CIC INSURANCE GROUP LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS 2017

CIC GROUP

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.

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

CONTENTS

AT CIC GROUP,
We keep our word

The CIC Group has for several decades shouldered the risks of Kenyans by providing flexible Insurance and financial services built around their needs.

CORPORATE INFORMATION

DIRECTORS

J. Magomere	- Group Chairman
P. Kipkirui	- Group Vice Chairman
T. Gitogo	- Group Chief Executive Officer
H. Githae	
G. Owuor	
M. Wambia	
J. M. Mutuku	
V. Leseya	
R. Githaiga	
M. Mungai	
P. Lopokoiyit	
J. Njue	

COMPANY SECRETARY
Gail Odongo
Certified Public Secretary (Kenya)
P O Box 59485 - 00100
Nairobi, Kenya

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

SENIOR MANAGEMENT

T. Gitogo	- Group Chief Executive Officer
G. Wafula	- Group Chief Finance Officer
E. Wachira	- Managing Director - CIC General Insurance Limited
E. Owuor	- Managing Director - CIC Life Assurance Limited
S. Mutua	- Managing Director - CIC Asset Management Limited
Z. Mungai	- Managing Director - CIC Africa (UG) Limited
R. Murigih	- Managing Director - CIC Africa Cooperatives (MW) Limited
J. Omare	- Managing Director - Transcoop
A. Murunga	- Managing Director - CIC Africa (SS) Limited
G. Odongo	- Group Company Secretary/Chief Legal Officer
H. Njerenga	- Group General Manager - Customer Experience
J. Kamiri	- General Manager Group Marketing & Distribution
M. Kabiru	- General Manager - Finance
P. Oyugi	- General Manager Human Resource & Administration
M. Wanga	- Company Secretary
R. Nyakenogo	- General Manager Co-operatives
S. Robi	- Group Risk and Compliance Manager
M. Luvai	- Group Chief Internal Auditor
M. Mugo	- General Manager Metropolis
H. Malmqvist	- Group Chief Information Officer
F. Ruoro	- General Manager Medical
J. Kionga	- General Manager Operations (CIC Life)
D. Ireri	- General Manager Operations (CIC General)
T. Kihanya	- General Manager Alternative Channels
G. Mundu	- General Manager Sales
S. Wambui	- Actuarial Manager
O. Mungo	- Actuarial Manager

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

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

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

FROM THE **CHAIRMAN'S DESK**

Ladies and Gentlemen,

On behalf of the Board of CIC Insurance Group, I am pleased to present the Annual Report and Financial Statements of the Group for the year ended 31st December 2017. Though this was a tough year for many organizations, CIC Group was able to register positive results. As a dedicated member of the co-operative movement, CIC also played its part, providing expert advice and support to organizations locally and globally.

As the political temperatures subside, we can now concentrate on the governments four key pillars namely manufacturing, affordable universal healthcare, affordable housing, and food security. Cooperatives have a big role to play in the realization of the big four. This is in line with the cooperative blue print of sustainable development. We have started the year well with the blessings of rainfall, which we hope will lead to food security.

Financial Performance

Kenya's economic outlook

As mentioned, 2017 was a tough year consequently resulting to slower growth overall. In the first quarter, the economy expanded by 4.7% followed by 5% and 4.4% in the second and third quarter. This was a contrast from 2016 where the economic expansion was over 5% in each quarter, depicting a difficult economic environment over the 2017 period. Some of the reasons for the slow growth include drought which affected food prices, unstable political environment following the prolonged electioneering period, and credit crunch. These factors affected the insurance industry as well. In addition, the industry had to grapple with the challenges of fraud, price undercutting and increased competition. Nonetheless, CIC continued to pursue market opportunities determined to close the year on a positive note.

CIC Group Performance

CIC Group gross written premium rose by 21% from KShs 12.4 billion in 2016 to KShs 14.9 billion in 2017. The growth is attributed to our 2017 to 2021 five year strategy which informed the areas of focus for the desired growth. Profit before tax rose by 355% from KShs 114 million in 2016 to KShs 519 million in 2017, with sales growing by 23%. Our asset base grew by 13% from KShs 26.9 billion to KShs 30.5 billion last year. 2017 also saw the company register good investment income of KShs 3.5 billion from KShs 3 billion in 2016.

CIC General Insurance performance

CIC General gross written premium grew by 21%, from KShs 8.4 billion in 2016 to KShs 10.1 billion as at end of 2017. Our medical business continued to register positive growth. Medical business had a gross written premium of KShs 2.3 billion in 2017 from KShs 1.4 billion in 2016 translating to a 64% rise. Profit before tax for general business was KShs 335 million in the year from a loss of KShs 278 thousand in 2016.

The growth is attributed to increased business in the engineering class where CIC General has a niche in the construction industry. The growth also resulted from shortening of our business processes in medical and utilization of the e-oxygen system which overall improved the level of customer service. These measures led to the company being rated position two by market share, according to the IRA quarter three report. The company is planning to launch a motor assessment center as a measure to manage motor claims and improve its bottom-line.

