Hunyu, Chairman of CIC Life Assurance Limited, who having served his full tenure, retires and does not offer himself for re-election.

    b. Dr. Rachel Monyoncho who retires by rotation in accordance with Articles 103 & 105 of the Company's Articles of Association, and being eligible offers herself for re-election.

    c. To confirm appointment of Ms. Jyoti Patel as an Independent Non-Executive Director effective 1st of June 2018.

    d. To appoint Ms. Jyoti Patel and re-appoint Mrs. Rosemary Githaiga and Dr. Rachel Monyoncho to continue to serve as members in the Audit Committee 2019 in accordance with the provisions of section 769 (1) of the Companies Act 2015, and authorize the Board to appoint the other members of the audit committee.

9. To authorize the Board to fix the Directors remuneration.

10. To transact any other business, which may legally be transacted at an Annual General Meeting for which due notification has been received by the Secretary forty-eight (48) hours prior.

Dated at Nairobi this 30th day of April 2019
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 the proxy need not be a member of the company.
2. A proxy form is provided with this notice. 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

CHAIRMAN'S STATEMENT

2018 BUSINESS PERFORMANCE

On behalf of the Board of Directors of CIC Life Assurance Company Ltd, I am pleased to present to you the Annual Report and Financial Statements of the Company for the year ended 31st December 2018.

Economic and business environment

In 2018 Kenya's economy growth continued on an upward trajectory compared to previous years. Kenya's economy recorded a growth of 6% compared to 4.7% in a similar period. The growth was spurred by recovery in agriculture, increased output in manufacturing and retail trade sectors and continued recovery of the tourism sector.

Private sector credit growth improved in 2018 to 3.4% compared to 2.3% in a similar period in 2017. Credit growth continued to be slow due to the impact of capping of interest rates.

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 an average of 8.0% in 2017. Inflation in 2018 rose towards the tail end of the year to 5.7%, mainly due to increase in fuel prices as a result of implementation of 8.0% VAT on fuel.

The Gross Domestic Product in 2019 is projected to continue on the positive outlook of 6% as well as other macroeconomic indicators such as inflation, interest rates and currency exchange rates.

During the year, Nairobi All Shares Index and Nairobi Security Exchange (NSE)-20 lost 23.66% and 17.97% respectively; down from a gain of 17.6% and 30.4% in 2017 respectively. This was mainly attributed to foreign investor outflows.

Regulatory framework

During the year the Company applied the International financial reporting standards (IFRS) 9 - Financial Instruments and IFRS 15 – Revenue from contracts with customers which were effective on 1st January 2018.

IFRS 16 – Leases, which was issued in January 2016 to replace International Accounting Standard (IAS) 17 - accounting for Leases will be effective from 1st January 2019. The cumulative impact on the adoption of this standard is included in the notes to the accounts of 2018 financial statements.

Overall performance

Earlier adoption of IFRS 9 had an impact on our retained earnings as well as 2018 results and this is seen in the small net asset growth. The company registered a decline in profit before tax than the previous year owing to the cutback in investment income that emanated from foreigner's flight from Nairobi Security Exchange affecting equities in the year and decline in bancassurance premium income from banking sector as a result on interest rate capping.

The company registered a Profit before tax for the period ended 31st December 2018 of KShs 188 million down from KShs 224 million in 2017.

Gross written premium grew by 23% to KShs 5.1 billion from KShs 4.1 billion in 2017. Contributions from deposit administration contracts increased by 29% from KShs 760 million to KShs 981 million. Total assets also increased by 18% from KShs 10.3 billion in 2017 to KShs 12.1 billion in 2018.

Dividend payout

Following the performance and also actuarial surplus of KShs 1.1 billion, the Board of Directors recommends a final dividend of KShs 2 per share.

Future outlook

The highest-profile issues the insurance industry will likely be called upon to deal with are in technology, talent, regulation, product development, mergers and acquisitions, and tax reforms. The underlying message is that while the industry may have to cope with a plethora of internal and external pressures, their impact remains very much in the company's own hands as the biggest determining factor will be how committed and prepared the company will adapt quickly to a rapidly changing economy and society.

However, the future looks bright for the Company as we engage in digital transformation which is critical to drive business agility especially in Individual life, Pension and Annuity businesses. The company will maintain the growth momentum by focusing on improving operational efficiency, boosting productivity, and lowering costs with new technology and talent transformations, while customizing products and services to meet the evolving demands of the emerging digital economy.

Acknowledgement

As I conclude I wish to convey my gratitude to our clients, business associates, shareholders, staff and service providers for their tremendous support and trust in the company.

HARRISON G HUNYU
CHAIRMAN

BOARD OF DIRECTORS

Mr. Harrison Githae

Mr. Gordon Ondiek Owuor

Mr. Michael Ondinya Wambia

Ms. Jyoti Patel

Dr. Rachel Monyoncho

Mr. Tom Gitogo

Jack Kionga

Mary Noel A. Wanga

BOARD OF DIRECTORS

Harrison Githae Hunyu
CHAIRMAN

Mr. Harrison Githae Hunyu aged 72, is the Director representing Central Region based societies and is currently the Chairman of Mutheka FCS Limited. He is a Board member of Nairobi Coffee Exchange Limited. He has worked as a Parliamentary Reporter (Hansard), District Officer, District Commissioner and Under-Secretary in various Government Ministries retiring as a Deputy Secretary in 2001. He is a member of the Institute of Directors of Kenya. He is a graduate of Nairobi University, Bachelor of Arts (Hons.) and holds an Advanced Certificate in Public Administration and Parliamentary Training. He has attended local and international courses in administration.

Gordon Ondiek Owuor

Mr. Gordon Ondiek Owuor aged 62, is the Director representing Nyanza Region based societies. Mr.Owuor is the Director of Jumuika (formerly Chemelil) SACCO, a member of the Nyanza Provincial Co-operative Development Team and a Member of the Institute of Directors of Kenya. He previously worked with the East African Fresh Water Fisheries Research Organization and is the current Chairman of Loyalty Refined company. He holds an executive Diploma in Financial Management. The Director has undergone specialized Life Business Management Training conducted by LIMRA (Life Insurance and Market Research Association).

Michael Ondinya Wambia

Mr. Michael Ondinya Wambia aged 51, is the Director representing Western Region based societies and is a board member of FARIDI SACCO. He is a teacher by profession. The Director also holds a Diploma in Education Management from KEMI (Kenya Educational Management Institute) and is a Member of the Institute of Directors of Kenya and a Delegate of Cooperative Bank of Kenya. Further he has received training in Advanced Life Insurance by LIMRA, Corporate Governance Master Class by IFC World Bank, Employment Act and Discipline Management by FKE and Corporate Governance for Directors by Centre Corporate Governance.

Ms. Jyoti Patel

Ms. Jyoti Ishwarbhai Patel aged 48 joined CIC Insurance Group PLC as an independent non-executive Director. She has considerable working experience, in executive management teams specializing in accountancy, finance and risk management. Jyoti is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and a fellow member of Association of Chartered Certified Accountants (FCCA). She is trained on Corporate Governance by International Finance Corporation (IFC) and certified in Enterprise Risk Governance by Enterprise Risk Management Academy (ERMA). She holds an MBA from Warwick Business School, UK.

Dr. Rachel Monyoncho

Dr. Rachel Monyoncho, aged 55 years, joined CIC Life Board in January 2016 as an Independent Director. She holds a PhD in Business Administration (Organization Theory and Behavior) from the University of Nairobi and an MBA in Strategic Management and International Business from the University of Nairobi and Bachelor in Biological Sciences and IHRM from Panjab University - India. She is a member of Kenya Institute of Directors Kenya. She has over 25 years' wealth of experience in senior management in various industries in East and Central Africa Regions. She is currently a management consultant and lectures in various private universities in Kenya.

Tom Gitogo

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).

Jack Kionga

Jack aged 56, joined CIC Insurance Group in 2007 as the Operations and Training Manager for CIC Life Assurance Company Limited. Currently he is the Acting Managing Director, CIC Life Assurance. He holds a Bachelor of Administration Degree (Hons) from Brock University, Canada and an Executive Masters of Business Administration from USIU-Africa. He is also a Chartered Insurer, having qualified as an Associate Member of the Chartered Insurance Institute (ACII) in the UK. In addition, he is an Associated Member of the Insurance Institute of Kenya (AIIK) and has attended several executive programmes including Advanced Management Programme from Strathmore Business School from IESE Business School in Spain. Jack has worked in and out of the insurance industry for over 28 years.

Mary Noel A. Wanga
COMPANY SECRETARY

Ms. Wanga aged 50, is an Advocate of the High Court of Kenya with over 17 years' experiences both as a practicing and corporate lawyer. She joined CIC in 2008 as a Company Secretary and Legal Advisor. Currently she is the Company Secretary of the three Subsidiary Companies owned by CIC Insurance Group Limited (CIC General, CIC Life Assurance and CIC Asset Management) and a Trustee of CIC Foundation.

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,ICPSK. Prior to joining CIC, she worked at the Kenya Industrial Estates at senior level.

MANAGING DIRECTOR'S STATEMENT

POLITICAL ENVIRONMENT

There is no doubt that the handshake deal of March 9, 2018 was the most significant political event of 2018, removing political uncertainty and fostering national cohesion and inclusivity. Further gains included fast-tracking of development initiatives with direct economic impact on the country, including the "Big 4 Agenda".

ECONOMIC ENVIRONMENT

Kenya continued to make economic strides with GDP growing by 6% in 2018 within a stable macroeconomic environment. Government expenditure on infrastructure played a significant part, and so did growth in the tourism industry and remittances from Kenyans in the diaspora. Inflation rate was contained at 5.7 % while the Shilling hovered around the Kshs.103 mark to the US dollar. Conversely, as the year came to a close, National Debt, at 58% of the GDP, continued to raise concerns. Private sector credit crunch woes continued as lending remained stifled. The Nairobi Securities Exchange was at its lowest in 10 years while a total of Kshs. 442 Billion in investor wealth was shed in the All Share Index. The negative performance was partially due to a decline in foreign investors' appetite and an attractive hike in Federal interest rates in the US, which contributed to an outflow of US $223 Million. All in all, the year ended in a positive note, with an optimist outlook for 2019 by the World Bank on GDP growth and contained inflation. This optimism has, to a measure, spread to the equities market. The continuous sticking point is the private sector access to credit as the rate capping continues.

INDUSTRY ANALYSIS

According to the latest industrial statistics released by the Insurance Regulatory Authority (IRA), Gross Written Premium (GWP) in the insurance industry grew in 2018 by 4.2% to increase from Kshs. 207.68 billion to Kshs. 216.37 billion, an increase of Kshs. 8.69 billion. In the life industry there was 5.3% growth in Gross Written Premium over the same period in 2017. General Business grew at a slower rate of 3.5% with the combined insurance industry growing at 4.2%. Looking at the life business, solvency levels for the industry averaged 100%. Individual Life and Pensions lines of business continued to experience significant growth year on year and contributed 27.8% and 38.8% of the total Gross Written Premium respectively. On a combined basis, the two lines also constituted 67% of the total product mix with group life/credit life contributing the remaining 33%. The industry experienced a depressed investment performance, with investment income dropping by 16.6%.

BUSINESS PERFORMANCE

In 2018, topline business performance was commendable with a growth of 27% over 2017. We managed to achieve 98% of Gross Written Premium (GWP) budget, recording KES 4.1 billion against a budget of KES 4.2 billion and previous year Gross Written Premium of KES 3.3 billion.

Despite the good topline, profitability suffered from the less than ideal macroeconomic environment. The suppressed performance in the real estate and poor yield from the equities market had a significant impact on profitability, with a negative growth of Kshs. 165 million over 2017. This had a significant impact, especially on the Annuity and Individual Life businesses which rely heavily on investment yield. Consequently, profits before tax declined from Kshs. 224 million to Kshs. 188 million. This notwithstanding, our total assets grew by 18% from KShs 10.3 billion to KShs 12.2 billion.

Claims and policy holder benefits payable increased to Kshs 1.77 Billion due to the annuity book, accumulated group funeral (GFE) claims and increased Employee Group Life (EGL) claims. There was also an increase in maturity and surrender claims from the Ordinary Life book. We have since reviewed the GFE product to contain the claims while resisting broker driven pricing for our EGL cover.

Commission payable was below budget mainly because of the slowdown in bank business, which commands the highest commission expense, and the overall topline shortfall.

Gross profit for the year 2018 stands at Kshs. 188 Million which is 36% of the budget of Kshs. 552 Million and growth of -9% Year on Year. The optimism of 2018 post-election investment environment, which was not realized, is illustrated by the fact that gains from Investment Income, Re-evaluation Income and Other Gains and Losses were at 44% of budget in 2017 compared to 53% in 2018, with an actual Year on Year decline of Kshs. -155 Million or -32%. The profit position was also compromised by a top line decline in the profitable Credit Life and Group Mortgage by KShs. 217 Million over 2017.

KEY FOCUS IN 2019

Our clients remain at the core of our products and operations as we seek to acquire and retain quality business. Customer engagement and key account management will be a priority as we focus on profitable growth. The philosophy of prudent underwriting will be strengthened by a more stringent selection of accounts and intermediaries.

In retail business, even as we increase the footprint of independent financial advisors to 1,000, we shall place sharp focus on the alternative distribution channels of Sacco assurance and Bancassurance using our strategic partnerships. Customer focus will also be key in policy conservation and reinstatement as we build a profitable book of Individual Life business. Quality of business will be maintained through measures that increase operational efficiency and persistency

Under Group Life, we will continue to practice key account management with all our clients, brokers and strategic partners. The decentralization of claims processing to branches will continue and we expect to have 13 branches in total processing claims, up from 2 as at December 2018.

For Pension and Annuity business, we will target bulk transfers and the conversion of medium-sized segregated funds to deposit administration contracts. Annuity pricing and investment strategies will be key in the reduction of reserving strain and the attainment of profit targets as we await Parliamentary approval of the reviewed reserving and discounting method. For this reason, we will engage our investment partners to explore other non-conventional investment avenues.
On the replacement of the antiquated IT core system, the process of procuring a new system will start in the 1st quarter of 2019. This will run parallel with process reengineering to increase efficiency, tighten controls and enhance customer experience. Meanwhile, the deployment of the M-Bima Group Life digital platform is expected to be rolled out to branches and select strategic partners beginning in the 2nd quarter 2019 on pilot basis. This should ease acquisition and claims processes at the customer level.

APPRECIATION

My sincerely appreciation goes to the CIC Life Board of Directors for their wise counsel and guidance, our customers for their trust and belief in CIC Life and challenging us to keep our word, the management, staff and acquisition teams for their hard work, dedication and contribution to the results. I also recognise the significant role played by our strategic partners and other stakeholders. We have the capacity to grow even more profitably and sustainably and hope to demonstrate that in 2019 as we "Keep Our Word."