CIC Group gross written premium rose by 21% from KShs 12.4 billion in 2016 to KShs 14.9 billion in 2017

CIC Life performance

The life company registered a gross premium of KShs 4.1 billion in 2017 compared to KShs 3.8 billion in 2016 translating to a 9% rise. The growth is attributed to efforts in acquiring new business, retaining existing accounts, and increased partnership with banks. Profit rose by 60% from KShs 140 million in 2016 to KShs 224 million in 2017. This was as a result of efficiency in premium collection especially in ordinary life business. Investment income increased by 29% to KShs 781 million in 2017 compared to KShs 605 million in 2016.

Given the performance, the company was crowned the overall winner Group Life Company of the year Award in the recently concluded AKI Agents of the Year Awards held earlier this year. The award confirms the company's ability to serve the market and its reputation as a trusted life insurance company.

CIC Asset Management

The CIC Asset Management commonly referred to us CICAM, closed the year at an impressive note. Total assets under management rose by 23% from KShs 26.5 billion in 2016 to KShs 32.5 billion in 2017. Total income increased by 27% from KShs 230 million in 2016 to KShs 293 million in 2017. Profit for the year was KShs 85 million in 2017 compared to KShs 21 million the previous year. We acknowledge that cooperatives have made a significant contribution to the business, investing close to KShs 8 billion last year. CICAM became the market leader of assets under management last year, commanding 27% of the total market share in the industry.

Regional Performance

CIC Uganda made a significant increase in gross written premium of KShs 413 million in 2017 from KShs 99.5 million in 2016. Our South Sudan business has also grown despite challenges in the political environment. Gross premium was KShs 144 million in 2017 from KShs 72 million in 2016. Malawi registered a gross premium of KShs 114 million in 2017 from KShs 44 million in 2016. With these results, we are optimistic about our regional business as we continue to contain expenses.

FUTURE OUTLOOK

Our focus into the future is largely on the customer. We aim to differentiate ourselves from other players in the market by raising the bar in customer service. We are focused on developing products that meet the needs of our customers, are responsive and adaptive to change where necessary. We have invested in technology which is a key driver of growth in our business, as we ensure that we deliver fast and reliable service to all our customers. We are already seeing positive results in implementing quality technological systems in areas such as medical business. In time once the systems operate at optimum level, we expect to be taking the market by storm owing to the quality of service offered to our customers.

In terms of business approach, we will continue focusing on acquiring quality business, and efficient debt collection of outstanding premium for investment. We shall continue to ring fence our existing markets, by ensuring that we provide superior products and outstanding service to our clients, and foster good relations with all our stakeholders, who impact our operations and growth.

I look forward to a fruitful 2018.

Thank you.

Japheth Magomere OGW,
CIC Insurance Group Chairman

BOARD OF DIRECTORS

Japheth Anavila Magomere OGW
GROUP CHAIRMAN

Mr. Japheth Anavila Magomere aged 66, has been a member of the Board since 1988 and is the Director representing Nairobi Region Private Sector based societies. He has been the Chairman of CIC Insurance Group Limited since 2004. He has been a Delegate of Co-op Holdings Co-operative Society (the anchor shareholder of Co-operative Bank) since 1986 and is a Member of the Institute of Directors of Kenya. He serves as the Vice Chairman of Co-operative Alliance of Kenya and is the Honourable Secretary of Maisha Bora Sacco. He has been a Council member of East African Farmers Federation since 2008 and joined the board in 2017. Japheth is the current Chairman of the National Council for Ushirika Day Celebrations, a board member of the International Co-operative Alliance ("ICA"), Africa Chapter and a Board Member of several secondary schools. He was honoured with the Order of the Grand Warrior of Kenya ("OGW") in 2009.

Peter Kipkirui Nyigei
GROUP VICE-CHAIRMAN

Mr. Peter Kipkirui Nyigei aged 65, joined CIC Board in 2009. He is the Director representing Rift Valley Region based societies and is the secretary of Sinendet Tea Multipurpose Society. Further he is a Director of Imarisha SACCO. Mr.Kipkirui is a retired teacher and principal who at one time served as a Programme Officer and a trainer in Early Childhood Education in Bomet, Nakuru, Baringo and Kericho Counties. The Director has undergone General Insurance Business training and is a member of the Institute of Directors of Kenya.

Tom Gitogo
GROUP CHIEF EXECUTIVE OFFICER (GCEO)

Mr. Tom Gitogo aged 49, 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 member of the Institute of Chartered Accountants in England and Wales (ICAEW) as well as the Institute of Certified Public Secretaries (CPS (K). Tom is a Fellow member of ICPAK and a Fellow member of the Kenya Institute of Management. He is 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) and is a Member of the Institute of Directors of Kenya. In 2012 he won the coveted CEO of the Year Award in the prestigious COYA awards. He serves on the board of the Policy Holders Compensation Fund, and is a Board member of ICMIF (International Cooperative and Mutual Insurance Federation).

Michael Ondinya Wambia
DIRECTOR

Mr. Michael Ondinya Wambia aged 50, joined the Board in 2008. He is the Director representing Western Region based societies and is the Chairman 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.

Jonah Makau Mutuku
DIRECTOR

Mr. Jonah Makau Mutuku aged 70, joined CIC Board in 2008. He is the Director representing Coast and North Eastern Province based Societies and is the Chairman of Mafanikio SACCO. He is a retired teacher and serves at ACK St. Philips Church. He is also a lay Canon of the Cathedral of the Anglican Church of Mombasa Diocese. Mr. Mutuku is a Delegate of Co-op Holdings Co-operative Society (the anchor shareholder of Co-operative Bank). He is also a member of the Institute of Directors of Kenya.

Rosemary M. Githaiga
DIRECTOR

Mrs. Rosemary Majala Githaiga aged 54, joined the Board in 2010. She has over 25 years' experience as a lawyer and is the former Group Company Secretary of the Co-operative Bank of Kenya Limited. She is a graduate of Nairobi University, LLB (Hons), and has a Post Graduate Diploma in Legal Studies from Kenya School of Law. She is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries (CPS (K)), an Associate Member of the Chartered Institute of Arbitrators and a member of the Institute of Directors of Kenya. She is an accredited governance auditor and consultant. Rosemary also serves as a director on the boards of the Co- operative Bank of South Sudan and CIC Africa Insurance (SS) Limited.

BOARD OF DIRECTORS

Gordon Ondiek Owuor
DIRECTOR

Mr. Gordon Ondiek Owuor aged 61, joined the Board in 2006. He is the Director representing Nyanza Region based societies. Mr.Owuor is the Chairman 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).

Philip Lopokoiyit
DIRECTOR

Mr. Philip Lopokoiyit aged 51, joined CIC Insurance Group Limited in November 2015 as an independent director and Chairman of the Audit committee. Philip is also a Director at NIC Group PLC. He has extensive experience in financial management and has served in senior management positions for over 15 years, most recently as Finance Director BAT Kenya and the BAT East and Central Africa Area Head of Finance. Philip is a member of the Institute of Certified Public Accountants of Kenya CPA (K), a fellow Member of the Institute of Chartered Accountants in England and Wales (FCA) and a member of the Institute of Chartered Management Accountants, ACMA. He also holds an MBA from Warwick Business School, UK and a Bachelor of Commerce, Accounting option from the University of Nairobi. He has attended various international and local trainings regarding matters of governance and leadership.

Veronicah Soila Leseya
DIRECTOR

Mrs. Veronicah Soila Leseya - Owende aged 44, joined CIC Group in 2012 as an Independent Director with oversight over minority interest. She currently heads the Admissions and Benefits Department at LAPFUND, with over 17 years working experience in pension and group life servicing. She holds a Bachelor of Arts (BA Hons) from Nairobi University and a Diploma in Insurance (AIIK). The Director is a Chartered Pension Analyst Manager (CPAM) and has undergone Trustees Development Programme Kenya (TPDK) and also a specialized Life Insurance Business Management Training conducted by LIMRA (Life Insurance and Market Research Association). She is a member of the Institute of Directors of Kenya (IOD), Insurance Institute of Kenya (IIK) and the Kenya Institute of Management (KIM).

Harrison Githae Hunyu
DIRECTOR

Mr. Harrison Githae Hunyu aged 71, is the Director representing Central Region based societies and is currently the Chairman of Muthaka 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.

Mary Njeri Mungai
DIRECTOR

Mrs. Mary Mungai aged 60, is the Commissioner for Co-operatives Development in the Ministry of Industry, Trade and Cooperatives. The Director holds an MSC in Agricultural Economics from Purdue University in USA and a BSC in Agriculture from the University of Nairobi. Mrs. Mungai has over 36 years' experience and skills in policy analysis, policy development, project design and project evaluation. She has been involved in implementation of projects funded by Ministries of Agriculture and department of Co- operatives, IFAD, World Bank, GTZ, SIDA, FAO and European Union. Mary is a member of the Institute of Directors of Kenya.

James Njue Njiru
DIRECTOR

Mr. James Njue Njiru aged 50, joined the board in May 2016. He is the director representing Eastern Region based societies. He is the Chairman of Nawiri Sacco Society. He is also a Director of Co-op Holdings Co-operative Society and the Co-operative Bank of Kenya Ltd. Mr. Njiru is a Board of Management member for various schools in the Eastern Region. He holds a diploma in Business Management from the Kenya Institute of Management.


Make your Child's dream
come true with CIC School Fee Policy

WE KEEP
OUR WORD

AKI Awards
Overall Winner 2017

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

FROM THE
GROUP CEO'S DESK

On behalf of the Management Team of CIC Insurance Group, I wish to present the annual report and financial statements covering the year ended December 31 2017.

INSURANCE INDUSTRY

The industry Insurance premium growth slowed down in 2017 to 6.6% compared to a 12.3% growth in 2016. The reduction in the growth rate though not desirous is perhaps not surprising given the prolonged election period, drought in the first half of the year and the capping of interest rates which resulted in shrunk credit. The long term insurance business at 13.6% growth continues to grow faster than general insurance business which grew by only 2.5%. Some of the key highlights for the year are as discussed below.

Risk Based Capital: The Insurance Act in 2017 was amended resulting in additional deductions to the capital available, putting more strain on the Capital Adequacy Ratio of most underwriters. It is therefore appropriate that the grace period for compliance with risk based capital requirements was extended to 30th June 2020. CIC already currently complies with the capital requirements.

Marine insurance was made mandatory for all imports resulting in a 34.4% growth in premiums across the industry. The expectation however had been a minimum growth of three times the previous year. Performance was below expectation mainly because of the late enforcement of the requirement by KRA, too lenient fines for noncompliance and undercutting by industry players. We hope for a better performance of this business in 2018.

The negative impact of interest rate capping on credit availability meant that loan portfolios by most banks contracted – consequently the insurance industry saw a reduction in credit life premiums. This has been a growth area for most underwriters in recent years.