JACK KIONGA

AG. MANAGING DIRECTOR

AKI Awards
Overall Winner 2018

Group Life Company of the Year,
AKI Group Life Best Practice

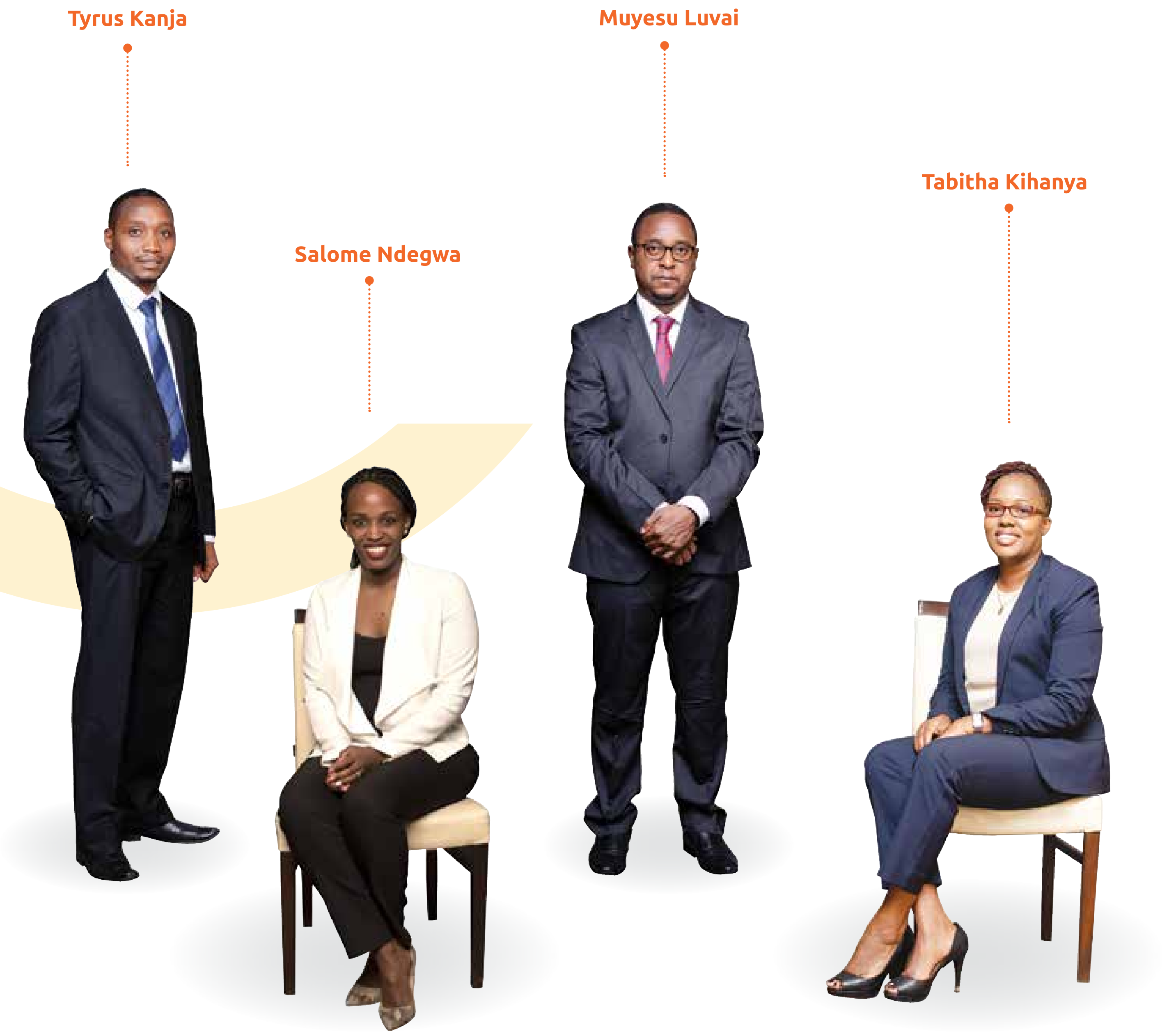
SENIOR MANAGEMENT

Jack Kionga

Mary Noel A. Wanga

Richard Nyakenogo

Susan Robi


Tyrus Kanja
Muyesu Luvai
Tabitha Kihanya
Salome Ndegwa

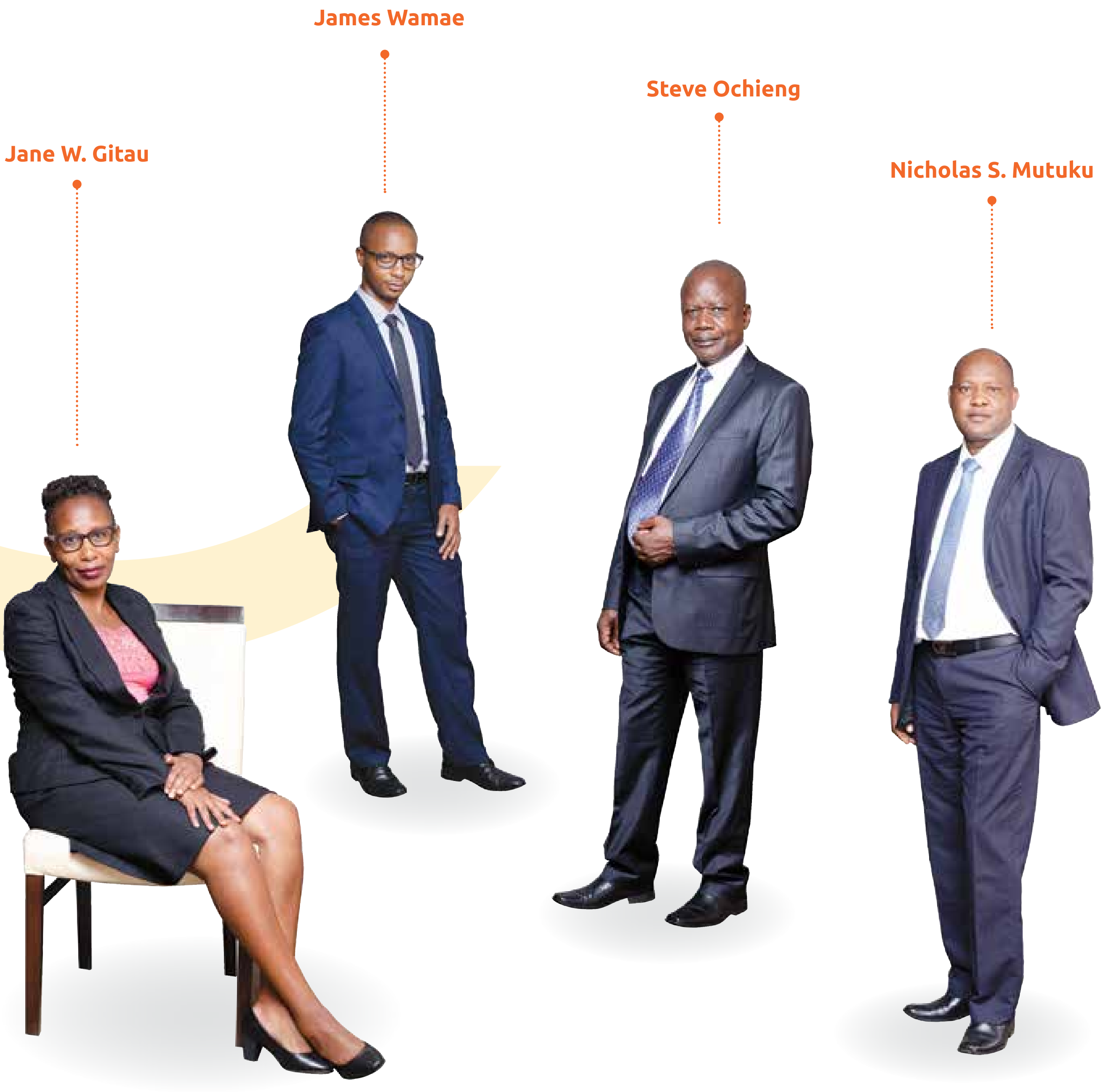
SENIOR MANAGEMENT

Calvince Onduru

Maureen K. Magoma

David Wambugu

Joseph K. Waititu


James Wamae
Steve Ochieng
Jane W. Gitau
Nicholas S. Mutuku

BOARD OF MANAGEMENT

Jack Kionga
Managing Director

Jack aged 56, joined CIC Insurance Group in 2007 as the Operations and Training Manager for CIC Life Assurance Company Limited. Currently he is the General Manager Operations CIC Life Assurance and has over 27 years work experience within the Insurance industry. He holds a Bachelor of Administration Degree, Executive MBA from USIU, Advanced Management Programme from IESE and Strathmore Business School, Associate of the Insurance Institute (ACII) in UK.

Mary Noel A. Wanga

Ms. Wanga, aged 50, is the Company Secretary and an Advocate of the High Court of Kenya with over 19 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. She is currently pursuing a Master of Law at the University of Nairobi.

Richard Nyakenogo

Richard aged 51, is the General Manager - Co-operatives. He holds a Bachelors of Commerce Degree from Egerton University and Masters in Business Administration from Mount Kenya University. He has a Diploma in Co-operative Management from the Co-operative College of Kenya and a certificate in Corporate Governance from Centre for Corporate Governance. He joined CIC in 1999.

Tyrus Kanja

Tyrus, aged 40 years, joined CIC Insurance Group in 2005 as an Accountant and is currently the Senior Manager Finance for CIC Life Assurance Company Limited. He has over 13 years work experience within the Insurance industry and holds a BSc – International Business Administration from USIU(A) and a CPA (K). He is a member of Institute of Certified Public Accountants of Kenya (ICPAK)

Muyesu Luvai

Luvai aged 41, is the Group Chief Internal Auditor. He is a 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 / Organisational Behaviour from the University of Leicester (UK). Prior to joining CIC in 2008, Mr. Luvai worked for Deloitte in the Audit & Assurance Division and in the Finance Department of Dalbit Petroleum Limited.

Susan Robi

Susan aged 41, is the General Manager Risk and Compliance. 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.

Salome Ndegwa

Salome aged 32, is the Actuarial Manager, General Business. She holds a BSc (Hons) in Actuarial Science, Masters in Economics (Econometrics) and is a Fellow of the Institute and Faculty of Actuaries (IFoA) in the UK. Salome also 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 Forbes (EA) in their actuarial department. She is also a member of The Actuarial Society of Kenya (TASK). Salome joined CIC Insurance Group in 2014.

Tabitha Kihanya	Tabitha aged 34, is the General Manager - Alternative Channels at CIC Group with over 10 years work experience in various capacities within the Banking and Insurance industry. She holds a Bachelor's Degree in Business Management from Moi University, and is currently undertaking a Diploma in Insurance from College of Insurance – (AIIK). Tabitha is a member of Insurance Institute of Kenya (IIK).
Steve Ochieng	Steve aged 59, is the Claims Manager and has worked in CIC in various positions with 30 years' experience in insurance industry. Holds a Diploma in Co-operative Management.
Maureen K. Magoma	Maureen aged 39 is the Human Resource Business Partner representing CIC Life Assurance Subsidiary. She holds a Bachelor of Business Administration degree, PHRi and SHRM-CP certifications from HRCI and SHRM respectively. She has 15years work experience out of which 10years have been in Human Resources mostly within the insurance industry. She is a Full Member of the Institute of Human Resources Management (IHRM) and joined CIC in July 2016.
Calvince Onduru	Calvince aged 34, joined CIC Insurance Group in 2008 as a Management Trainee. He is currently the Operations Manager CIC Life Assurance Company Limited and has been with the organization for the last 8 years. He holds a BSc – Actuarial, a Diploma in IMIS, CPA finalist and MSC Finance (Insurance). He is a member of the Individual Life committe at Association of Kenya Insurers (AKI).
David Wambugu	David aged 38, joined CIC Life Assurance in 2015. He has 10 years of Sales experience in the Insurance Industry. He holds a Bachelor's degree in Business Management (Marketing Option) from Egerton University. In addition, a Management Skills Certificate from LIMRA (Life Insurance and Market Research Association).
Jane W. Gitau	Jane aged 50, joined CIC Life Assurance in May 2006. She has 22 yrs of experience in the insurance industry and held various management positions in departments dealing with employee benefits products. She holds a Bachelor's degree in Economics & Sociology ; Executive Master in Business Administration; Associate of the Insurance Institute (ACII) in UK &Associates of Insurance Institute (AIIK) in Kenya. She is a member of Pensions Committee at Association of Kenya Insurers(AKI).
Joseph K. Waititu	Joseph aged 36, Joined CIC Life Assurance Limited in 2013 as Database Administrator. Previously he was with Turnkey Africa Ltd as a Senior Insurance Software Developer. He holds a bachelor of Computer Science and an MSC in Data Communication. He has over 7 years work experience in ICT.
Nicholas S. Mutuku	Nicholas aged 44, joined CIC Life Assurance in 2016. He has 18 years of Sales experience in the Insurance Industry. He holds a Bachelor's degree in Education (ARTS) from Kenyatta University. In addition, he holds a Diploma in sales management and marketing from excel institute of professionals and a certificate in Total Quality Management.
James Wamae	James aged 35 joined CIC Life in January 2016 as an Assistant Underwriting Manager - Group Life. He is currently the Underwriting Manager - Group Life Business and has over 8 years' work experience within the Insurance Industry. He holds a Bachelors' Degree in Business Administration from Maseno University and CPA 1 certification. He is currently pursuing a Diploma in CII and is a member of the Association of Kenya Insurers (AKI) Group Life Committee.

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

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 Life Assurance 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 2019

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

The Board of Directors of CIC Life Assurance 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 Life Assurance Limited.

Introduction

CIC Life Assurance Limited was incorporated on 29th July 2009 under Certificate No. CPR/2009/7927 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 life and general business. It was duly registered and licensed as an insurer on 27th November 2012.

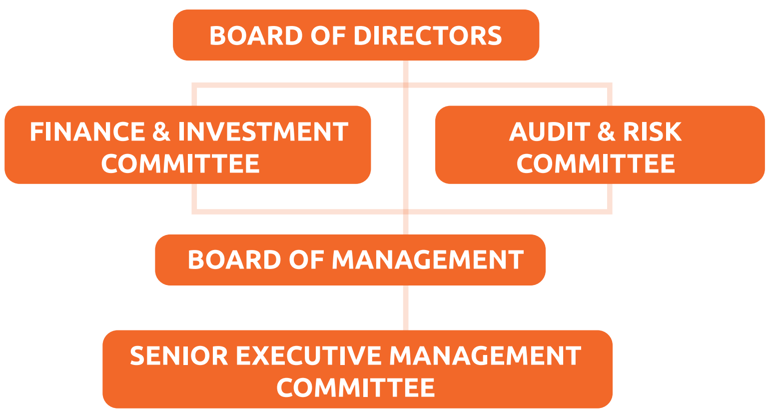
The Board

The Board is responsible for the company's sustainability and long term growth, strategy and profitability while providing direction and leadership within a framework of prudent and effective controls of CIC Life Assurance Limited. The Board is therefore ultimately accountable to shareholders 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), The Companies Act No.17 of 2015, Memorandum and Articles of Association, Kenyan Constitution 2010 as well as best practice within our jurisdiction and global level and CIC Life Assurance Board Charter.

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



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

Board Composition

The composition of the Board in the financial year under review was targeted towards ensuring fair representation of the company's shareholdong structure, as well as, size, optimization of the 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 memoradum and Articles of Association of the company sets out the composition of the Board.

The Board currently comprises of seven (7) directors constituted as follows:

- Three 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. Harrison Githae Hunyu 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 carter for the interests of 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 finance year ended 31st December 2018, the Board and Committees was composed as follows;

DIRECTOR	BOARD	COMMITTEES	
		AUDIT & RISK	FINANCE AND INVESTMENT
Harrison Hunyu	Chairman Non-Executive	*	Member
Gordon Owuor	Non-Executive	*	Member
Tom Gitogo	Executive Group CEO	*	*
Michael Wambia	Non-Executive	Member	*
Philip Lopokoiyit ****	Non-Executive Independent	*	Member
Rosemary Githaiga**	Non-Executive	Member	*
Ezekiel Owuor	Executive Director	*	*
Dr. Rachel Monyoncho	Non-Executive Independent	Member	*
Veronicah Leseya***	Non-Executive Independent	Member	*
Julius Nyaga	Non-Executive	*	Member
Jyoti Patel*	Non-Executive Independent	Member	* `

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

Notes:

i. ** Director Rosemary Githaiga; drawn from the Holding Company CIC Insurance Group PLC.
ii. * Director Jyoti Patel; appointed to the Board w.e.f.1.6.2018, replacing director Veronicah Leseya.
iii. **** Director Philip Lopokoyit; drawn from the Holding Company CIC Insurance Group PLC.
iv. *** Veronicah Leseya retired from the Board on 22.5.2018.

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 Director. The company has complied with this provision as 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
Harrison Hunyu	28.3.2012	11.5.2017
Michael Wambia	28.3.2012	14.6.2017
Gordon Owuor	28.3.2012	22.5.2018
Tom Gitogo	20.5.2015	-
Dr. Rachel Monyoncho*	11.5.2016	21.5.2019
Ezekiel Owuor	11.5.2016	-
Jyoti Patel*	1.6.2018	-

Notes:

* Mr. Harrison Githae Hunyu retires from the Board on 21.5.2019 having served his full tenure.
* Dr. Rachel Monyoncho retires by rotation in accordance with Articles 103 and 105 of company's Articles and being eligible offers herself for reappointment.
* Jyoti Patel was appointed and confirmed as an Independent Non-Executive Director w.e.f 1.6.2018

Board Appointments

CIC Life Assurance Limited 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.

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

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.

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 Continous 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 Life 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 while early in the year, CIC Life Board underwent various trainings inter-alia actuarial sensitization, financial investments and real estate, 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 4.31 (86.2%) maintaining 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

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

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.

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 below is 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 meetings.

Directors	Board Meeting		Audit and Risk Committee Meeting		Finance and Investment Committee Meeting	
	(a)	(b)	(a)	(b)	(a)	(b)
Harrison Githae - (Chairman)	4	4	*	*	4	4
Gordon Owuor	4	4	*	*	4	4
Michael Wambia*	4	4	4	2	*	*
Veronica Leseya*	4	2	4	2	*	*
Rachel Monyoncho	4	4	4	2	*	*
Philip Lopokoiyit	*	*	*	*	4	2
Jyoti Patel*	4	2	4	2	*	*
Rosemary Githaiga	*	*	4	4	*	*
Tom Gitogo	4	4	4	4	4	4
Julius Nyaga	*	*	*	*	4	4
Ezekiel Owuor	4	4	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) *Rachel Monyoncho was appointed Member of Audit and Risk Committee in May 2018 and therefore attended only two meetings during the financial year under review.
(e) Harrison Githae was confirmed as Member of Finance and Investment Committee in July 2018.

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

(f) Jyoti Patel was appointed to the Board and Member of Audit and Risk w.e.f 1.6.2018 and therefore attended only two meetings during the financial year under review.
(g) Michael Wambia ceased to be a Member of Audit and Risk w.e.f June 2018 and therefore attended only two meetings during the financial year.
(h) Veronicah Leseya retired from the Board on 22.5.2018 and therefore attended only two board and Audit and Risk meetings each.
(i) Save for Jyoti Patel all the directors attended the company's Annual General Meeting held on 22.05.18.

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 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 comprised of:
1. Mrs. Veronicah Leseya - Chairperson*
2. Mr. Michael Wambia*
3. Rosemary Githaiga
4. Jyoti Patel
5. Rachel Monyoncho

Note: * See explanations notes above.

CORPORATE GOVERNANCE REPORT *(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. Gordon Owuor - Chairman
2. Julius Nyaga
3. Mr. Philip Lopokoiyit
4. Harrison Githae

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 Life Assurance 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 re-appointed and confirmed by the shareholders at the Annual General Meeting on 22nd May 2018 and have 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 year 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 Life Assurance Limited has 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 REPORT *(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 campany'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 REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

Succession Planning

Careful management of the Board and Senior Manangement 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 Life is currently Kenya Shillings One Billion (Kshs 1,000,000,000/=). The issued share capital of the company is currently Kshs. 800,000,000 divided into 40,000,000 shares of Kshs 20/= each.

The shareholders of the Company are as follows:

SHAREHOLDER	SHARES
CIC Insurance Group Limited	39,999,999
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 Life Assurance Board

Dated 4th March, 2019

Chairman
Harrison Hunyu

CIC LIFE ASSURANCE LIMITED
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 2.

2. DIRECTORATE

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

3. PRINCIPAL ACTIVITIES

The principal activity of the Company is the transaction of life insurance business. The Company also invests in government securities and investment properties.

4. COMPANY RESULTS

	2018 KShs'000	2017 KShs'000
Profit before taxation	188,383	224,117
Taxation charge	(22,015)	(41,345)
Profit for the year	166,368	182,772

5. RECOMMENDED DIVIDEND

The directors recommend the approval of a first and final dividend of KShs 80 million (2017 – KShs 80 million).

6. 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.

7. 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 is expected to register a growth of between 5.8%-6.0% in 2018, which is 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.

CIC LIFE ASSURANCE LIMITED *(continued)*
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018

7. BUSINESS REVIEW *(continued)*

The Kenya National Bureau of Statistics data shows that the economy grew by 6.0% in Q3 2018 compared to 4.7% in Q2 2018. The country experienced heavy rains that impacted positively on agriculture (5.2% growth compared to 3.7% in 2017) and hydroelectric power generation. Tourism recorded the highest growth at 16.0% followed by ICT which grew by 9.1%. Manufacturing sector expanded by 3.1% from a contraction of 0.1% in 2017. To sustain the strong momentum, restoring credit growth will be crucial to economic stimulus although fiscal deficit remains an impediment. However, the government has embarked on measures towards fiscal consolidation.

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. Inflation levels are expected 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 as compared to 10% at the end of year 2017. 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 23.66% and 17.97% respectively as at 31 December 2018; 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. Current fundamentals do not warrant a decline in equities as witnessed in 2018 due to the political stability that the country is experiencing. The gap between fundamentals and valuations presents a potential significant gain. The challenges experienced currently are short-lived in light of projected economic growth and foreign investor confidence.

OVERALL PERFORMANCE

Despite hard economic times the country faced in 2018, CIC Life Assurance Limited has registered positive results in many areas.

Gross Written Premium (GWP) income grew by 23% from 2017 due to aggressive marketing and digitalization of individual life underwriting processes whereas expense ratio declined from 36% to 28% because of cost saving measures undertaken by the Company. Claims ratio increased from 62% in 2017 to 66% in 2018 due to increase in actuarial reserves for annuity line of business. Deposit administration contracts grew by 48% from KShs. 2.1 in 2017 billion to KShs 3.1 billion in 2018.

In terms of investment and other income, the company realised an income of KShs 318 million being a decline from KShs 483 million in 2017 which was mainly attributable to the poor performance by the equities and property markets.

Profitability position of the Company reduced by 9% from the previous year. This is mainly attributable to increase in actuarial reserves for annuities.

CIC LIFE ASSURANCE LIMITED *(continued)*
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018

7. BUSINESS REVIEW *(continued)*

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 claims, undercutting by other players thereby causing unfair competition and challenges in collection of premiums. The Company 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.

GOING FORWARD

The future looks very bright for the Company as it continues to digitize its underwriting processes to meet the evolving demands of emerging digital economy. This presents enormous opportunities to grow significantly in Individual life, Pension and Annuity businesses. Emphasis has been put on aggressive marketing and retention strategies.

8. 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 Kenyan 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 4,500,000 has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

SECRETARY

4th March, 2019
Nairobi

CIC LIFE ASSURANCE LIMITED
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 4th March, 2019 and signed on its behalf by:

Director
Harrison Hunyu

Director
Jyoti Patel

CIC LIFE ASSURANCE LIMITED
REPORT OF THE CONSULTING ACTUARY
FOR THE YEAR ENDED 31 DECEMBER 2018

I have conducted an actuarial valuation of the long-term insurance business of CIC Life Assurance Limited as at 31 December 2018.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenya Insurance Act.

These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the long-term insurance business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance business did not exceed the amount of funds of the long term insurance business at 31 December 2018.

Name of Actuary Abed Mureithi

Signed ____________________

29th March 2019

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CIC LIFE ASSURANCE LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of CIC Life Assurance Limited (the Company), as set out on pages 41 to 133, 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 of 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 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 judgment, were of most significance in our audit of the financial statements of the current year. 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.

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Key Audit Matter	How the matter was addressed in the audit
Allowance for expected credit losses on financial assets	
The expected credit losses on financial assets are determined under application of IFRS 9: Financial Instruments. We considered this to be a key audit matter because significant judgement was involved in determining the expected credit losses on other receivables, corporate bonds, staff loans and advances, commercial papers and deposits with financial institutions as disclosed in note 39(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 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 model.	We assessed and tested the design and operating effectiveness of the controls over the: • data used to determine the expected credit losses on the financial assets carried at amortised cost. • 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: • Key modelling assumptions adopted by the Company • Basis for and data used to determine the overlays; and • Sensitivity for the collective provisions to changes in the modelling assumptions We assessed the adequacy of disclosures in the financial statements.
Valuation of Policy holders' Liabilities	
CIC Life Assurance Limited transacts life assurance business, which is long-term in nature. As a result, the Company determines the liabilities it would expect in the long-term using actuarial valuation methods and in line with the guidelines established by the Kenyan Insurance Regulatory Authority (IRA) as disclosed in note 39 to the financial statements. We have considered this issue as a key audit matter since estimation of the actuarial value of policyholders' benefit is complex and subjective in nature since it involves use of judgements and assumptions on the discount rate, mortality, inflation bonuses, withdrawal rates and initial and subsequent expenses subject to the minimum basis prescribed in the valuation guidelines.	We understood, evaluated and tested the design and implementation of key controls over the actuarial valuation process. We reviewed the methodology and inputs used as well as assumptions made in determining the value of the policyholders' benefits. We evaluated whether the valuation was carried out in accordance with the valuation guidelines as issued by the Insurance Regulatory Authority (IRA) of Kenya. We assessed the adequacy of the Company's disclosures in respect of the assumptions used in valuation as set out in note 39 to the financial statements.

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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. 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 on the other information obtained prior to the date of this auditor's report, 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the Financial Statements

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.

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 the audit of the financial statements of the current year 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.

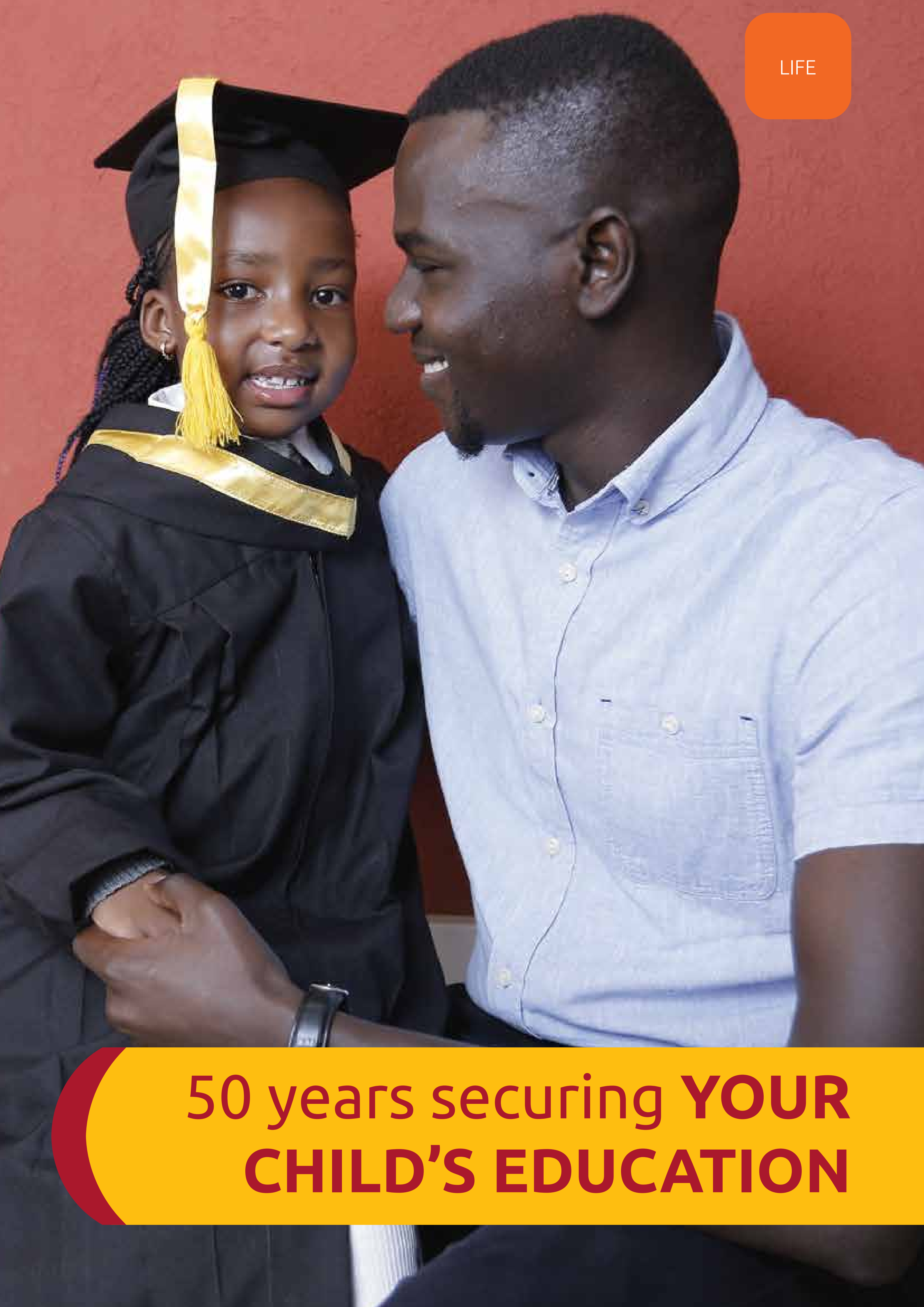
REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015.

In our opinion, the information given in the report of the directors on page 31-33, 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. P.1485.

Nairobi, Kenya

....29.......March 2019



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

INCOME	Note	2018 KShs'000	2017 KShs'000
Gross written premiums		5,093,135	4,134,851
Gross earned premiums	3(a)	5,093,135	4,134,851
Less: Reinsurance premiums ceded	3(b)	(931,756)	(818,169)
Net earned premiums		4,161,379	3,316,682
Interest revenue calculated effective interest rate method	4(a)	350,655	-
Other interest and investment income	4(b)	63,729	404,673
Other (losses)/ gains	5	(96,570)	78,361
Fees and commissions earned	6(a)	282,116	298,321
Other revenue		599,930	781,355
Total revenue		4,761,309	4,098,037
EXPENSES			
Commissions expenses	6(b)	(685,397)	(638,316)
Gross incurred claims	7(a)	(2,424,932)	(2,089,077)
Add: Reinsurance recoveries	7(b)	655,689	662,781
Less: Gross change in actuarial reserves	7(c)	(916,069)	(685,775)
Reinsurer's share of change in actuarial reserves	7(c)	(49,285)	62,632
Net benefits and claims		(2,734,597)	(2,049,439)
Operating and other expenses	8(a)	(1,162,443)	(1,186,165)
Net decrease in expected credit losses	8(b)	9,511	-
Total benefits, claims and other expenses		(4,572,926)	(3,873,920)
Profit before taxation	9(b)	188,383	224,117
Taxation charge	10	(22,015)	(41,345)
Profit for the year		166,368	182,772
Other Comprehensive Income			
Other comprehensive income that may be reclassified to profit or loss in subsequent years (net of tax)			
Fair value gain on debt instruments at fair value through other comprehensive income-	14(b)	41,034	32,894
Other comprehensive income for the year, net of tax		41,034	32,894
Total comprehensive income for the year, net of tax		207,402	215,666

CIC LIFE ASSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
ASSETS			
Property and equipment	11	106,916	140,986
Investment properties	12	2,181,875	2,160,875
Intangible assets	13	4,756	7,087
Financial assets at amortised cost- Government securities	14(a)	873,712	560,723
Financial Assets at amortised cost- Corporate Bonds	15	300,080	376,394
Financial Assets at amortised cost-Loan and Receivables	16	449,997	458,824
Financial assets at amortised cost- Deposits and commercial papers	17(a)	-	598,599
Financial assets at fair value through profit or loss-investments in unit trust	17(b)	517,530	-
Financial assets at fair value through other comprehensive income - Government securities	14(b)	4,330,815	2,967,420
Financial Assets at fair value through profit or loss-Equity instruments	18	806,622	647,147
Tax recoverable	10 (c)	29,827	40,127
Receivables arising out of reinsurance arrangements	19(a)	553,247	417,636
Receivables arising out of direct insurance arrangements	19(b)	232,160	155,172
Reinsurers share of liabilities and reserves	33	539,572	594,155
Other receivables	20	81,145	104,861
Due from related party	21(a)	107,362	181,575
Deposits with financial institutions	22	980,533	789,727
Cash and bank balances	35(b)	89,386	83,756
Total assets		12,185,535	10,285,064
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	800,000	800,000
Statutory reserve	25	1,153,976	1,102,608
Fair value deficit	26	(45,876)	(86,910)
Retained earnings	27	151,861	216,178
Total equity		2,059,961	2,031,876
LIABILITIES			
Deferred taxation	28	495,824	473,809
Deposits administration contracts	29	3,124,116	2,113,915
Actuarial value of policyholder liabilities	30	5,165,554	4,249,485
Unit linked contracts	31	474,554	536,926
Insurance contracts liabilities	32	361,818	346,387
Due to related party	21(b)	28,486	51,471
Other payables	34	451,096	470,820
Payables arising from reinsurance arrangements and insurance bodies	19(c)	24,126	10,375
Total liabilities		10,125,574	8,253,188
Total equity and liabilities		12,185,535	10,285,064

The financial statements were approved by the Board of Directors on 4th March, 2019 and signed on its behalf by:

Director
Harrison Hunyu

Director
Tom Gitogo

Director
Jyoti Patel

CIC LIFE ASSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital KShs'000 (Note 24)	Statutory reserve Reserve KShs'000 (Note 25)	Retained Earnings KShs'000 (Note 27)	Fair Value Deficit KShs'000 (Note 26)	Total KShs'000
At 1 January 2017	800,000	1,034,836	215,678	(119,804)	1,930,710
Transfer from statutory reserve	-	(115,000)	115,000	-	-
Tax paid on transfer to retained earnings	-	-	(34,500)	-	(34,500)
Dividend paid (note 36)	-	-	(80,000)	-	(80,000)
Profit for the year	-	182,772	-	-	182,772
Other comprehensive income for the year	-	-	-	32,894	32,894
Total comprehensive income for the year	-	182,772	-	32,894	215,666
At 31 December 2017	800,000	1,102,608	216,178	(86,910)	2,031,876
At 1 January 2018	800,000	1,102,608	216,178	(86,910)	2,031,876
Effect of adoption of new accounting standards (note 1(c))	-	-	(64,817)	-	(64,817)
1 January Restated	800,000	1,102,608	151,361	(86,910)	1,967,059
Transfer from statutory reserve	-	(115,000)	115,000	-	-
Tax paid on transfer to retained earnings	-	-	(34,500)	-	(34,500)
Dividend paid (note 36)	-	-	(80,000)	-	(80,000)
Profit for the year	-	166,368	-	-	166,368
Other comprehensive income for the year	-	-	-	41,034	41,034
Total comprehensive income for the year	-	166,368	-	41,034	207,402
At 31 December 2018	800,000	1,153,976	151,861	(45,876)	2,059,961

CIC LIFE ASSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
Cash generated from operations	35	1,775,873	1,290,461
Tax paid	10	(24,200)	(71,467)
Net cash generated from operating activities		1,751,673	1,218,994
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend Income	4	17,811	13,518
Interest from financial assets at fair value through other comprehensive income-government securities	4	172,552	154,519
Interest from financial assets at amortised cost-government securities.	4	40,703	102,376
Interest from financial assets at amortised cost-corporate bonds	4	32,804	27,868
Interest from deposits with financial institutions	4	53,990	28,044
Interest on financial assets at amortised cost-staff loan and receivables	4	18,489	29,396
Purchase of property plant and equipment	11	(6,292)	(14,150)
Purchase of investment properties	12	-	(4,897)
Gain on disposals of property plant and equipment	11	-	1,120
Purchase of intangible assets	13	(1,114)	(2,630)
Purchase of financial assets at amortised cost- government securities	14(a)	(390,100)	(106,000)
Purchase of financial assets through other comprehensive income sale government securities	14(b)	(2,086,046)	(1,326,936)
Proceeds of maturity of financial assets at amortised- government securities	14(a)	75,000	20,000
Proceeds of sales of financial assets through other comprehensive income-government securities	14(b)	763,685	531,916
Purchase of financial assets at amortised cost-corporate bonds	15	(2,400)	(84,515)
Maturity of financial assets at amortised cost-corporate bonds	15	4,962	33,638
Mortgage loans advanced	16(a)	-	(6,057)
Mortgage loans repaid	16(a)	69,648	31,133
Other loans advanced	16(b)	(169,973)	(151,064)
Other loans repayment	16(b)	128,382	87,125
Proceeds from/(investment in) financial assets at amortised cost-deposits and commercial papers	17(a)	-	(74,563)
Proceeds from maturity of investment in unit trust	17(b)	75,382	
Disposal of financial assets at fair value through profit or loss-equity instruments	18	76,059	18,960
Purchase of financial assets at fair value through profit or loss-equity instruments	18	(348,500)	(307,721)
Investment in fixed deposits with financial institutions (excluding cash and cash equivalents)	22(b)	(323,156)	(180,497)
Net cash used in investing activities		(1,798,114)	(1,179,417)
CASHFLOWS USED IN FINANCING ACTIVITIES			
Dividends paid	36	(80,000)	(80,000)
Net cash used in financing activities		(80,000)	(80,000)
DECREASE IN CASH AND CASH EQUIVALENTS		(126,441)	(40,423)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		692,986	733,409
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	35 (b)	566,545	692,986

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 financial statements have been prepared on a historical cost basis, except for debt financial assets through other comprehensive income, equity instruments at fair value through profit or loss and investment properties which have been measured at fair value and insurance contract liabilities which have been actuarially determined 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 other explanatory 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 broadly in order of liquidity from the least liquid to the most liquid. 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 and amended standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard and amendment is described below.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New and amended standards and interpretations *(continued)*

On 1 January 2018, CIC Life Assurance Limited adopted the following new standards, new Interpretations and amendments to standards.