The prolonged election period brought uncertainties that are associated with an unpredictable political environment. This coupled with effects of adverse weather conditions also slowed down the performance of various sectors of the economy and hence affected premium growth.

CORPORATE DEVELOPMENTS

CIC continues to be the biggest Cooperative Insurer in Africa, providing insurance and related financial services in Kenya, Uganda, South Sudan and Malawi. The group has twenty five branches across Kenya and offers a wide range of products including General Insurance, Life Assurance, Medical Insurance and Asset Management services. We have a very recognizable brand and a strong presence in the cooperative movement. We are proud of this heritage and intend to perpetuate our dominance in this critical sector of the economy.

Our commitment to social responsibility has also strengthened over the years with the launch of the CIC foundation in 2016, anchored on environmental sustainability, talent development and empowerment, as well as raising public risk awareness.

Our key strategic goal is to be a customer-focused insurer offering holistic solutions to our customers

Recognition and Awards

Our focus on innovation and excellence in service delivery has differentiated us in the market and earned CIC national and international recognition over the years. We have built a great team of people with enormous talent and capability which has enabled us to achieve 2nd position in the best company to work for survey as well as being crowned the overall Group Life Company of the year AKI Award winner. Our asset management company (CICAM) is now the market leader in unit trusts with a market share of 27%.

GROUP PERFORMANCE FOR THE PERIOD ENDING 31 DECEMBER 2017

Despite the economic challenges facing the industry as cited above, CIC Group gross written premium rose by 21% from KShs 12.4 billion in 2016 to KShs 14.9 billion in 2017. The growth is attributed to our 2017 to 2021 five year strategy which informed the areas of focus for the desired growth. One of our focus areas is medical business. Profit before tax rose to KShs 519 million in 2017, despite providing for bad debts to the tune of KShs 500 million. Our asset base grew by 13% from KShs 26.9 billion to KShs 30.5 billion. The company also registered increased investment income of KShs 3.5 billion from KShs 3 billion in 2016. Claims increased by 21.4% to KShs 7.8 Bn mostly due to private motor vehicle, public liability and agriculture crop insurance claims following unprecedented bad weather in 2017. Commission expenses rose by 37.9% to KShs 2.1 Bn largely because of pressure from banks to increase commission rates. The loss ratio remained flat at 64.0%, signaling the group's prudent risk management policies are working. Operating expenses edged up slightly by only 6.7% following a robust cost management strategy. The group recently signed a partnership with garage owners in a bid to tame losses from motor vehicle claims, an industry wide problem. We have revisited our public liability pricing to ensure an improvement in this line's performance.

FINANCIAL RESULTS FOR SUBSIDIARIES

CIC General gross written premium grew by 21% from KShs 8.4 billion in 2016 to KShs 10.1 billion. Our medical business continued to register positive growth with a gross written premium of KShs 2.3 billion in 2017 (KShs 1.4 billion in 2016). Profit before tax for general business was KShs 335 million in the year up from a loss of KShs 278,000 in 2016.

CIC Life Assurance Company registered a gross premium of KShs 4.1 billion in 2017 compared to KShs 3.8 billion in 2016 translating to a 9% growth. The growth is attributed to efforts in acquiring new business, retaining existing accounts and increased partnership with banks. Profit rose by 60% from KShs 140 million in 2016 to KShs 224 million. Investment income increased by 29% to KShs 781 million in 2017 compared to KShs 605 million in 2016 buoyed by a better NSE performance.

CIC Asset Management Company Limited's total assets under management rose by 23% from KShs 26.5 billion in 2016 to KShs 32.5 billion. Total income increased by 27% from KShs 230 million in 2016 to KShs 293 million while profit for the year was KShs 85 million compared to KShs 21 million the previous year. We acknowledge that cooperatives have made a significant contribution to the business, investing close to KShs 8 billion during the year. CICAM has in a few years become the market leader in unit trusts business, commanding a notable 27% of the total market share in the industry.

REGIONAL RESULTS

CIC Uganda achieved a significant increase in gross written premium to KShs 413 million in 2017 from KShs 99.5 million in 2016. We project that Uganda will break-even in the first half of 2018. Our South Sudan business has continued to grow despite challenges in the political environment. Gross premium rose to KShs 144 million in 2017 from KShs 72 million in 2016. The business remains profitable. Malawi registered a gross premium of KShs 114 million in 2017 up from KShs 44 million in 2016. CIC Malawi is not projected to break-even for another year.

GOING FORWARD

Our key strategic goal is to be a customer-focused insurer offering holistic solutions to our customers. We will strive to fully understand our customers' insurance needs and quickly provide them with tailored product solutions through their preferred channels.

The Group will continue leveraging on the various alternative channels which include bancassurance, Sacco distribution, mobile and internet platforms which continue to drive further growth outside the traditional channels. The Pension and annuity business is expected to drive further growth in the long-term business. Diversification into real estate, initially through the Kiambu property development next to Tatu City, will help secure and diversify earnings and gains from investment income while expansion into regional markets will continue to offer extra growth for the company going forward.

In order to achieve our vision, we have commissioned various transformation initiatives. These initiatives fall under five pillars: Sales Force effectiveness, Customer experience, Cost management, Debt management and Employee engagement. We are confident that the initiatives will enable us realize and achieve profitable growth, as well as enhance efficiency in business processes in line with customer expectations.