	Effective for accounting period beginning on or after
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts-Amendments to IFRS 4	1 January 2018
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

The Company adopted IFRS 9-Financial Instruments, Amendments to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts), and IFRS 15-Revenue from Contracts with Customers as discussed in note 1(c). All the other amendments and annual improvements above did not have an impact on the entity.

Standards issued but not yet effective:

New or revised standards and interpretations:

	Effective for accounting period beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC Interpretation 23 Uncertainty over income tax treatments1 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 capitalization	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

Standards issued but not yet effective *(continued)*

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 17 and IFRS 16.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28	1 January 2019
IFRS 3 Business Combinations - Previously held interests in a joint operation	1 January 2019
AIP 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
IFRS 17 Insurance contracts	1 January 2021
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 9, IFRS 15, IFRS 16

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4. The amendment addresses concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17, which will replace IFRS 4.

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 adopted IFRS 9 Financial Instruments and hence the amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts did not have an impact on the company. Refer to note 1(c) for detailed discussion on adoption of IFRS 9: Financial Instruments.

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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(b) New and amended standards and interpretations *(continued)*

IFRS 16 Leases (continued)

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lease can choose to apply the standard using either full retrospective or modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company plans to adopt 1FRS 16 using the modified retrospective approach, which means it will apply the standard from 1 January 2019, cumulative impact of adoption will be recognised at 1 January 2019 and comparatives will not be restated.

Transition to IFRS 16

The Company has elected to use the exemptions applicable to the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases for certain office equipment (photocopiers and printers) which are considered of low value.

During 2018, the Company 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 1 January 2019

	Total KShs'000
Assets	KShs,000
Property and equipment-Right of Use	60,825
Liabilities	
Lease liabilities	(75,905)
Net impact on equity	(15,080)

The future minimum lease rentals receivable under non-cancellable operating leases have been disclosed in note 37(b) (operating leases).

In 2019, the Company continues to assess the potential impact on tax reporting on adoption of IFRS 16.

Work completed by the Company indicates that the new leases standard is expected to have a material effect on the Company's financial statements, as it will significantly increase the Company's recognised assets and liabilities as described above. In addition, compared with the existing accounting for leases, the classifications and timing of expenses will be impacted which will lead to some improvement in the Company's operating profit, while its interest expense will increase. This is due to change in the accounting for operating leases under IAS 17.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New and amended standards and interpretations *(continued)*

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.

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 statement of financial position.
- 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 2022, with comparative figures required. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. 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 by upgrading its accounting and underwriting systems. 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) Changes in accounting policies and disclosures

IFRS 9 Financial Instruments

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

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

1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*
(c) **Changes in accounting policies and disclosures** *(continued)*

IFRS 9 Financial Instruments (continued)

The Company applied IFRS 9 using the modified retrospective approach with an initial application date of 1 January 2018.The Company has not restated 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 adopting IFRS 9 as at 1 January 2018 was as follows:

	1-Jan-18 Ksh'000'
Assets	
Corporate bonds	74,543
Mortgage loans	(3,981)
Other loans	(9,348)
Due from related parties	81
Deposits with financial institutions	3,522
Total adjustment on Equity	
Retained Earnings	64,817

There was no effect on the cash flow on adoption of IFRS 9, because reclassification of corporate bond from fair value through profit or loss to amortised cost did not impact the investing activities in the cash flow.

The nature of these adjustments are as described below:

Classification and Measurement

Under IFRS 9: Financial Instruments, debt instruments are subsequently measured at 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 cash flows 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 to the Company. The Company continued to measuring at fair value financial assets previously held at fair value held under IAS 39 except for corporate bonds. The following are the changes in the classification of the Company's financial assets:

- Loans and receivables from staff, cash and cash equivalents, amounts due from related parties, deposits and commercial papers, deposits with financial institutions and other receivables classified as loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These were classified and measured as Financial assets at amortised cost beginning 1 January 2018. However, investments in

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(c) Changes in accounting policies and disclosures *(continued)*

Classification and Measurement (continued)

- unit trusts within deposits and commercial papers have been reclassified to financial assets at fair value through profit or loss beginning 1 January 2018.

- 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.
- Quoted equity instruments classified as financial assets at fair value through profit or loss continues to be measured as financial assets at fair value through profit or loss.
- Corporate Bonds classified as Financial Assets at Fair Value through Profit or Loss as at 31 December 2017, been reclassified as debt instruments at amortised cost beginning 1 January 2018.
- Government securities classified as Held to Maturity as at 31 December 2017, have been classified as debt instruments at amortised cost beginning 1 January 2018.

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

IAS 39 Measurement category		IFRS 9 Measurement category		
Fair Value through Profit or Loss:	Total Ksh'000'	Financial assets at Fair value through Profit or Loss Ksh'000'	Debt Instruments Amortised cost Ksh'000'	Debt Instruments at Fair value through OCI Ksh'000'
Equity investments at fair value through profit or loss	647,147	647,147	-	-
Corporate bonds**	376,394*	-	301,851	-
Loans and Receivables:				
Mortgages & other Loans	153,612*	-	157,593	-
Other Loans	305,212*	-	314,560	-
Deposits and commercial papers***	598,599	598,599	-	-
Other receivables	104,861	-	104,861	-
Due from related party	181,575*	-	181,494	-
Deposits with financial institutions	789,727*	-	786,205	-
Cash and bank balances	83,756	-	83,756	-
Available for Sale Financial Assets				
Government securities classified as available for sale	2,967,420	-	-	2,967,420
Held to Maturity				
Government securities classified as held to maturity	560,723	-	560,723	-
	6,769,026	1,245,746	2,491,043	2,967,420

*The change in carrying amounts because of additional impairment allowance. See the discussion on impairment below.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(c) Changes in accounting policies and disclosures *(continued)*

Classification and Measurement (continued)

** 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. 376.3 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 KShs.32.8 million.

The fair value of the corporate bonds that the Company still held at 31 December 2018 was KShs 338.9 million (31 December 2017 KShs 376.3 million). The fair value gain in 2018 that would have been recorded in profit or loss had these instruments continued to be revalued through profit or loss, would have been KShs 1.4 million (2017: KShs 1.07 million)

***As at 1 January 2018, the Company assessed its assets (Deposits and Commercial papers) previously designated as loans and receivables under IAS 39. Upon evaluation, as the Company's business model is to manage investments in unit trust in this portfolio on fair value basis. These investments in unit trusts did not meet the criterion for recognition at amortised cost and as such are mandatorily measured at fair value through profit or loss.

All investments in unit trusts are mandatorily measured at fair value.

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 financial assets at amortised cost.

Upon adoption of IFRS 9 the Company recognized additional impairment on the corporate bonds by KShs74.5 million, mortgages & other loans a recovery of KShs 13.3 million from previous IAS 39 provision, intercompany balances KShs 81,827 and deposits with financial institutions KShs 3.5 million which resulted in a decrease in retained earnings of KShs 64.8 million as at 1 January 2018.

Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9:

	Allowance for Impairment under IAS 39 as at 31 December 2017 Ksh'000'	Re-measurement Ksh'000'	ECL under IFRS 9 as at 1 January 2018 Ksh'000'
Corporate bonds	-	74,543	74,543
Mortgage loans	7,614	(3,981)	3,633
Other loans	12,370	(9,348)	3,022
Due from related party	-	81	81
Deposits with financial institutions	28,453	(3,522)	24,931
	48,437	64,817	113,254

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies and disclosures *(continued)*

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 previous revenue recognition requirements under IAS 18. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.

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 has formal agreements in place with its customers who are mainly pension schemes.

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 pension schemes. Only one performance obligation was identified, which is that of rendering administration services. The performance obligations are satisfied overtime as administration services are delivered.

Step 3: Determine the transaction price

The agreement clearly stipulates the transaction price i.e. that the pension administrator shall make a periodic charge known as administration fee payable out of the pension scheme and this shall be expressed as an annual percentage of the value of the portfolio scheme for Occupational schemes and as a percentage of contributions for umbrella schemes. The ranges during the year ended December 2018 was as follows;

- Occupational Schemes -0.5 % on value of the scheme
- CIC Jipange/CIC Umbrella Schemes -2% on the contributions received by the administrator

The administration fees are charged on quarterly basis and therefore represent a variable consideration as the value of the fund will change from time to time based on performance, contributions, and withdrawals, among other factors. However, the fund value or contributions are not expected to vary significantly throughout the year and therefore it is highly probable that a significant revenue reversal will not occur. In addition, the variable consideration is contained within the financial year.

Step 4: Allocate the transaction price to the performance obligation in the contract

Over time, the Company will charge administration fee as a percentage of size of the portfolio or value of contributions. This means that as the size of the scheme or amount or contributions grows, so does the income for the Company and the reverse is true. Therefore, the transaction price which comprises of

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(c) Changes in accounting policies and disclosures *(continued)*

IFRS 15 Revenue from Contracts with Customers (continued)

variable consideration related to the administration fees allocated to each individual quarter because the management fees relates specifically to the Company's efforts to provide administration services during the quarter.

Step 5: Recognize revenue when (or as) each performance obligation is satisfied

Administration fees is recognised as percentage of scheme value or contributions and is recognised over time, as the Company performs the obligation, the customer simultaneously receives and consumes the benefit. The revenues from pension administration represent 0.34 % of the total revenue from the company's operations and as a result, no further disclosures have been made.

(d) Revenue recognition

Gross premiums

Gross recurring premiums on life contracts are recognised as revenue when payable by the policyholder. For single premium business revenue is recognised on the date on which the policy is effective. Premiums include any adjustments for premiums receivable in respect of business written prior accounting period. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written. There are no rebates offered on the premiums.

Reinsurance premiums

Gross reinsurance premiums on life are recognised as an expense when payable or on the date on which the policy is effective. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Reinsurance premiums and claims in the statement 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. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Investment income

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the effective interest rate (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. Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate in net trading income and Net gains/losses on financial assets at fair value through profit or loss, respectively.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) **Revenue recognition** *(continued)*

Investment income (continued)

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.

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

Net Unrealised/realised gains and losses

Gains and losses recorded in the statement of profit or loss include gains and losses arising from valuation of financial assets measured at fair value through profit or loss and investment properties. Refer to note 5 for more details.

Gains and losses arising from the disposal of investment properties and property and equipment are calculated as the difference between net disposal proceeds and the carrying amount of the asset when it is derecognised. The date of disposal of property and equipment and 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 these assets is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Fees and commission earned

Insurance and investment contract policyholders are charged for policy administration services, investment management services. These fees are recognised as revenue over 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. Commissions earned from reinsurance premium ceded are recognised in profit or loss in the period in which they are earned.

Dividend income

Dividend income is recognised on the date when the Company's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes which is included as part of investment income.

(e) Benefits, claims and expenses recognition

Gross benefits and claims for life insurance contracts and for investment contracts with DPF include the cost of all claims arising during the year, including: internal and external claims handling costs that are directly related to the processing and settlement of claims, and policyholders' bonuses declared on DPF contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Claims liability on long term contracts is determined through actuarial valuation which is carried out annually.

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) 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 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 recognized in the profit or loss based on systematic and rational allocation procedures. This is often necessary in recognizing the equipment associated with the using up of assets such as property and equipment in such cases the expense is referred to as a depreciation or amortization. These allocation procedures are intended to recognize expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

ii. An expense is recognized 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.

(g) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss. Insurance receivables are derecognised when the de-recognition criteria for financial assets, as described under Financial Instruments (Policy effective before 1 January 2018) have been met. This mainly includes receivables arising out of direct insurance arrangements.

(h) Reinsurance ceded to reinsurance counterparties

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Gains or losses on buying reinsurance are recognised in the statement of profit or loss immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.
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. Included in this category are receivables arising from reinsurance arrangements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 statement of profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised in equity in which case it is also recognised directly to 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 10 of these financial statements.

Current Income tax

The tax legislation provides that the income tax be calculated differently from other companies where life assurance companies should be taxed on the sum of the following;

(i) Transfer from the life fund to shareholders and policy holders (negative reserves are deductible): and
(ii) 30% of management expenses in excess of the amount allowed under the Insurance Act; and
(iii) Any other transfers.

The Company offsets current tax assets and current tax liabilities when:
- It has a legally enforceable right to set off the recognised amounts; and
- It intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Deferred Income tax

Deferred income tax is provided on temporary differences except those arising on the initial recognition of goodwill, the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

(i) *Taxation (continued)*

Deferred Income tax (continued)

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The accounting of deferred tax movements is driven by the accounting treatment of the underlying transaction that lead to the temporary differences. Deferred tax relating to items recorded in profit or loss is recognised in profit or loss, while deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss in other comprehensive income or equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

For an insurance Company the actuarial surplus in substance represents profits and losses recognised in the income statement of the life insurance business which have not been recommended for transfer for the benefit of shareholders and therefore not taxed.

Since the profits and losses were recognised from an accounting perspective, they only affect taxable profits once recommended for transfer for benefit of shareholders by an actuary. Therefore, the difference between the tax base of the actuarial surplus and the carrying amount of nil is a taxable temporary difference that gives rise to a deferred income tax liability or a tax asset in case of an actuarial loss.

The Company offsets deferred tax assets and deferred tax liabilities if, and only if:
- the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either, the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Sales taxes and premium taxes

Revenues, expenses, 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 recognized 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 other receivables or other payables in the statement of financial position.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Property and equipment

Property and equipment is initially recorded at cost only when the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably and subsequently stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate only when the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

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

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

Property and equipment are reviewed for impairment as in note 1(p) whenever there are any indications of impairment identified.

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

An item of property and equipment is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no further economic benefits are expected from its continued use or disposal.

Gains and losses on de-recognition of property and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The amount of consideration to be included in the gain or loss arising from the derecognition of property and equipment 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 and adjusted prospectively, if appropriate.

(k) Investments properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, including interest in leasehold land, is initially recognised at cost including the transaction costs.

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

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. The Investment properties are stated at fair value, which has been determined based on valuations performed by Crystal Valuers Limited as at 31 December 2018.

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(k) **Investments properties** *(continued)*

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 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.

(l) Intangible assets

Intangible assets, comprising of software license costs and computer software which are acquired separately are measured on initial recognition 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. Amortisation is calculated using straight-line method over its estimated useful life of four years.

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

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

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

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.

An intangible asset shall be derecognised on disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its continued use or disposal.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Company as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they incurred. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination took place. Refer to note 37(b) for more details.

Company as a lessor
Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Refer to note 37(b) for more details.

(n) Employee benefits

Defined contributions provident fund
The Company operates a defined contribution post-employment provident 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 by a different pension administrator.

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

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)*

(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 of disposal 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 of disposal, an appropriate valuation model is used. The company bases its impairment calculation on detailed budgets and forecast calculations which are detailed in its five-year strategic plan. For longer periods, a long term growth rate is calculated and applied to project future cash flows after fifth year.

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.

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

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 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) Financial 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 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Financial liabilities)

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.

(r) Insurance payables

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

(s) Insurance contract liabilities

Life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the gross premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income (for non-market linked insurance contracts this item is excluded) from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

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

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

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

(t) 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:

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(t) Fair value measurement *(continued)*

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

The principal or the most advantageous market must be accessible to 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:

- **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.

The senior finance and investment manager who discusses the basis and assumptions with the valuer decides upon involvement of external valuers annually. This is then approved by the Group Chief Finance Officer.

For the purpose of 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 of related financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are disclosed in note 40 to the financial statements.

(u) Financial instruments

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.

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

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

Initial recognition and measurement

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 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. Receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

Financial assets

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.

The Company's business model for managing financial assets refers to how it manages its financial assets in order 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)

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 in order 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

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

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

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 includes staff loans, mortgages, policy loans, cash and cash equivalents, deposits with financial institutions, commercial papers, corporate bonds, other receivables, government securities at amortised cost and due from related parties.

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

Business model assessment

The company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Company considers the timing, amount, and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The expected frequency, value, and timing of asset sales are important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Company assesses the contractual terms to identify whether they meet the SPPI test.
"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significance elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the period for which the interest is set.

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

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 classifies government securities at fair value through other comprehensive income in this category.

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 does not have any financial assets classified as equity instruments at fair value through OCI.

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 the purpose of 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, 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.

The Company has classified quoted equity instruments and investments in collective investment scheme (comprising of Deposits and commercial paper) in this category.

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

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

Derecognition

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 of 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.

Impairment of financial assets

Overview of ECL principles

As described in note 1 (c) 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 expected credit loss (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 thi/s section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

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

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

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 12m ECL 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

Based on the above process, the Company groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI as described below.

Stage 1: When financial assets, the Company recognises an allowance based on 12mECLs. Stage one also includes staff loans where credit risk has improved and the loan has been reclassified from stage 2.

Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Company records an allowance for LTECLs. Stage 2 financial assets includes staff loans where the credit risk has improved and the loan has been reclassified from stage 3.

Stage 3: For financial assets, which are credit impaired, the Company records an allowance for the LTECLs

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

The calculation of ECLs

The Company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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.

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

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

The Company does not have financial guarantees, loan commitments, letters of credit and financial assets which are purchased or originated credit impaired (POCI).

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 staff loans and mortgages will cure and the value of collateral or the amount that might be received for selling the asset.

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

The company allocates its financial assets subject to ECL calculations into these categories determined as follows:

- 12mECL (Stage 1)-The 12m ECL 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
- Central Bank base rates

Collateral valuation

To mitigate its credit risk on financial assets (staff loans), the Company seeks to use collateral, where possible. The collateral is in form of real estate or motor vehicles. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral affects the calculations of ECLs for staff loans. It is generally assessed, at a minimum, at inception and reassessed on annual basis. Collaterals such as real estate, is valued based on data provided by third parties such as real estate valuers.

Collateral repossessed.