APPRECIATION

I would like to take this opportunity to sincerely thank our customers and business partners for their custom and confidence in CIC. We do not take your support for granted.

I would also like to thank the board for its invaluable counsel and dedication. Finally, I would like to appreciate the dedicated service our staff continue to give to make CIC rock.

Tom Gitogo
Group Chief Executive Officer

BOARD OF MANAGEMENT

Tom Gitogo

Mr. Tom Gitogo aged 49, 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 member of the Institute of Chartered Accountants in England and Wales (ICAEW) as well as the Institute of Certified Public Secretaries (CPS (K). Tom is a Fellow member of ICPAK and a Fellow member of the Kenya Institute of Management. He is 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) and is a Member of the Institute of Directors of Kenya. In 2012 he won the coveted CEO of the Year Award in the prestigious COYA awards. He serves on the board of the Policy Holders Compensation Fund, and is a Board member of ICMIF (International Cooperative and Mutual Insurance Federation).

Elijah Wachira

Elijah aged 50, is the Managing Director CIC General Insurance. He holds an MBA in Strategy and Marketing from the University of Nairobi and a Bachelor of Arts from Egerton University. He is a member of Chartered Insurance Institute (CII) of London and Marketing Society of Kenya (MSK). He has a wealth of experience in general insurance business in both Kenya and the East African Region. He is specialized in strategy formulation and implementation. Elijah joined CIC in 2015.

Ezekiel Owuor

Ezekiel aged 40, is the Managing Director of CIC Life Assurance Ltd. He holds an MBA in Strategic Business Management from Strathmore Business School and has a degree in Arts - Government and Public Administration from Moi University. He is a qualified member of the Chartered Institute of Marketing - UK (MCIM - UK), Retail Banking Academy-UK, Marketing Society of Kenya and holds a Certificate of Proficiency in Insurance from the College of Insurance. Ezekiel is also a member of the Institute of Directors of Kenya and serves in the boards of CIC Africa Uganda and Kenya Rugby Union. He has previously served in the boards & committees of Lenana School, Laibon Society, Parklands Sports Club, Karen Country Club and Muthaiga Golf Club. Ezekiel has over 16 years' experience in the financial services industry mainly banking and insurance. He joined CIC Group in 2015.

BOARD OF MANAGEMENT

Stanley Mutuku

Stanley aged 45, is the Managing Director CIC Asset Management. He holds an MBA (Double Major) in Finance and Strategic Management and a B Com (Double Major) in Business Administration, Management and Marketing. Professionally, Mr. Mutua has a CPA, CIM and Capital Market Specialist Training - INTERFIMA and is currently undertaking his CFA qualification. Mr. Stanley has over 20 years work experience in the financial services industry having worked for Old Mutual Kenya and Jubilee Insurance. He has worked in CIC for the last 8 years.

He is also a licenced practitioner and member of ICIFA (K).

George Wafula

George aged 44, is the Group Chief Finance Officer, CIC Insurance Group. George has an MBA in Strategic Management from Strathmore Business School and holds a Degree in Business Administration from USIU. George also has a certificate- Doing Business in a Globalized Environment from IESE Business School, Spain. He is a member of the Institute of Certified Public Accountants of Kenya as well as ACMA (Association of Chartered Management Accountants).

Before Joining CIC Insurance Group, George had over 20 years' experience in various capacities in FMCG at Unilever, Telecoms at Airtel and Insurance at Kenindia Assurance.

Zipporah Mungai

Zipporah aged 48, is the Managing Director, CIC Africa Uganda Ltd. She has a Master of Science in Finance, University of Illinois at Urbana Champaign (USA), a Bachelor of Commerce (Insurance) University of Nairobi, and a Post Graduate-Advanced Management Program (AMP) Strathmore - Nairobi & IESE Business School, Spain. She is a Chartered Insurer from Chartered Insurance Institute, London, UK, an Associate Risk Manager from Risk Management Institute, London, UK and Associate from Chartered Institute of Arbitrators, London UK. Before joining CIC Insurance, Zipporah worked with UAP Uganda as the Managing Director for UAP Insurance, UAP Properties, and a Director of UAP Financial Services. Prior to her assignment at UAP, she was the Country CEO for Jubilee Insurance Tanzania. Zipporah has over 23 years financial services experience in Kenya, Uganda, and Tanzania markets.

Robert Murigih

Murigih aged 60, is the Managing Director, CIC – Africa Co-operatives Insurance Limited in Malawi. He holds a Diploma in Business Management from the University of Nairobi. He also holds a Certificate in Corporate Governance from Centre for Corporate Governance, Kenya. He is a seasoned and dynamic management professional and a skilful negotiator with over 35 years of quality work experience acquired in challenging roles with leading Insurance Companies in Kenya. He has served in several Technical Committees of the Association of Kenya Insurers (AKI). Mr Murigih joined CIC in 2006.

Japheth Omare

Japheth aged 42, is the Managing Director, Transcoop. He holds a Bachelor of Commerce (Insurance Option) degree, University of Nairobi. In addition, he is a qualified Chartered Insurer (ACII), a member of the Chartered Insurance Institute, London, UK and Insurance Institute of Kenya (IIK). He has certification in several Leadership programs that include; Program for Management Development at Strathmore University, Corporate Governance from Centre for Corporate Governance. Japheth has over 14 years' experience in the financial Industry. He joined CIC in 2015.