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for internal operations are transferred to their relevant asset category at the lower of the repossessed value or the carrying amount of the original secured asset. Assets for which selling is determined to be the better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Company's policy.

In its normal course of business, the Company does not physically repossess properties or motor vehicles but engages its procurement department to auction the asset to settle the outstanding debt. Any surplus funds are returned to the obligors. As a result of this practice, the real estate properties and motor vehicles under legal repossession processes are not recorded in the balance sheet.

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.

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 and amounts due to related parties.

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. 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.

Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
  Or
- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

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

The Company has designated unit linked contracts as financial liabilities

The Company has not designated any financial liability at fair value through profit or loss.

Loans and borrowings and payables

After initial recognition, payables 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 other payables, amounts 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.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation. During the year, there was no offsetting of financial assets and liabilities

Policy applicable before 1 January 2018

Financial instruments policy under 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 company commits to purchase or sell the asset. 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.

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; held to maturity financial assets; and available for sale financial assets. Management determines the appropriate classification of its financial

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

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 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 has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling it in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments are recognised in profit or loss in the period that they arise. Financial assets at fair value through profit or loss comprise quoted shares 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 include receivables arising from direct insurance arrangements, other receivables, staff loans, amounts due from related parties and deposits with financial institutions.

After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method (EIR) less impairment. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
A gain or loss is recognised in profit or loss when the financial asset is derecognised or impaired, and through the amortisation process.

Held-to-maturity financial assets

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

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

management has the positive intention and ability to hold to maturity. They include government securities designated as such.

After initial measurement, held to maturity financial assets are treated in similar manner as loans and receivables as discussed above.

Reclassifications

Financial assets are reclassified as available-for-sale if, as a result of a change in intention or ability, it fails to meet the requirements for classification as held-to-maturity. If the tainting provisions are triggered, no investment should be classified as held-to-maturity if, during either the current financial year or the two preceding financial years, the reporting entity has sold or reclassified more than an insignificant amount of such investments before maturity other than by those effected:

- close enough to maturity or call date (e.g. less than three months before maturity) so that changes in the market rate of interest did not have a significant effect on the investment's fair value;
- after substantially all of the investment's original principal had been collected through scheduled payments or prepayments; or
- due to an isolated non-recurring event that is beyond the holder's control and could not have been reasonably anticipated by the holder.

Any remaining held-to-maturity investments should also be reclassified as available-for-sale. Similarly, if, as a result of a change in intention or ability or because the tainting period has passed, it becomes appropriate to regard an available-for-sale asset as held-to-maturity, it should be reclassified accordingly.

The said financial assets should be reclassified at fair value, gains or losses arising on the difference between the carrying amount and the fair value should be reclassified from equity to profit or loss as a reclassification adjustment.

As the business grows, a need to increase the financial assets held under lien increases which should be maintained at 5% of the Company's admitted assets as per the Kenyan Insurance Act.

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 reclassified to profit or loss for the year as net realised gains/losses on financial assets.

Unquoted investments are classified as available-for-sale investments. The Company classified government securities in this category.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments *(continued)*

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

Financial assets carried at amortised cost

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 no interest is accrued on the reduced amount, the amount of the loss is then 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Available-for-sale financial assets

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.

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

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

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

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

Derecognition of Financial Assets

The company derecognises a financial asset when and only when:
- The contractual rights to the cash flows from the financial asset expire, or
- It either transfers the contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement where all of the following three conditions are met.

(i) The company has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
(ii) The company is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
(iii) The company has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients

On derecognition of a financial asset in its entirety, the difference between:
- the carrying amount and
- the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income

is recognised in 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.

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and borrowings and payables

After initial recognition, payables 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 other payables, amounts due to related parties, payables arising from reinsurance arrangements and insurance bodies.

Derecognition

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

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation. There were no offsetting arrangements during the year.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 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 an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

(y) Investment contracts liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.
Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, the investment contract liabilities are measured at fair value through profit or loss. Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position and are not recognised as gross premium in the statement of profit or loss. Non-unitised contracts are subsequently also carried at fair value

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position as described above. Investment contracts include unit linked investments and deposit administration contracts. The Company does not have investment contracts with DPF.

(z) Discretionary Participation Features (DPF)

A DPF gives holders of these contracts the right to receive, as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. The amount or timing of the additional benefits is contractually at the discretion of the Company. Under the terms of the contracts, surpluses in the DPF funds can be distributed to policyholders and

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Discretionary Participation Features (DPF) *(continued)*

shareholders based on recommendation by the statutory Actuary. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders.

All DPF liabilities including unallocated surpluses at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

(aa) Product classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk. Financial risk is 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 price 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. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without DPF. DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that meet the following conditions:

- Likely to be a significant portion of the total contractual benefits
- The amount or timing of which is contractually at the discretion of the issuer

That are contractually based on:

- The performance of a specified pool of contracts or a specified type of contract
- Realised and/or unrealised investment returns on a specified pool of assets held by the issuer
- The profit or loss of the company, fund or other entity that issues the contract

(bb) 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.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(z) Discretionary Participation Features (DPF) *(continued)*

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.

(cc) 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.

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.

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

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

(a) Whether it is probable that that future taxable profits will be available against which temporary differences can be utilised; and
(b) Whether the Company's financial assets meets the solely for payment of principal and interest (SPPI) test and business model test for financial assets to be measured and classified as amortised cost or fair value through OCI.

(ii) Key sources of estimation uncertainty

Valuation of insurance contract liabilities

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

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

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

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

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

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)*

(ii) Key sources of estimation uncertainty(continued)

Valuation of investment contract liabilities without DPF

Fair values of unitised investment contracts are determined with reference to the assets backing the liabilities, which are based on the value of the unit-linked fund.

Fair value of non-unitised investment contracts are determined by using valuation techniques such as discounted cash flow methods. A variety of other factors are considered in these valuation techniques including time value of money, volatility, policyholder behaviour and fair value of similar instruments.

Property and equipment

Critical estimates are made by the Company's management, in determining the useful lives and residual values to property and equipment based on intended use of those assets and their economic lives. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. The rates used are set out in accounting policy in note (j) above.

Impairment of Insurance receivables

Critical estimates are made by the directors in determining the recoverable amount of insurance 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. The 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. Refer to 21(b) for more details

Operating lease commitments-Company as lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on evaluation of 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.

Impairment of financial assets

The measurement of impairment losses under IRS 9 across relevant financial assets requires judgement, in particular the estimation of the amount of timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. Other judgements applied include; determining financial condition of counter parties and forward looking information. These estimates are driven by the outcome of modelled ECL scenarios and relevant inputs used.

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

(ii) Key sources of estimation uncertainty *(continued)*

Taxes

The Company is subject to income taxes in Kenya. Significant judgement is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities

for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 40 for further discussion.

Revaluation of investment properties

The Company carries investment properties at fair value, with changes in fair value being recognised in profit or loss. Land and buildings were valued based on open market value by independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Refer to note 12 where detailed assumptions have been disclosed.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and price volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 40 for further discussion.

Revenue from contracts with customers

The company made judgement in determining what the performance obligations are, the nature and expected impact of variable considerations, whether to reverse, estimations that the fund value will not result in significant revenue reversal and timing in which revenue is recognised. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions may change due to circumstances arising that are beyond the control of company. Such changes are reflected in the assumptions when they occur.

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)*

(ii) Key sources of estimation uncertainty *(continued)*

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.

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

3. (a) GROSS EARNED PREMIUMS

	2018 KShs'000	2017 KShs'000
Group life	3,274,256	3,048,775
Ordinary life & Annuities	1,818,879	1,086,076
Total gross earned premium	5,093,135	4,134,851

(b) REINSURANCE PREMIUMS CEDED

	2018 KShs'000	2017 KShs'000
Group life	914,615	805,606
Ordinary life & Annuities	17,141	12,563
	931,756	818,169

4. INVESTMENT INCOME

	2018 KShs'000	2017 KShs'000
Interest on financial assets at amortised cost- debt instruments	40,703	102,376
Interest on financial assets at amortised cost-corporate bonds	32,879	29,734
Interest on bank deposit	53,990	28,044
Interest on staff loan and receivables	18,489	29,396
Dividend income	17,811	13,518
Interest on financial assets at fair value through other comprehensive income- Debt instruments	206,705	162,007
Rental income from investment properties	45,918	47,580
Amortisation of financial assets at amortised cost (note 14a)	(2,111)	(7,982)
	414,384	404,673

Investment income earned on financial assets, analysed by category of asset and type of income is as follows:

(a). Interest revenue calculated using effective interest rate

	2018 KShs'000	2017 KShs'000
method Financial assets at amortised cost	143,950	-
Financial assets at fair value through other comprehensive income - Debt instruments	206,705	-
	350,655	-

(b). Other interest and investment income

	2018 KShs'000	2017 KShs'000
Financial assets at amortised cost	-	151,834
Financial assets at fair value through profit or loss	17,811	43,252
Financial assets at fair value through other comprehensiv income- Debt instruments	-	162,007
Investment Income earned on non-financial assets	45,918	47,580
	63,729	404,673
Total investment income(a&b)	414,384	404,673

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

5. OTHER (LOSSES)/GAINS

	2018 KShs'000	2017 KShs'000
Fair value gains on investment properties (note 12)	21,000	55,978
Fair value loss on corporate bonds (note 15)	-	(1,070)
Fair value (loss) gain on equity investments at fair value through profit or loss (note 18)	(112,966)	14,961
Realised fair value gain on reclassification of government securities in prior periods.	-	480
Gain on disposal of property plant and equipment	-	1,120
Fair value loss on financial assets at fair value through profit or loss -investments in unit trust(note 17(b))	(5,687)	-
Other gains	1,083	6,892
	(96,570)	78,361

Other gains relate to sundry income arising from replacement of lost policy documents and tender fees.

6. (a) FEES AND COMMISSIONS EARNED

	2018 KShs'000	2017 KShs'000
Group life commission	262,270	281,978
Ordinary life commission	3,492	3,815
Fees on pension administration	16,354	12,528
	282,116	298,321

Fees and commission earned relates to the commission received from the reinsurance premium ceded and fees on policy administration and investment management.

(b) COMMISSIONS EXPENSES

	2018 KShs'000	2017 KShs'000
Group life	514,904	443,611
Ordinary life	170,493	194,705
	685,397	638,316

Commission expenses relates to expenses that are paid to agent and brokers.

7. CLAIMS AND POLICYHOLDERS BENEFITS EXPENSE

		2018 KShs'000	2017 KShs'000
(a).	Gross incurred claims		
	Group life	1,879,985	1,715,175
	Ordinary life	544,947	373,902
		2,424,932	2,089,077
(b).	Reinsurance recoveries		
	Group life	(655,045)	(660,033)
	Ordinary life	(644)	(2,748)
		(655,689)	(662,781)
(c).	Actuarial reserves		
	Gross change in actuarial reserves (note 30)	(916,069)	(685,775)
	Reinsurers share of change in actuarial reserves (note 30)	(49,285)	62,632
		965,354	623,143

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 9(a))	629,375	560,579
Directors' fees (note 21d)	6,705	7,040
Directors' emoluments (note 21d)	21,500	27,779
Depreciation on property and equipment (note11)	40,362	44,074
Amortisation of intangible assets (note 13)	3,445	8,909
Auditors' remuneration	4,500	3,800
Premium tax	9,558	8,884
Staff welfare	105,362	116,261
Utilities	87,412	85,074
Printing and stationery	10,134	10,162
Business advertising and promotion	61,699	60,032
Professional fees	39,156	28,485
Statutory levies	15,021	20,997
Professional subscription	7,870	18,972
Software licences	47,998	60,251
Pension capitalization*	33,165	67,793
Provision for Nakumatt holdings commercial paper (note 17)	-	11,169
Provision for doubtful receivables arising out direct insurance arrangements (note 19(b))	6,808	4,218
Provisions for doubtful staff loans (note 16 a&b)	-	19,984
Other costs**	32,373	21,702
	1,162,443	1,186,165

**This arises as result of shortfall on interest declared against interest earned from investments in deposits administration contracts.*
***Other costs mainly relate to insurance expenses, bank charges, telephone and travel and meeting expenses.*

(b) Net Decrease in Expected Credit Losses

	2018 KShs'000	2017 KShs'000
Allowance for expected credit losses on related parties	(349)	-
Write back on expected credit losses		-
-Corporate bonds(note15)	716	-
-Mortgage loans (note 16a)	3,158	-
-Other loans (note 16b)	2,743	-
-Deposits with financial institutions (note 22b)	3,243	-
	9,511	-

The write backs arose mainly due to repayments of mortgage loans and other loans, and placement of financial instruments in institutions with better credit ratings during the year.

9. (a) STAFF COSTS

Staff costs include the following:

	2018 KShs'000	2017 KShs'000
- Salaries and gratuity	586,553	520,828
- Defined contribution expense	32,228	28,222
- Termination benefits expense	1,630	1,126
- Staff annual leave expense	8,964	10,403
	629,375	560,579

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

9. (b) PROFIT BEFORE TAXATION

The following items have been charged in arriving at profit before tax.	2018 KShs'000	2017 KShs'000
Staff costs	629,375	560,579
Auditor's remuneration	4,500	3,800
Depreciation on property and equipment (note 11)	40,362	44,074
Amortisation of intangible assets (note 13)	3,445	8,909
Provision for doubtful receivables arising out direct insurance arrangements (note 19)	6,808	4,218
Provision for staff loans	-	19,984
Provision for Nakumatt Holding Ltd commercial paper	-	11,169
Allowance for expected credit losses - Related parties	349	-

10 TAXATION CHARGE

(a) Statement of profit or loss

Current tax at 30%	-	13,773
Deferred tax charge (note 28)	22,015	27,572
Taxation charge	22,015	41,345

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

Profit before taxation	188,384	224,117
Tax calculated at a tax rate of 30%	56,515	67,235
"Transfer of statutory reserve" tax*	(34,500)	(25,890)
Taxation charge for the year	22,015	41,345

**The tax charge for the Company is derived by subjecting to tax only 30% management fees in excess of the amount allowed in Section 19 (5) of the Kenyan Income Tax Act as well as on the transfer from the statutory reserves to shareholders as per the recommendation of the statutory actuary.*

Based on the above, there are no deferred tax and current tax consequences on income earned under other comprehensive income.

Statement of financial position

(c) Tax recoverable

	2018 KShs'000	2017 KShs'000
At 1 January	40,127	16,933
Tax charge on transfer to retained earnings	(34,500)	(34,500)
Current tax charge at 30%	-	(13,773)
Tax paid during the year	24,200	71,467
At 31 December	29,827	40,127

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

11 (a) PROPERTY AND EQUIPMENT

	Motor Vehicles KShs'000	Computers KShs'000	Furniture fittings & Equipment KShs'000	Total KShs'000
COST				
At 1 January 2018	-	95,520	268,604	364,124
Additions	-	1,630	4,662	6,292
At 31 December 2018	-	97,150	273,266	370,416
ACCUMULATED DEPRECIATION				
At 1 January 2018	-	86,813	136,325	223,138
Charge for the year	-	4,291	36,071	40,362
At 31 December 2018	-	91,104	172,396	263,500
CARRYING AMOUNT				
At 31 December 2018	-	6,046	100,870	106,916
COST				
At 1 January 2017	4,948	92,725	257,249	354,922
Additions	-	2,795	11,355	14,150
Disposals	(4,948)	-	-	(4,948)
At 31 December 2017	-	95,520	268,604	364,124
ACCUMULATED DEPRECIATION				
At 1 January 2017	4,948	80,755	98,309	184,012
Charge for the year	-	6,058	38,016	44,074
Elimination on disposal	(4,948)	-	-	(4,948)
At 31 December 2017	-	86,813	136,325	223,138
CARRYING AMOUNT	-	8,707	132,279	140,986

There are no property and equipment pledged as security for liabilities. There are no contractual commitments for the acquisition of property and equipment. The Company does not have property and equipment, which are fully depreciated.

In 2017, the Company sold motor vehicle with a net carrying amount of NIL for a cash consideration of KShs 1,120,000. The net gains on these disposals were recognised as part of 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

12. INVESTMENT PROPERTIES

	CIC Phase I Plaza KShs'000	Kisaju Land KShs'000	Kajiado Land KShs'000	Total KShs'000
At 1 January 2018	1,115,875	667,000	378,000	2,160,875
Fair value gain (note 5)	-	13,000	8,000	21,000
At 31 December 2018	1,115,875	680,000	386,000	2,181,875
At 1 January 2017	1,105,000	635,000	360,000	2,100,000
Additions	4,897	-	-	4,897
Fair value gain (note 5)	5,978	32,000	18,000	55,978
At 31 December 2017	1,115,875	667,000	378,000	2,160,875

There are no contractual commitments in respect of the investment properties. The rental income earned from the investment property has been disclosed in noted 4. The tenants significantly incur costs for maintenance for the rented property directly. The company have entered into operating lease arrangements.

CIC Phase I Plaza 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 and methods used are recommended by the International Valuation Standards Committee. In arriving at the value of the of the investment property, the valuer used capitalization of the rental income using the year purchase method. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

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

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

Valuation technique	Significant unobservable Inputs	Average
Capitalized rent income (year purchase) method		
	Net annual rent	58,717,939
	Annual rent growth rate	5%
	Discounting rate	13%

Considering the physical economic parameters in the country and the trends in property markets, management is of the opinion that there will not be significant change in the inputs to the valuation method during the year.

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. On the other hand, Kisaju and 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 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;
e) no account is taken of an individual bid by a special purchaser.

The investment properties are included in level 3 of the fair value hierarchy.

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

13. INTANGIBLE ASSETS

	2018 KShs'000	2017 KShs'000
COST		
At 1 January	107,978	105,348
Additions	1,114	7,466
Transfer from work in progress	-	(4,836)
At 31 December	109,092	107,978
ACCUMULATED AMORTISATION		
At 1 January	100,891	91,982
Amortisation charge for the year	3,445	8,909
At 31 December	104,336	100,891
CARRYING AMOUNT		
At 31 December	4,756	7,087

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.

14. (a) FINANCIAL ASSETS AT AMORTIZED COST-GOVERNMENT SECURITITES

(In 2017, classified as financial assets held to maturity)

	2018 KShs'000	2017 KShs'000
At 1 January	560,723	417,705
Additions	390,100	106,000
Transfer from government securities at fair value through other comprehensive income	-	65,000
Maturities	(75,000)	(20,000)
Amortisation discount (note 4)	(2,111)	(7,982)
At 31 December	873,712	560,723
Treasury bonds.		
- maturing 3 to 12 months	-	36,871
- maturing after 12 months	873,712	523,852
At 31 December	873,712	560,723

Government securities at amortised cost of KShs 714 million (2017 - KShs 561 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.

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

14. (b) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME -GOVERNMENT SECURITIES

(In 2017, these were classified as financial assets available for sale)	2018 KShs'000	2017 KShs'000
At 1 January	2,967,420	2,204,506
Additions	2,086,046	1,326,936
Sales	(763,685)	(531,916)
Transfer to government securities at amortized cost	-	(65,000)
Fair value gain during the year	41,034	32,894
At 31 December	4,330,815	2,967,420

Government securities worth KShs. 60 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.

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 39(b).

15. FINANCIAL ASSETS AT AMORTISED COST-CORPORATE BONDS

(In 2017, these were classified as financial assets at fair value through profit or loss)	2018 KShs'000	2017 KShs'000
CIC Insurance Group PLC	16,301	16,295
Chase Bank Limited	73,545	73,545
Centum Investments Company Limited	13,785	13,781
ABC Bank Limited	51,036	51,053
Housing Finance Group Limited	11,610	11,606
Family Bank Limited	10,264	10,260
Jamii Bora Bank Limited	51,904	52,532
Real people Limited	11,170	11,166
Kenya Electricity Generating Company Limited	4,367	8,707
UAP -Old Mutual Holdings Limited	19,772	19,766
Consolidated Bank Limited	21,169	21,162
East African Breweries Limited	86,553	86,521
NIC Bank Kenya Limited	416	-
I&M Bank Limited	2,015	-
Allowance for expected credit losses	(73,827)	-
	300,080	376,394
At 1 January	376,394	324,721
Adjustment on adoption of IFRS 9	(74,543)	
Additions	2,400	84,515
Maturities	(4,962)	(33,638)
Fair value loss during the year (note 5)	-	(1,070)
Accrued interest (principal and interest)	75	1,866
Allowance for expected credit losses	716	-
At 31 December	300,080	376,394
Corporate bonds securities maturing		
- maturing within 3 months	13,185	-
- maturing 3 to 12 months	176,575	-
- maturing after 12 months	110,320	376,394
	300,080	376,394

An analysis of changes in the gross carrying amount and corresponding ECL allowances for debt instruments at amortised cost-corporate bonds has been disclosed in note 39(b).

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

16. FINANCIAL ASSETS AT AMORTISED COST- LOANS AND RECEIVABLE
(In 2017, these were classified as Loans and receivables)

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

	2018 KShs'000	2017 KShs'000
(a). MORTGAGE LOANS:		
At 1 January	153,612	186,302
Adjustment on adoption of IFRS 9 (note 1)	3,981	-
Loans advanced	-	6,057
Loan repayments	(69,648)	(31,133)
Loan provisions (note 8)	-	(7,614)
Write back of expected credit losses (note 5)	3,158	-
At 31 December	91,103	153,612
Maturity profile of mortgage loans:		
Within 1 year	2,282	1,829
In 1 to 5 years	6,806	20,238
In over 5 years	82,015	131,545
	91,103	153,612

16. (b) OTHER LOANS

	2018 KShs'000	2017 KShs'000
Staff loans	53,483	82,963
Policy loans	305,411	222,249
	358,894	305,212
Movement:		
At 1 January	305,212	253,643
Adjustment on adoption of IFRS 9 (note 1)	9,348	-
Loans advanced	169,973	151,064
Loan repayments	(128,382)	(87,125)
Loan provisions (note 8)	-	(12,370)
Write back of expected credit losses (note 5)	2,743	-
At 31 December	358,894	305,212
Maturity profile of other loans:		
Within 1 year	1,917	2,216
In 1-5 years	320,936	256,352
In over 5 years	36,041	46,644
	358,894	305,212
Total(a & b)	449,997	458,824

An analysis of changes in the gross carrying amount and corresponding ECL allowances in loans and receivables has been disclosed in note 39(b).

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

16. (b). OTHER LOANS *(continued)*

Summary in provision for mortgages and other staff loans is as shown below:	2018 KShs'000	2017 KShs'000
Provision on mortgage loans(note 16(a))	-	7,614
Provision for other loans(note 16(b))	-	12,370
	-	19,984

17. (a) FINANCIAL ASSETS AT AMORTISED COST DEPOSITS AND COMMERCIAL PAPERS
(In 2017, commercial papers were classified as loans and receivables)

The deposits and commercial paper refer to instruments measured at amortised cost and issued by the corporates and attracts fixed interest rates as per the contractual agreements except for the investments in collective investment schemes which are measured at fair value through profit or loss. The investments in collective schemes lack a maturity a date and can only be withdrawn.

	2018 KShs'000	2017 KShs'000
DEPOSITS		
Investment in unit trusts	517,530	598,599
Reclassification to financial assets at fair value through profit or loss-investment in unit trust due to adoption of IFRS 9	(517,530)	-
COMMERCIAL PAPERS		
Nakumatt Holdings Limited	-	11,169
	-	609,768
Allowance for expected credit losses (note 8)	-	(11,169)
	-	598,599
Maturity analysis:		
Maturing Within 3 months	-	598,599
	-	598,599

An analysis of changes in the gross carrying amount and corresponding ECL allowances in commercial papers has been disclosed in note 39(b).

(b) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-INVESTMENTS IN UNIT TRUSTS
(In 2017, these were classified as financial assets at fair value through profit or loss)

	2018 KShs'000	2017 KShs'000
1 January	-	-
Reclassification from deposits and commercial papers due to adoption of IFRS 9	598,599	-
Maturities	(75,382)	-
Fair value losses	(5,687)	-
	517,530	-

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

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-QUOTED EQUITY INSTRUMENTS

(In 2017, these were classified as financial assets through profit or loss)

	2018 KShs'000	2017 KShs'000
At 1 January	647,147	343,425
Additions	348,500	307,721
Fair value (loss)/ gain (note 5)	(112,966)	14,961
Disposal	(76,059)	(18,960)
At 31 December	806,622	647,147

19. (a) RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

(In 2017, these were classified as loans and receivables)

Receivables arising out of reinsurance arrangements relate to reinsurers portion of claims incurred which had not been recovered from reinsurers as at year end.

	2018 KShs'000	2017 KShs'000
1 January	417,636	129,705
Premium ceded	(911,203)	(803,257)
Payment to reinsurers	1,120,672	1,103,729
Received from reinsurers	(73,858)	(12,541)
31 December	553,247	417,636
Past due but not impaired		
1-30 Days	69,347	32,586
31-60 Days	99,534	51,351
61-90 Days	59,103	37,826
91-120 Days	123,556	80,119
Over 120 Days	201,707	215,754
	553,247	417,636

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

19. (b). RECEIVABLES ARISING OUT OF DIRECT INSURANCE ARRANGEMENTS

Receivables arising out of direct insurance arrangements relate to premiums earned as a result of risks underwritten but whose amounts had not been received as at year-end.

	2018 KShs'000	2017 KShs'000
1 January	155,172	148,093
Gross written premiums	3,274,256	3,048,775
Provision for doubtful debts	(34,917)	(28,109)
Payments received	(3,162,351)	(3,013,587)
31 December	232,160	155,172
Analysed as follows:		
From policyholders	14,645	3,808
From agents and brokers	217,515	151,364
	232,160	155,172
Past due but not impaired		
1-30 Days	207,620	22,025
31-60 Days	8,866	16,785
61-90 Days	11,973	20,540
91-120 Days	3,701	11,290
Over 120 Days	-	84,532
	232,160	155,172

Movement in provision for doubtful receivables arising out of direct insurance arrangements is as shown below:

	2018 KShs'000	2017 KShs'000
1 January	28,109	23,891
Charge to profit or loss (note 8 (a))	6,808	4,218
31 December	34,917	28,109

(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	10,375	3,785
Arising during the year	17,140	12,562
Utilised during the year	(3,389)	(5,972)
31 December	24,126	10,375

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

20. OTHER RECEIVABLES

	2018 KShs'000	2017 KShs'000
Staff advances	3,245	2,700
Prepayment	3,014	1,828
Prepaid rentals	12,300	7,719
Agents advances	7,882	10,961
Accrued rental Income	16,469	9,974
Lease rent deposits	2,131	2,131
Other receivables	20,685	6,758
Receivables from Mavuno investments fund manager	15,419	62,790
	81,145	104,861

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

21. RELATED PARTIES

The Company is a subsidiary of CIC Insurance Group PLC, incorporated in Kenya, which owns 99.9% 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 all related through common shareholding. The other related parties include senior management and directors of the Company. The provisions for expected credit losses made on related party balances during the year was Kshs. 349,000 (2017: nil). The amounts due from related parties are non- interest bearing and the balances are not secured.

*Transactions with related parties

	2018 KShs'000	2017 KShs'000
(a) Due from:		
CIC Insurance Group PLC		
Opening balance	181,575	196,427
Net movement in the year	(73,783)	(14,852)
Adjustment on adoption of IFRS 9	(81)	-
Allowance for expected credit losses	(349)	-
	107,362	181,575
(b) Due to:		
CIC Asset Management Limited	21,746	13,180
CIC General Insurance Limited	6,740	38,291
	28,486	51,471

An analysis of changes in the gross carrying amount and corresponding ECL allowances in due from related parties has been disclosed in note 39(b).
The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

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

21. RELATED PARTIES *(continued)*

(b) Due to:

(i) Receipts from related parties	2018 KShs'000	2017 KShs'000
CIC Insurance Group PLC	138,163	35,552
CIC General Insurance Limited	321,742	169,482
CIC Asset Management Limited	16,510	29,174
	476,415	234,208
(ii) Payments to related parties		
CIC Insurance Group PLC	64,380	20,700
CIC Asset Management Limited	7,944	26,109
CIC General Insurance Limited	353,293	170,820
	425,617	217,629

**In helping to reduce the administration burden there will be situations where one entity will pay expenses such as salaries for shared services, rent for branches, management fees, 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.*

(c) Loans to directors of the Company

The Company did not advance any loan to its directors (2017: Nil).

(d) Key management personnel remuneration

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

Short-term employment benefits:	2018 KShs'000	2017 KShs'000
Directors 'emoluments – fees	6,705	7,040
Others		
Sitting allowances	7,065	6,743
Travel and subsistence	5,474	3,915
Insurance	375	366
Honoraria	3,418	3,325
Retreats and training	4,307	12,807
Christmas token	861	623
	21,500	27,779
Key management		
Salaries	67,045	60,950
Gratuity	44,218	-
Staff annual leave allowance	1,824	820
Car allowance	3,943	4,007
National Social Security Fund (NSSF)	33	25
Pension contribution	6,856	4,697
Total short term employment benefits	152,124	105,318

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

22. DEPOSITS WITH FINANCIAL INSTITUTIONS

(In 2017, these were classified as loans and receivables)	2018 KShs'000	2017 KShs'000
The Co-operative Bank of Kenya Limited	81,946	50,345
Housing Finance Company of Kenya Limited	-	76,582
Family Bank Limited	-	82,525
Credit Bank Limited	22,437	17,555
Gulf African Bank Limited	136,822	100,584
KCB Bank Kenya Limited*	250,986	180,497
Development Bank of Kenya Limited	48,018	27,726
Equity Bank Limited	52,539	5,628
ABC Bank Kenya Limited	-	8,490
Transnational Bank Limited	-	31,647
Victoria Commercial Bank Limited	20,408	138,373
Imperial Bank Limited	26,851	28,453
UBA Kenya Bank Limited	74,469	10,665
Spire Bank Limited	-	59,110
Kenya Women Micro Finance Bank	21,809	-
NIC Bank Kenya Limited	272,978	-
	1,009,263	818,180
Allowance for Expected credit losses	(28,730)	(28,453)
Net deposits	980,533	789,727
Maturing within 3 months	477,159	609,230
Maturing after 3 months	503,374	180,497
	980,533	789,727

*This relates to staff loan collateral deposits held at KCB Group Limited which are not available for use in the Company's day to day operations.
Deposits maturing after three months are assessed from the placement date.

	2018 KShs'000	2017 KShs'000
1 January	180,497	-
Adjustment on adoption of IFRS 9	(3,522)	-
Allowance for expected credit losses	3,243	-
Net investment in fixed deposits	323,156	180,497
31 December	503,374	180,497

An analysis of changes in the gross carrying amount and corresponding ECL allowances in deposits with financial institutions has been disclosed in note 39(b). The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

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

23. 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.

	Interest rates Fixed/ Variable	2018 %	2017 %
Government securities	Fixed	12.75	12.50
Corporate bonds	Fixed	12.50	12.85
Staff loans	Fixed	6.00	6.00
Policy loans	Fixed	8.00	8.00
Deposits with financial institutions	Fixed	10.50	12.78
Other deposits and commercial papers	Variable	12.65	12.78
Amounts due to related party	N/A	0%	0%
Cash and Cash equivalent	Fixed	7.00	7.50

24. SHARE CAPITAL

	31 December 2018		31 December 2017	
	Number of shares '000	Share Capital '000	Number of shares '000	Share Capital '000
Authorised ordinary shares of KShs 20 each:				
At 1 January	50,000	1,000,000	50,000	1,000,000
At 31 December	50,000	1,000,000	50,000	1,000,000
Issued and fully paid up share capital:				
At 1 January	40,000	800,000	40,000	800,000
At 31 December	40,000	800,000	40,000	800,000

25. STATUTORY RESERVE

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

b) Transfer from statutory reserve relates to the proportion of the life assurance business surplus which is distributable as dividends and therefore transferred to retained earnings.

26. FAIR VALUE DEFICIT

The fair deficit reserve represents fair value losses arising from debt instruments at fair value through other comprehensive income and is not distributable as dividends.

27. RETAINED EARNINGS

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

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

28. DEFERRED TAXATION*

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

2018	At 1 January	Recognised in Profit or loss	At 31 December
Deferred tax on life fund surplus	(473,809)	(22,015)	(495,824)
Deferred tax liability	(473,809)	(22,015)	(495,824)
2017			
Deferred tax on life fund surplus	(446,237)	(27,572)	(473,809)
Deferred tax liability	(446,237)	(27,572)	(473,809)

* There is no deferred tax on temporary differences arising from property and equipment and also arising from the investment property because life insurance companies are taxed differently (refer to note 10) where deferred tax is only calculated on the life fund surplus that is not transferred to retained earnings for distribution at any point in time.

29. DEPOSIT ADMINISTRATION CONTRACTS

The Company administers the funds of a number of retirement benefit schemes. The liability of the Company to the scheme(s) is measured at fair value through profit or loss and is included in the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the asset and liability in the statement of financial position and are not recognised as gross premium and investments income in the statement of profit or loss. Assets under the deposit administration contracts are registered in the name of the administrator and have therefore been accounted as financial instruments in the statement of financial position.

Analysis of movement in deposit administration contract liabilities:

	2018 KShs.'000	2017 KShs.'000
Pension contributions	981,143	760,324
Investment income	253,827	229,049
Total Income for the year	1,234,970	989,373
Policy benefits (net)	(180,032)	(119,597)
Administrative expenses	(44,737)	(35,535)
Total outflow	(224,769)	(155,132)
Net movement for the year	1,010,201	834,241
Balance at beginning of the year	2,113,915	1,279,674
Net fund value	3,124,116	2,113,915

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

30. ACTUARIAL VALUE OF POLICYHOLDER LIABILITIES

The actuarial valuation of the life fund was carried out by The Actuarial Services Company Limited, Actuaries and Consultants, as at 31 December 2018 and revealed actuarial liabilities of KShs 5,165,554,000 (2017: KShs 4,249,485,000). A transfer of KShs. 115,000,000 (2017: KShs 115,000,000) has been made to retained earnings based on the recommendation of the actuary.

	Ordinary Life KShs'000	Group Life KShs'000	Total Gross KShs'000	Reinsurance (note 33) KShs'000	Net KShs'000
As at 1 January 2018	1,835,224	2,414,261	4,249,485	(498,033)	3,751,452
Actuarial Adjustments (note 7(c)	1,025,759	(109,690)	916,069	49,285	965,354
As at 31 December 2018	2,860,983	2,304,571	5,165,554	(448,748)	4,716,806
As at 1 January 2017	1,495,952	2,067,758	3,563,710	(435,401)	3,128,309
Actuarial Adjustments (note 7(c)	339,272	346,503	685,775	(62,632)	623,143
As at 31 December 2017	1,835,224	2,414,261	4,249,485	(498,033)	3,751,452

31. UNIT LINKED CONTRACTS

Unit linked contracts are designated as contracts at fair value through profit or loss. The benefits offered under these contracts are based on the return of a portfolio of equities and debt securities. The maturity value of the financial liabilities is determined by the fair value of the linked assets. There will be no difference between the carrying amount and the maturity amount at maturity date.