Andrew Murunga

Murunga aged 41, is the Managing Director CIC Africa Insurance (SS) Limited. He has vast wealth of experience in the Insurance Industry both in Kenya and South Sudan He is a Bachelor of Education Degree (Maths/ Economics) graduate from Moi University and a holder of an MBA majoring in Insurance and Risk Management from the University of Nairobi in addition to a Diploma in Insurance from the Chartered Insurance Institute. He is a member of the Institute of Directors of Kenya, Chartered Insurance Institute- UK and The Insurance Institute of Kenya.
His fruitful career in CIC started in 2009 as an Underwriter in the General Business.

BOARD OF MANAGEMENT

Gail Odongo

Ms. Odongo aged 45, is the Group Company Secretary/Chief Legal Services. She is an Advocate of the High Court of Kenya holding a Bachelor of Laws ("LLB") Degree from the University of Liverpool and a Master of Business Administration ("MBA") from Salford University in the United Kingdom. Professionally Ms. Odongo is a Certified Public Secretaries ["CPS (K)"]. She holds a Post Graduate Diploma from the Kenya School of Law and has 13 years of experience in various capacities and industries ranging from Audit, Banking and Finance, Insurance and Legal. She is also a member of the Institute of Directors - Kenya.

Henry Njerenga

Henry aged 48, is the General Manager - Group Customer Experience. He has over 25 years of experience working in the insurance sector in various fields such as Underwriting, Sales, Marketing and Customer Service. Henry has implemented for CIC Group the Customer Satisfaction Index (CSI) which has brought significant improvements in customer care operations. He is a graduate of The Management University of Africa (MUA) - Executive Bachelors of Business Management (EBBM). He holds a Diploma in Marketing Management (DMM) from the Kenya Institute of Management in addition to various programs attended over time including in the corporate governance area. He is also a full member of good standing of KIM holding title MKIM.
He is a member of Audit Risk & Governance committee of KIM and have served in the National Council including other committees of the board for over ten years.

Joseph Kamiri

Joseph aged 51, is the General Manager - Group Marketing and Distribution. He holds Bachelor of Commerce - Insurance Option from the University of Nairobi. He's an Associate Member of Insurance Institute of Kenya (AIIK) and an Associate Member of the Chartered Insurance Institute (ACII). He holds an MBA (Marketing) from the University of Nairobi. In addition, Mr. Kamiri has done the Advanced Management Program (AMP), from IESE Business School, Spain & Strathmore Business School, Kenya and has attended Negotiation, Mediation & Arbitration training from the International Law Institute (George Washington University-USA). Mr. Kamiri has over 24 years' experience in the Insurance business in both Kenya and the Global Emerging Markets. He joined CIC in 2014.

Michael Kabiru

Michael aged 51, is the General Manager - Finance. He holds a Master of Business Administration Degree in Strategic Management and a Bachelor of Commerce Degree in Business Administration, both from UON. He is also a Certified Public Accountant of Kenya (CPA-K) and a registered member of Kenya Institute of Credit Management (ICM-K). He has over 26 years' experience in the Finance, Accounts & Credit Control, which includes 22 years in the Insurance Industry . He joined CIC in 2014.

Pamela Oyugi

Pamela aged 50, is the Group General Manager HR & Administration. She holds a Bachelor of Education Degree from University of Nairobi, Executive MBA (specializing in HRM) from Moi University and a Post Graduate Diploma in Human Resource Management from Kenya Institute of Management. She has undertaken several trainings both locally and internationally. She has over 18 years of work experience in various capacities, part of which is in the Insurance Industry. The most recent role prior to joining CIC, Pamela was the Head of HR & Administration at National Oil Corporation of Kenya where she was a member of the Senior Management Team and the Secretary to the HR Board Committee. She is a Full Member of the Institute of Human Resource Management (IHRM). Pamela has undertaken the Advanced Management Programme (AMP) from Strathmore University in 2015. She is also member of the Institute of Directors of Kenya. Pamela joined CIC in 2013.

Mary Noel A. Wanga

Ms. Wanga aged 49, 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. She is currently pursuing a Master of Law at the University of Nairobi.

BOARD OF MANAGEMENT

Richard Nyakenogo

Richard aged 50, 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.

Susan Robi

Susan aged 40, 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.

Muyesu Luvai

Luvai aged 40, is the Group Chief Internal Auditor. He is a Certified Public Accountant ("CPA (K)") and a member of the Institute of Certified Public Accountants of Kenya ("ICPAK"). He holds a Bachelor of Commerce Degree (Marketing) from the University of Nairobi and a Master of Business Administration (MBA) Degree with a concentration in Employee Relations /Organisational Behaviour from the University of Leicester (UK). This mixed background allows him to look at company operations at a wide scale, providing solutions from a business strategy perspective while seeking to enhance the effectiveness of governance, risk management and control processes. Prior to joining CIC in 2008, Mr. Luvai worked for Deloitte in the Audit & Assurance Division, obtaining extensive experience in auditing a wide variety of international and local organisations drawn from both the private and public sectors. Prior to joining Deloitte, Mr.Luvai had a stint in the oil and gas industry working in the Finance Department of Dalbit Petroleum Limited.

Michael Mugo

Michael aged 47, is the General Manager Metropolis. Mr. Mugo is a B.Ed. graduate from the Moi University. He has an Executive MBA from JKUAT. He has Certificate of Proficiency (COP) from the College of Insurance. He has an extensive career in Insurance having started his career as a Sales Rep. Mr. Mugo Joined CIC in 2003 as an Agency Manager.

Henry Malmqvist

Henry aged 38, is the Group Chief Information Officer. He is a graduate of Institute for the Management of Information Systems (IMIS) Kent and is currently pursuing his MSc Information Technology Management at University of Sunderland. He is certified in Project Management, Information Security & Performance Management. Henry has 14 years' experience in ICT both within Kenya and the East African Region. He joined CIC in 2015.

Jack Kionga

Jack aged 55, is the General Manager - Operations CIC Life Assurance Company Limited. 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. He has over 27 years work experience within the Insurance industry. Jack joined CIC Insurance Group in 2007

BOARD OF MANAGEMENT

Fred Ruoro

Fred aged 36, is the General Manager Medical. He holds a Bachelor's Degree in Mathematics & Physics from The University of Nairobi. Fred holds a Diploma in Management Accounting from Chartered Institute of Management Accountant (CIMA). He also attended several Leadership and Management programs, which include; Program for Management Development at Strathmore University, Accelerated Leadership Program at Centre for Creative Leadership – SA and Managing for results at Strathmore University among many others. He joined CIC in 2016.

Dickson Ireri

Ireri aged 52, is the General Manager - Operations, CIC General Insurance Company Limited. He holds a Bachelor of Commerce (Accounts Option) and a Masters of Business Administration (MBA). He is also an associate of Insurance Institute of Kenya (AIIK). Mr. Ireri has been in the insurance industry for 24 years. He joined CIC in 1992.

Tabitha Kihanya

Tabitha aged 33, 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).

Grace Mundu

Grace aged 47, is the General Manager Sales. She holds a Master's degree in Business Administration. She is an associate of Insurance Institute of Kenya (AIIK).She also has professional qualification in FIIK.Mrs. Mundu has over 21 years' experience in the insurance industry. She joined CIC in 1998.

Salome Wambui

Salome aged 31, 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.

Oliver Mungo

Oliver aged 27, is the Actuarial Manager, Life Business. He holds a BSc (Hons) in Actuarial Science and is a nearly qualified Actuary with the Institute and Faculty of Actuaries in the UK. Oliver is currently pursuing a Master of Business Administration (MBA) Program at Strathmore Business School where he also went through a Management Leadership Program. Prior to joining CIC Group, he worked at Ernst & Young Kenya within the Actuarial Advisory Services. He is a member of The Actuarial Society of Kenya (TASK). Oliver joined CIC Group in June 2013.

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

GOVERNANCE AUDITORS REPORT

Statement of the responsibility of directors

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organisation. This responsibility includes planning, designing and maintaining governance structures through policy formulation that is necessary for efficient and effective governance of the organisation. 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 Group 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 2017, 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 organisation, 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 organisation'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 Mogute, ICPSK GA. No 00065
For Nyachoti & Partners Advocates
Date: 23 April 2018

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

OVERVIEW

CIC Insurance Group's corporate objective is to be a world class provider of insurance and other financial services. We remain cognizant of the fact this enviable status will not be attained if it is not premised on sound and robust governance framework and structures.

In pursuit of this corporate objective, the Board is very committed to ensure that the Company has in place an appropriate governance framework to protect and enhance company performance and enhance shareholder value. This commitment is premised on the board's acknowledgement that there is an intricate link between sound governance practices and the creation of long term shareholder value coupled with the ability to continuously attract investments.

To support the Group's Corporate Governance framework, the Board has, inter-alia, formulated and ensured that there exists;

a) A Board Charter;
b) Terms of Reference for Board Committees;
c) Adoption and application of the principles and recommendations of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015; and
d) Internal controls and processes;

Fundamentally, the Group's Corporate Governance framework is substantially in consonance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and is specially designed to support our business operations, deliver on our strategy, monitor performance and manage risk.

The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (Corporate Governance Principles and Recommendations)

This Corporate Governance Statement enshrines the principles and recommendations espoused in the Code and is available on our website at www.cic.co.ke . Unless otherwise indicated, the statement is true for the whole of the financial year ending 31 December 2017. This statement should be read together with the director's remuneration report, on pages 34-35 of our 2017 Annual Report, available at www.cic.co.ke.

Board Operations and Control

Charter

The Board Charter clearly sets out the procedure in the appointment of Board members and succinctly spells out that all persons offering themselves for appointment as directors should disclose any potential area of conflict that may undermine their position as directors.

The Charter clearly sets out the board's role and responsibilities and describes those matters expressly reserved for the Board's determination and those matters delegated to management.

The Group Chief Executive Officer (GCEO) has the responsibility of the day-to-day management and administration of the Group and is supported in this function by the board of management. The GCEO manages the Group in accordance with the strategy, plans and delegations approved by the Board.

The Board is comprised of directors who bring appropriate range of skills, experience, expertise and diversity, together with a proper understanding of, and competence to deal with, current and emerging market and industry specific issues to formulate policies and guide the Group's business. Further, the board is focused on guiding the strategy formulation, development and monitoring management through effective review and appraising management's performance.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

Responsibilities

The Board retains full responsibility for overseeing and appraising the Group's strategies, policies and performance. For effective discharge of its mandate and responsibilities, the Board has established the following committees each with distinct and terms of reference:
1. Audit & Risk Committee;
2. Governance and Human Resources Committee; and
3. Finance and Investment Committee.