	2018 KShs'000	2017 KShs'000
At 1 January	536,926	458,536
Contributions received	24,251	27,157
Surrenders	(13,476)	(15,886)
Maturities	(63,745)	(12,752)
Far value loss/gain	(9,402)	79,871
Net fund value	474,554	536,926

32. INSURANCE CONTRACTS LIABILITIES

	2018 KShs'000	2017 KShs'000
Claims reported and claims handling expenses:		
At 1 January	250,265	210,878
Claims incurred in the year	1,910,884	1,285,477
Payments for claims and claims handling expenses	(1,890,155)	(1,246,090)
At 31 December	270,994	250,265
Comprising:		
Gross amounts	361,818	346,387
Reinsurers share (note 33)	(90,824)	(96,122)
Net Insurance contract liabilities	270,994	250,265

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

33. REINSURERS' SHARE OF INSURANCE LIABILITIES AND RESERVES

	2018 KShs'000	2017 KShs'000
At 1 January	96,122	51,173
Increase in share of reinsurer's share liability	(5,298)	44,949
Reinsurer's share of contract liabilities (note 32)	90,824	96,122
Reinsurance recoveries (note 30)	448,748	498,033
	539,572	594,155

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.

34. OTHER PAYABLES

	2018 KShs'000	2017 KShs'000
Sundry payables	290,331	185,272
Premiums received in advance*	139,299	265,048
Staff annual leave pay provision	12,467	12,025
Rent deposits	8,999	8,475
	451,096	470,820

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

35. NOTES TO THE STATEMENT OF CASHFLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2018 KShs'000	2017 KShs'000
(a) Reconciliation of profit before tax to cash generated from operations:			
Profit before taxation		188,383	224,117
Adjustments for:			
Amortisation of financial assets at amortised cost-government securities	4	2,111	7,982
Dividend Income	4	(17,811)	(13,518)
Interest on financial assets at fair value through other comprehensive income - government securities	4	(172,552)	(154,519)
Interest on financial assets at amortised cost-government securities	4	(40,703)	(102,376)
Interest from financial assets at amortised cost-corporate bonds interest	4	(32,879)	(29,734)
Bank deposit interest	4	(53,990)	(28,044)
Interest Income on loans and receivables	4	(18,489)	(29,396)
Fair value gains on revaluation on investment property	5	(21,000)	(55,978)
Fair value loss/(gain) on equity instruments at fair value through profit or loss	5	112,966	(14,961)
Fair value loss on investment in unit trust	5	5,687	-
Gain on disposal of property and equipment	5	-	(1,120)
Depreciation on property and equipment	11	40,362	44,074
Amortisation of intangible assets	13	3,445	8,909
Fair value loss on -corporate bonds	15	-	1,070
Allowance for expected credit losses- corporate bonds	15	(716)	
Allowance for expected credit losses –mortgage	16(a)	(3,158)	7,614
Allowance for expected credit losses -other loans	16(b)	(2,743)	12,370
Impairment of Nakumatt Holdings Ltd commercial paper	17(a)	-	11,169
Allowance for expected credit losses – deposits with financial institutions	22(b)	(3,243)	
Working capital changes;			
Increase in insurance contract liabilities	32	15,431	84,336
Increase in receivables arising out of direct insurance arrangements	19(b)	(76,988)	(7,079)
Increase/(decrease) in reinsurers share of liabilities and reserves	33	54,583	(107,581)
Increase in receivables arising out of reinsurance arrangements	19(a)	(135,611)	(287,931)
Decrease/(increase) in other receivables	20	23,716	(12,949)
(Decrease)/increase in other payables	34	(19,724)	112,431
Increase in actuarial value of policyholders liabilities	30	916,069	685,775
(Decrease)/Increase in unit linked contracts	31	(62,372)	78,390
Increase in deposit administration contracts	29	1,010,201	834,241
Increase in payables arising from reinsurance arrangements and insurance bodies	19(c)	13,751	6,590
Movement in related party balances	21	51,147	16,579
Cash generated from operations		1,775,873	1,290,461

(b) Cash and cash equivalents	Note	2018 KShs'000	2017 KShs'000
Cash and Bank balances		89,386	83,756
Deposits with banks maturing within 3 months	22	477,159	609,230
		566,545	692,986

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

36. DIVIDENDS

	2018 KShs'000	2017 KShs'000
Declared and paid during the year		
Final dividend for 2018 KShs 2 per share (2017: KShs 2 per share)	80,000	80,000
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December 2018	-	-

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.

37. 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 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 as required by IRA. As at 31 December 2018, the capital adequacy ratio was 170% (2017:158%), which was within the prescribed capital requirement limits, which is between 100% to 200%.

There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

(b) Commitments and operating leases

Capital expenditure committed but not contracted for 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	20,951	28,457

The Company (lessor) entered into commercial property leases on its investment property portfolio. These non–cancellable leases have remaining terms of between one 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.

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

Not later than one year	38,831	24,223
Later than 1 year but not later than 5 years	69,753	91,547
Later than 5 years	-	-
Total operating lease rentals receivable	108,584	115,770

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

37. Contingencies and commitments *(continued)*

(b) Commitments and operating leases *(continued)*

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

Future minimum rental payable under non-cancellable operating leases as at 31 December are as follows:

	2018 KShs'000	2017 KShs'000
Not later one year	26,369	36,739
Later than 1 year but not later than 5 years	73,413	120,477
Later than 5 years	-	-
Total operating lease rentals payable	99,782	157,216

(c) Tax Assessment

In 2015, the Kenya Revenue Authority carried out an audit of the Company covering corporate tax, employee taxes, withholding tax and Value Added Tax (VAT) for the period from 2011 to 2014 and raised an assessment on the Company of KShs 50 million being principal for the financial year 2012. On 2nd November 2018, KRA confirmed and demanded settlement of KShs 68.8 million being principal of KShs 45.6 million and interest and penalties amounting to KShs 23.2 million for the financial year 2011.

The management has made airtight submissions to the Tax Appeals Tribunal and believes the outcome of the appeal will be favourable with remote chances of probable cash outflows, hence no provision has been made for any tax liability that may arise from this assessment in the Financial Statements.

38. RISK MANAGEMENT OBJECTIVES AND POLICIES

(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 recognizes 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 organizational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, 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 organizational 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.

For example, following the regulatory changes brought about by the Kenyan Insurance Regulatory Authority (IRA), which came into effect on 1 January 2016, the Company has placed a greater emphasis on the assessment and documentation of risks and controls, including the development and articulation of 'risk appetite'.

37. Contingencies and commitments *(continued)*

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
- 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 subject to regulatory requirements within the Kenyan jurisdiction 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 the insurance companies to meet unforeseeable 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 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's capital management policy for its insurance and non–insurance business is to hold sufficient capital to cover the statutory requirements based on the Insurance Regulatory Authority (IRA) directives, including any additional amounts required by the Kenyan regulator.

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, in addition to more traditional sources of funding.

The capital requirements are routinely forecast on yearly 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 developed an Individual Capital Assessment (ICA) framework to identify the risks and quantify their impact on the economic capital. The ICA estimates how much capital is required to reduce the risk of insolvency to a remote degree of probability. The ICA has also been considered in assessing the capital requirement.

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

38. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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

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	800,000	800,000
Statutory reserve	1,153,976	1,102,608
Fair value deficit	(45,876)	(86,910)
Retained earnings	151,861	216,178
Equity	2,059,961	2,031,876

The Company had no external financing at 31 December.

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 unforeseeable liabilities arising from economic shocks or natural disasters.

The operations of the Company are subject to regulatory requirements within the Kenyan jurisdictions in which it operates (see b. Capital management objectives, policies and approach).

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 contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. 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 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 contracts.

39. INSURANCE AND FINANCIAL RISK

(a) Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and 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.

Life insurance contracts

Life insurance contracts offered by the Company include: whole life and term assurance.

Whole life and term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability. Few contracts have a surrender value. This includes group life and ordinary life premiums.

Pensions are contracts where retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the value of the fund accumulated or premiums. Most contracts give the policyholder the option at retirement to take a cash sum at guaranteed conversion rates allowing the policyholders the option of taking the more valuable of the two. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. This includes the deposit administration contracts.

Guaranteed annuities are single premium products which pay a specified payment to the policyholder whilst they and/or their spouse are still alive. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period, usually of five years, irrespective of death.

Death benefits of endowment products are subject to a guaranteed minimum amount. The maturity value usually depends on the investment performance of the underlying assets. For contracts with DPF the guaranteed minimum may be increased by the addition of bonuses. These are set at a level that takes account of expected market fluctuations, such that the cost of the guarantee is generally met by the investment performance of the assets backing the liability. However, in circumstances where there has been a significant fall in investment markets, the guaranteed maturity benefits may exceed investment performance and these guarantees become valuable to the policyholder. This includes insurance contract liabilities with DPF.

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

39. INSURANCE AND FINANCIAL RISK *(continued)*

(a) Insurance risk *(continued)*

Life insurance contracts (continued)

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

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

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

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims' handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs. 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 Company. The company is committed to underwriting quality business by improving underwriting and claims management processes.

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

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For contracts with DPF, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party. For contracts without DPF, the Company charges for death and disability risks on a yearly basis. Under these contracts the Company has the right to alter these charges to take account of death and disability experience, thereby mitigating the risks to the Company.

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

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

39. INSURANCE AND FINANCIAL RISK *(continued)*

(a) Insurance risk *(continued)*

Life insurance contracts *(continued)*

The following tables show the concentration of life insurance contract liabilities and investment contract liabilities with DPF by type of contract.

31 December 2018

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF KShs'000	Investment contract liabilities KShs'000	Insurance contract liabilities without DPF KShs'000	Total Insurance and investment contract liabilities KShs'000	Insurance liabilities without DPF KShs'000	Net liabilities KShs'000
Group life	-	-	308,017	308,017	84,891	223,126
Group credit	-	-	1,996,554	1,996,554	363,857	1,632,697
Endowment	1,291,201	-	-	1,291,201	-	1,291,201
Term assurance	-	-	63	63	-	63
Annuities	-	-	1,569,719	1,569,719	-	1569,719
Total insurance liabilities (Note 30)	1,291,201	-	3,874,353	5,165,554	448,748	4,716,806
Unit linked (note 31)	-	474,554	-	474,554	-	474,554
Total	1,291,201	474,554	3,874,353	5,640,108	448,748	5,191,360

**The Insurance contract liabilities with DPF features are not reinsured.*

31 December 2017

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF KShs'000	Investment contract liabilities KShs'000	Insurance contract liabilities KShs'000	Total Insurance contract and investment liabilities KShs'000	Insurance liabilities KShs'000	Net liabilities KShs'000
Group life	-	-	261,657	261,657	79,179	182,478
Group credit	-	-	2,152,605	2,152,605	418,854	1,733,751
Endowment	1,058,124	-	-	1,058,124	-	1,058,124
Term assurance	-	-	23,814	23,814	-	23,814
Annuities	-	-	753,285	753,285	-	753,285
Total insurance liabilities (Note 30)	1,058,124	-	3,191,361	4,249,485	498,033	3,751,452
Unit linked (note 31)	-	536,926	-	536,926	-	536,926
Total	1,058,124	536,926	3,191,361	4,786,411	498,033	4,288,378

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

39. INSURANCE AND FINANCIAL RISK *(continued)*

a. Insurance risk *(continued)*

Life insurance contracts *(continued)*

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

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

Mortality and morbidity rates

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

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

Longevity

Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Company's own risk experience. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in longevity rates will lead to an increase in the number of annuity payments to be made, which will increase the expenditure and reduce profits for the shareholders.

Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long–term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to an increase in profits for the shareholders.

Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure, thereby reducing profits for the shareholders.

Lapse and surrender rates

Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Company's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(a) Insurance risk *(continued)*

Life insurance contracts (continued)

Key assumptions *(continued)*

Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

The assumptions that have the greatest effect on the statement of financial position and statement of profit or loss of the Company are listed below:

	Mortality and Morbidity rates		Lapse and surrender rates				Discount rates/Investment return	
	2018	2017	2018			2017	2018	2017
Insurance contracts			YR1 LAPSE	YR2 LAPSE	YR3 LAPSE			
Annuities*	KE 2007 – 2010 Tables for Assured Lives	KE 2007 – 2010 Tables for Assured Lives	N/A	N/A	15%	10%	13.0%	13.15%
Life assurance*	KE 2007 – 2010 Tables for Assured Lives	KE 2007 – 2010 Tables for Assured Lives	15%	10%	15%	10%	Yield curve	Yield curve

Assumptions

Valuation age is taken as the number of complete years of age "curtate age" at the date of valuation. The period of valuation has been taken as the original term to maturity less curtate duration at the valuation date

**The Annuities and life assurance balances are included in the actuarial value of policyholder's liabilities.*

Sensitivities

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.

It should be noted that movements in these assumptions are non–linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reason for the asymmetry of sensitivities. The method used for deriving sensitivity information and significant assumptions made did not change from the previous period.

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

39. INSURANCE AND FINANCIAL RISK *(continued)*

(a) Insurance risk *(continued)*

Life insurance contracts (continued)

	31 Dec 2018		31 Dec 2017	
	KShs '000	% change	KShs '000	% change
Main basis	4,423,762	-	4,567,572	-
Expenses plus 10%	4,457,464	0.76%	4,598,172	0.67%
Mortality and other claims				
Mortality plus 10%	4,430,316	0.15%	4,569,345	0.04%
Discount rate/Investment return less 20%	4,673,921	5.65%	4,752,563	4.05%
Expense inflation plus 1%				
Withdrawals plus 25%	4,426,392	0.06%	4,569,046	0.03%

(b) Financial risks

1. *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for 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 Company of counterparties, geographical and industry segment (i.e., limits are set for investments and cash deposits, and minimum credit ratings for investments that may be held).
- 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 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 specified in the policy document or trust deed 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 issues unit–linked investment policies in a number of its operations. In the unit–linked business, the policyholder bears the investment risk on the assets held in the unit–linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no credit risk on unit–linked financial assets.

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

The Company's internal rating process

The Company's investment team prepares internal ratings for financial instruments (Financial assets at amortised cost- Government securities, Financial Assets at amortised cost- Corporate Bonds, Financial Assets at amortised cost-Loan and Receivables, 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 for the above assets with exception of staff loans is as described below.

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

For staff loans, the credit rating is based on whether or not the staff is still in employment. The loan is given a 'high grade' rating if the staff is still in employment, and a 'past due but not impaired' rating in instances where the staff is no longer employed with the company.

Significant increase in credit risk, default and cure

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or portfolio of instruments (Financial assets at amortised cost- Government securities, Financial Assets at amortised cost- Corporate Bonds, Financial Assets at amortised cost -Loan and Receivables, Due from related party, Deposits with financial institutions, Other receivables and Cash and bank balances) is subject to 12mECL or LTECL, 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

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. 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	Standard grade	Past due but not impaired	Individually impaired	Total
Financial assets at amortised cost- Government securities	873,712	-	-	-	873,712
Financial Assets at amortised cost- Corporate Bonds	300,362	-	-	73,545	373,907
Financial Assets at amortised cost-Loan and Receivables	433,564	-	17,186	-	450,750
Financial assets at fair value through OCI- Government securities	4,330,815	-	-	-	4,330,815
Due from related party	107,711	-	-	-	107,711
Deposits with financial institutions	982,412	-	-	26,851	1,009,263
Cash and bank balances	89,386	-	-	-	89,386
	7,117,962	-	17,186	100,396	7,235,544

Collaterals and other credit enhancements

The amount and type of collateral required depends on assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each collateral, which applies only to staff loan advances. The main type of collaterals are as follows:

- For mortgages, legal charge over property to the extent of loan advanced.
- For car loans, the value of the motor vehicle.

Management monitors the market value of the collateral and may request additional collateral in accordance with underlying agreement.

The Company does not physically repossess properties but engages its legal department in collaboration with external agents to recover funds to settle outstanding debt. As a result of this practice, the properties or motor vehicles are not recorded in the balance sheet and not treated as non-current asset held for sale.

The fair values of the collaterals equals to the outstanding loan balances at the end of each financial reporting period since the Company is only interested in recovering the loan balance.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. Credit risk *(continued)*

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.

	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
High grade	4,330,815	-	-	4,330,815
Standard grade	-	-	-	-
Total Gross Amount	4,300,815	-	-	4,330,815
ECL	-	-	-	-
Total Net Amount	4,300,815	-	-	4,330,815

An analysis of changes in the fair value amount and corresponding ECLs is, as follows:
2018

	Stage 1	Stage 2	Stage 3	Total
Fair value amount as at 1 January	2,967,420	-	-	2,967,420
New assets purchased	2,086,046	-	-	2,086,046
Assets matured	(763,685)	-	-	(763,685)
Changes in fair value	41,034	-	-	41,034
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	4,330,815	-	-	4,330,815

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	-	-	-	-
New assets	-	-	-	-
Assets matured	-	-	-	-
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	-	-	-	-

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

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. Credit risk *(continued)*

Corporate bonds

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.
2018

	Stage 1	Stage 2	Stage 3	Total
Grade				
Internal rating				
Performing				
High grade	300,362	-	-	300,362
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired*	-	-	73,545	73,545
Total Gross	300,362	-	73,545	373,907
(ECL)/Write backs	(282)	-	(73,545)	(73,827)
Total Net Amount	300,080	-	-	300,080

* The individually impaired balances related to the Chase Bank corporate bonds.

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:
2018

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at				
1 January	376,394	-	-	376,394
New assets purchased	2,400	-	-	2,400
Assets matured	(4,962)	-	-	(4,962)
Accrued interest capitalised	75	-	-	75
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	373,907	-	-	373,907

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	998	-	73,545	74,543
New assets	(231)	-	-	(231)
Assets matured	(478)	-	-	(478)-
Unwind of discount	(7)	-	-	(7)-
Movement between 12m ECL and LTECL	-	-	-	-
	282	-	73,545	73,827

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. Credit risk *(continued)*

Loans and receivables

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.

2018

	Stage 1	Stage 2	Stage 3	Total
Grade				
Internal rating				
Performing				
High grade	433,564	-	-	433,564
Standard grade	-	-	-	-
Past due but not impaired	17,186	-	-	17,186
Non-performing				
Individually impaired*	-	-	-	-
Total Gross	450,750	-	-	450,750
(ECL)/Write backs	(753)	-	-	(753)
Total Net Amount	449,997	-	-	449,997

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

2018

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	478,807	-	-	478,807
New assets purchased	169,973	-	-	169,973
Assets matured	(198,030)	-	-	(198,030)
Accrued interest capitalised	-	-	-	-
Movement between 12mECL and LTECL	-	-	-	-
At 31 December	450,750	-	-	450,750

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	(6,654)	-		(6,654)
New assets	2,726	-	-	2,726
Assets matured	3,175	-	-	3,175
Unwind of discount		-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	(753)	-	-	(753)

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

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. Credit risk *(continued)*

Deposits with financial institutions

	Stage 1	Stage 2	Stage 3	Total
Grade				
Internal rating				
Performing				
High grade	982,412	-	-	982,412
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired*	-	-	26,851	26,851
Total Gross	982,412	-	26,851	1,009,263
(ECL)/Write backs	(1,879)	-	(26,851)	(28,730)
Total Net Amount	980,533	-	-	980,533

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:
2018

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	818,180			818,180
New assets purchased	569,004	-	-	569,004
Assets matured	(377,921)	-	-	(377,921)
Accrued interest capitalised		-	-	
Movement between 12mECL and LTECL	-	-	-	-
At 31 December	1,009,263	-	-	1,009,263

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	5,122	-	26,851	31,973
New assets	(1,949)	-	-	(1,949)
Assets matured	(1,294)	-	-	(1,294)
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
Total Net Amount	1,879	-	26,851	28,730

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. Credit risk (*continued)*

Related party receivables

Grade	Stage 1	Stage 2	Stage 3	Total
Internal rating				
Performing				
High grade	107,792	-	-	107,792
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired*	-	-	-	-
Total Gross	107,792	-	-	107,792
(ECL)/Write backs	(430)	-	-	(430)
Total Net Amount	107,362	-	-	107,362

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:
2018

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	181,575	-	-	181,575
New assets purchased	64,380	-	-	64,380
Assets matured	(138,163)	-	-	(138,163)
Accrued interest capitalised	-			
Movement between 12m ECLa nd LTECL	-	-	-	-
At 31 December	107,792	-	-	107,792

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	81	-	-	81
New assets	111	-	-	111
Assets matured	238	-	-	238
Unwind of discount		-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
Total Net Amount	430	-	-	430

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

39. INSURANCE AND FINANCIAL RISK (continued)

(b) Financial risks *(continued)*

1. Credit risk *(continued)*

Debt instruments at amortised cost-government securities.

	Stage 1	Stage 2	Stage 3	Total
Grade				
Internal rating				
Performing				
High grade	873,712	-	-	873,712
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired*	-	-	-	-
Total Gross	873,712	-	-	873,712
(ECL)/Write backs	-	-	-	-
Total Net Amount	873,712	-	-	873,712

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:
2018

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January	560,723	-	-	560,723
New assets purchased	390,100	-	-	390,100
Assets matured	(75,000)	-	-	(75,000)
Amortisation	(2,111)	-	-	(2,111)
Accrued interest capitalised	-	-	-	-
Movement between 12mECL and LTECL	-	-	-	-
At 31 December	873,712	-	-	873,712

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	-	-	-	-
New assets	-	-	-	-
Assets matured	-	-	-	-
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
Total Net Amount	-	-	-	-

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

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. Credit risk *(continued)*

The company's maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2017 is as shown below:

	2017 KShs'000
Financial Assets	
Corporate bonds	376,394
Loans and receivable -Mortgage loans	153,612
-Other loans	305,212
Deposits and commercial papers	598,599
Receivables arising out of reinsurance arrangements	417,636
Receivables arising out of direct insurance arrangements	155,172
Other receivables	52,273
Due from related party	181,575
Deposits with financial institutions	789,727
Cash and bank balances*	83,606
	3,113,806

*Cash and bank balances excludes the petty cash that was held by the company at the end of the period.

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	Over 90 days KShs '000	Total past–due but not impaired KShs '000
Receivables arising out of reinsurance arrangements	69,347	99,534	59,103	325,263	553,247
Receivables arising out of direct insurance arrangements	207,620	8,866	11,973	3,701	232,160
Staff mortgages	-	-	-	-	-
Other staff loans	513	-	343	16,330	17,186
Total	277,490	108,400	71,419	345,294	802,593

31 December 2017

	< 30 days KShs '000	31 to 60 days KShs '000	61 to 90 days KShs '000	Over 90 days KShs '000	Total past–due but not impaired KShs '000
Receivables arising out of reinsurance arrangements	32,586	51,351	37,826	295,873	417,636
Receivables arising out of direct insurance arrangements	10,614	16,785	20,540	107,232	155,171
Staff mortgages	-	-	-	39,324	39,324
Other staff loans	-	-	-	15,255	15,255
Total	43,200	68,136	58,366	457,684	627,386

Collateral

Except for staff loans and mortgages, no collateral is held in respect of the receivables that are past due but not impaired.

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

39. INSURANCE AND FINANCIAL RISK (continued)

(b) Financial risks *(continued)*

2. 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 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 and investment contracts 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. Unit-linked liabilities are repayable or transferable on demand and are included in the up-to-a-year column. 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 unforeseeable interruption of cash flow.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

3. Liquidity risk *(continued)*

The table below provides expected maturity analysis:

31 December 2018	6 months or on Demand	Between 6 months and 1 year	More than 1 year	Total
Government securities at amortized cost	-	837,987	533,859	1,371,846
Corporate bonds	160,841	34,957	151,307	347,105
Staff mortgages and other loans	692	2,399	301,248	304,339
Government securities at fair value through other comprehensive income	-	23,023	10,246,123	10,269,146
Equity investments at fair value through profit or loss	806,622	-	-	806,622
Receivables arising out of insurance and reinsurance arrangements	553,247	-	-	553,247
Other receivables	81,145	-	-	81,145
Due from related party	107,362	-	-	107,362
Deposits with financial institutions	905,668	56,379	-	962,047
Cash and bank balances	89,386	-	-	89,386
Total Financial Assets	2,704,963	954,745	11,232,537	14,892,245
Deposits administration contracts	116,177	116,177	2,891,762	3,124,116
Unit linked contract	-	-	474,554	474,554
Insurance contract liabilities	361,817	-	-	361,817
Due to related party	28,486	-	-	28,486
Other payables	484,117	-	-	484,117
Payables arising from reinsurance arrangements	24,126	-	-	24,126
Total Financial liabilities	1,014,723	116,177	3,366,316	4,497,216
Net liquidity gap	1,690,240	838,568	7,866,221	10,395,029

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

3. Liquidity risk *(continued)*

The table below provides expected maturity analysis of the Company's financial instruments:

31 December 2017	6 months or on Demand	Between 6 months and 1 year	More than 1 year	Total
Government securities classified as held to maturity	-	38,021	1,167,143	1,205,164
Corporate bonds	-	12,159	524,962	537,121
Staff mortgages and other loans	3,073	3,092	553,593	559,758
Government securities at fair value through other comprehensive income	67,025	16,586	6,770,305	6,853,916
Equity investments at fair value through profit or loss	647,147	-	-	647,147
Receivables arising out of insurance and reinsurance arrangements	572,808	-	-	572,808
Other receivables	52,273	-	-	52,273
Due from related party	181,575	-	-	181,575
Deposits with financial institutions	1,388,326	-	-	1,388,326
Cash and bank balances	83,756	-	-	83,756
Total Financial Assets	2,995,983	69,858	9,016,003	12,081,844
Deposits administration contracts	98,678	98,678	1,916,559	2,113,915
Unit linked contract	-	-	536,926	536,926
Insurance contract liabilities	346,387	-	-	346,387
Due to related party	51,471	-	-	51,471
Other payables	470,820	-	-	470,820
Payables arising from reinsurance arrangements	10,375	-	-	10,375
Total Financial liabilities	977,731	98,678	2,453,485	3,529,894
Net liquidity gap	2,018,252	(28,820)	6,562,518	8,551,950

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

3. 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 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 asset 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, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

In the unit–linked business, the policyholder bears the investment risk on the assets held in the unit–linked funds as the policy benefits are directly linked to the value of the assets in the fund. The Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

i. Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Kenyan shillings and its financial assets and liabilities are denominated in the same currency. Therefore, the Company is 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.

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.

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

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

3. Market risk *(continued)*

	Effect on profit due to an increase/ decrease of 5% in interest rates	
	2018 KShs	2017 KShs
Government securities	12,264	12,280
Corporate bonds	1,643	1,486
Deposits with financial institutions	2,699	1,402
Total	16,606	15,168

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's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit–linked business.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments, sector and market.

Listed equity investments represent 100% 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 5,648,300 (2017 – KShs 748,050) and equity would increase/decrease by KShs 3,953,810 (2017 – KShs 523,635).

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, authorization 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.

40. FAIR VALUE MEASUREMENT

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

- **Level 1** – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi securities exchange.

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

40. FAIR VALUE MEASUREMENT *(continued)*

- **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.

31-Dec-18

Recurring Fair Value Measurements	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amounts
Investment properties	-	-	2,181,875	2,181,875	2,181,875
Government securities at amortized cost	890,148	-	-	890,148	873,712
Financial Assets at amortised cost-Loan and Receivables	-	75,363	-	75,363	449,997
Deposits and commercial paper		517,530		517,530	517,530
Corporate bonds	-	313,194	-	313,194	300,080
Government securities at fair value through other comprehensive income	4,330,815	-	-	4,330,815	4,330,815
Equity investments at fair value through Profit or loss	806,622	-	-	806,622	806,622
	6,027,585	906,087	2,181,875	9,115,547	9,460,631
Deposits Administration contracts	-	-	3,124,116	3,124,116	3,124,116
Unit Linked contracts	-	-	474,554	474,554	474,554
Total liabilities at Fair Value	-	-	3,598,670	3,598,670	3,598,670

31-Dec-17

Recurring Fair Value Measurements	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amounts
Investment properties	-	-	2,160,875	2,160,875	2,160,875
Government securities at amortized cost					
Financial Assets at amortised cost-Loan	554,444	-	-	554,444	560,723
and Receivables					
Deposits and commercial paper	-	120,587	-	120,587	458,824
Corporate bonds		598,599		598,599	598,599
Government securities at fair value	-	302,848	73,546	376,394	376,394
through other comprehensive income					
Equity investments at fair value through	2,967,420	-	-	2,967,420	2,967,420
Profit or loss					
	647,147	-	-	647,147	647,147
	4,160,011	1,022,034	2,234,421	7,425,466	7,769,982
Deposits Administration contracts	-	-	2,113,915	2,113,915	2,113,915
Unit Linked Contracts	-	-	536,926	536,926	536,926
Total liabilities at Fair Value	-	-	2,650,841	2,650,841	2,650,841

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

40. FAIR VALUE MEASUREMENT *(Continued)*

Valuation techniques used in determining fair value of financial assets and liabilities

Instrument	Level	Valuation basis	Inputs
Staff mortgages and other loans	2	Discounted Cash Flow (DCF)	Average Market interest rates 13%
Corporate bonds	2	Discounted Cash Flow (DCF)	Implied Yield to Maturity (12.5%)
Deposits and commercial papers	2	Net Asset Value	Current unit price of underlying unitised assets.

The significant unobservable inputs used in the fair value measurements categorised in level 3 of the fair value hierarchy as at 31December 2018 are as shown below.

Instrument	Level	Valuation basis	Rate	Significant unobservable Inputs Discount rate	Sensitivity of input to the fair value
Investment propertie	3	Capitalised rent income method	13% N/A N/A	Annual rent growth rate	Increase (decrease) in discount rate of 5% would decrease (increase) fair value by 38.1 million.
				Net annual rent	Increase (decrease) in annual rent growth rate of 5% would decrease (increase) fair value by 27.5 million.
Unit Linked contracts	3	Number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price		Market value of assets of the fund	Increase (decrease) in net annual rent of 5% would decrease (increase) fair value by 43.6 million.
Deposits Administration contracts	3	Deposits, withdrawals and investments returns from the fund.		Market value of assets of the fund	Increase (decrease) in the market price of the assets in the fund of 5% would increase/ (decrease) fair value by KShs 23.7 million Increase (decrease) in the market price of the assets in the fund of 5% would increase/ (decrease) fair value by .KShs 156.2 million

The management assessed that the fair values of cash and short-term deposits, other receivables, trade payables, amounts due/from to related party and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

40. FAIR VALUE MEASUREMENT *(Continued)*

Reconciliation of fair value measurement under Level 3 hierarchy

2018	At January	Contributions/ Additions /Transfer from level 2	Disposals/ Settlements	Fair value gain recognised in profit or loss	At 31 December
Investment property	2,160,875	-	-	21,000	2,181,875
	2,160,875	-	-	21,000	2,181,875
Unit linked contracts	536,926	24,251	(77,221)	(9,402)	474,554
Deposit administration contracts	2,113,915	981,143	(224,769)	253,827	3,124,116
	2,650,841	1,005,394	(301,990)	244,425	3,598,670

2017	At January	Contributions/ Additions /Transfer from level 2	Disposals/ Settlements	Fair value gain/(loss) recognised in profit or loss	At 31 December
Corporate bonds	74,616	-	-	(1,070)	73,546
Investment property	2,100,000	4,897	-	55,978	2,160,875
	2,174,616	4,897	-	54,908	2,234,421
Unit linked contracts	458,536	27,157	(28,638)	79,871	536,926
Deposit administration contracts	1,279,674	760,324	(155,132)	229,049	2,113,915
	1,738,210	787,481	(183,770)	308,920	2,650,841

41. EVENTS AFTER REPORTING DATE

There are no events after the reporting date that would require adjustments to, or disclosure in, the financial statements.

42. INCORPORATION

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

43. HOLDING COMPANY

The parent company is CIC Insurance Group PLC while the ultimate holding company is Co-operative Society Limited both of which are incorporated and domiciled in Kenya.

44. CURRENCY

The financial statements are presented in Kenya shillings thousands (KShs '000').

APPENDIX I
CIC LIFE ASSURANCE LIMITED
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Ordinary Life KShs '000	Group Life KShs '000	Total 2018 KShs '000	Total 2017 KShs '000
Gross written premiums	1,818,879	3,274,256	5,093,135	4,134,851
Less: Reinsurance premiums ceded	(17,141)	(914,615)	(931,756)	(818,169)
Net earned premiums	1,801,738	2,359,641	4,161,379	3,316,682
Claims and Policyholders' benefits:				
Life and health claims	(14,574)	(1,224,296)	(1,238,870)	(1,061,879)
Maturities	(416,792)	-	(416,792)	(292,010)
Surrenders	(113,581)	-	(113,581)	(72,407)
Actuarial reserves	(1,025,759)	60,405	(965,354)	(623,143)
Net claims and policyholders' benefits	(1,570,706)	(1,163,891)	(2,734,597)	(2,049,439)
Commissions paid	(150,647)	(252,633)	(403,280)	(339,994)
Expenses of management	(213,100)	(930,274)	(1,143,374)	(1,177,283)
Premium tax	(9,558)	-	(9,558)	(8,884)
Total expenses and commissions	(373,305)	(1,182,907)	(1,556,212)	(1,526,161)
Investment income	134,176	183,637	317,813	483,035
Profit before taxation	(8,097)	196,480	188,383	224,117
Taxation charge	-	(22,015)	(22,015)	(41,345)
Profit for the year	(8,097)	174,465	166,368	182,772
Increase in life fund for the year	(8,097)	174,465	166,368	182,772

The revenue account was approved by the board of directors on 4th March, 2019 and was signed on its behalf by:

Director
Harrison Hunyu

Director
Tom Gitogo

Director
Jyoti Patel

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 and investment contract liabilities.
Benefits and claims experience variation	The difference between the expected and the actual benefit
Discretionary participation feature (DPF)	A contractual right to receive, as a supplement to guaranteed benefits, additional payout benefits: • That are likely to be a significant portion of the total contractual benefits • Whose amount or timing is contractually at the discretion of the issuer • That are contractually based on: • The performance of a specified pool of contracts or a specified type of contract • Realised and/or unrealised investment returns on a specified pool of assets held by the issuer • The profit or loss of the company, fund or other entity that issues the contract
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.
Insurance risk	Risk, other than financial risk, transferred from the holder of a contract to the issuer.
Investment contract	A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of an insurance contract.
Investment management services	The management of an investment contract on behalf of a policyholder, for which an investment management service fee is charged.
Liability adequacy test	An annual assessment of the sufficiency of insurance and/or investment contract with DPF liabilities, to cover future insurance obligations.
Life insurance	A contract which provides whole life, term assurance, unitised pension, guaranteed pension, pure endowment pension and mortgage endowment coverage to the policyholder.
Outstanding claims provision	Comprises claims reported by the policyholder to the insurance company, and IBNR claims.
Premiums written	Premiums to which the insurer is contractually entitled becoming due for payment in the accounting period.
Provision for premium deficiency	The provision for premium deficiency reflects management assessment of claims expected to be incurred after the reporting date in respect of current insurance contracts that exceed the premiums to be earned on those contracts after the reporting date.
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.
Unit–holder/unit–linked	Investor in a unit–linked product, when the investment risk is borne by the policyholder and not by the insurance company.

PROXY FORM
CIC Life Assurance Limited

(Incorporated in the Republic of Kenya under the Companies Act No. 17 of 2015)
Annual General Meeting dated 21st May 2019 at 1:00 p.m. At CIC Plaza II, Nairobi.

I/We____ ID Number ____________________________

Member/ CDS Account Number ____

Of (address) ______________________________________ Mobile Number __________________________

Being a member of CIC Life Assurance 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 1:00 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 Life Assurance Limited, CIC Plaza, Mara Road and of P.O. Box 59485-00200 Nairobi email address cic.life@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.

NOTES

NOTES

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Keeping Our Word
Protecting Livelihoods

1968 - 2018

CIC LIFE ASSURANCE LIMITED

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GENERAL • LIFE • HEALTH •ASSET

CIC GROUP