The Board is responsible for protection and enhancing long term shareholder value and ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of key responsibilities to ensure this is achieved including:
1. Setting out and monitoring implementation of the Group's Corporate strategy and performance objectives, which are designed to meet stakeholders' needs and manage business risks;
2. Approving initiatives and strategies designed to ensure the continued growth and success of the Group;
3. Approving of the Group's annual budget and supplementary budgets if necessary;
4. Monitoring performance against budget – via establishment and reporting of both financial and non-financial key performance indicators; and
5. Implementation of the Group's risk framework, including setting risk appetite and implementing systems to ensure risk is appropriately managed.

Other responsibilities that are the preserve of the Board include:
1. Selecting, appointing, removing and planning the succession of the GCEO;
2. Recommending to the shareholders for approval any dividends and the annual financial reports;
3. Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestures;
4. Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
5. Reporting to shareholders.

Company Secretary

Ms. Gail Odongo is the Group Company Secretary of CIC Insurance Group Limited and is a member of the Board of Management.

The Company Secretary is accountable to the Board, through the Chair, on all matters dealing with the proper functioning of the Board. The formal reporting line of Company Secretary is through the GCEO although all directors have access to the Company Secretary.

Board Composition

The Board Charter sets out that the Board is to comprise a minimum of Eight (8) and a maximum of Thirteen (13) directors drawn from various Co-operative Societies and the public based on such criteria as suggested by the Board and approved by shareholders in an Annual General Meeting.

Executive	Non-Executive	Independent
Tom Gitogo	Japheth Magomere (Chairman) Peter Nyigei (Vice Chairman) Michael Wambia Gordon Owuor Harrison Githae Jonah Mutuku Rosemary Githaiga James Njue	Veronicah Leseya Mary Mungai Philip Lopokoiyit

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

Board Composition (continued)

Though the board at the moment does not have a third of its members as independent, the board, noting that it is not precluded from appointing an additional director, will exploit this provision and bring on board an independent director in line with the recommendations of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015.

The Company appoints Directors who contribute to the diversity of skills and backgrounds so that the Board can collectively oversee and govern the organization and contribute, in a meaningful way, to the development and success of the business.

The Human Resource and Governance Committee considers and recommends to the Board candidates for directorships to be considered for appointment by shareholders. The Committee also considers candidates for directorships proposed by the majority shareholder. In discharging this mandate, the Committee considers persons of caliber, credibility and who have the necessary skills and expertise to exercise independent judgement on issues that are necessary to promote the company's objectives and performance in its area of business.

Board Appointments

Before electing or re-electing (as the case may be) a director, the Group through the Human Resource and Governance Committee (HR Committee), undertakes appropriate background checks to determine that candidate's suitability. The Committee also considers candidates for directorships proposed by the majority shareholder.

All directors and senior executives are appointed pursuant to formal letters of appointment setting out the key terms and conditions of the appointment (including the time commitment envisaged, remuneration and other duties). Director appointment letters also include further details regarding committee responsibilities, directors' duties and responsibilities, board performance evaluation, confidentiality of information, the Board's policy on obtaining independent advice, disclosure of interests and matters affecting independence. Further, appropriate liability insurance for directors has been arranged for indemnifying their liabilities arising out of corporate activities. This insurance is renewed on an annual basis.

The post of the Group Chairman and the Group Chief Executive Officer are separate to ensure a clear distinction between the Chairman's responsibility to manage the board and the GCEO's responsibility to manage the Company's business.

Board Evaluation

In accordance with the Board Charter, the performance of the Board is reviewed annually by the Chairman, assisted by the HR Committee and external consultants.

The Chair of the HR Committee makes recommendations to the Board on the process of evaluation of the performance of the Board, its committees and directors. The evaluation is intended to review the Board's role; review Board and Committee processes to support that role; and review the Board's performance. The performance of the Board Committees and individual directors is also reviewed as part of this process.

The Board annually reviews its performance (including its performance against the requirements of its Charter), the performance of the Committees and the performance of individual Directors, including the performance of the Chairman as Chairman of the Board and the performance of the Group CEO.

These performance reviews are conducted with the assistance of an experienced corporate governance facilitator. The review conducted during the year ending 31st December 2017 focused on the evaluation of the Board, Committees and Director Performance. The process comprised of an internal questionnaire to obtain the Directors views as to what currently works well and the areas for improvement together with a whole of Board discussion, led by the Chairman, reviewing the results of the questionnaire.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

The HR Committee, together with the GCEO, reviews and makes recommendations to the Board on the guidelines for evaluation of senior executive performance

Director Orientation and Continuous Professional Development

Orientation is provided to a newly appointed director immediately upon his/her appointment. Appointees are provided with the Company's Board Charter and business information.

On an ongoing basis, Directors participate in Board Training facilitated by industry and professional bodies. In addition, during board meetings, the Group Company Secretary regularly updates directors on the latest industry related developments including applicable legal and regulatory requirements regarding subjects necessary for the discharge of their duties.

Board Meetings

The Board meets regularly, at least four (4) a year at quarterly intervals and holds additional meetings as and when the board deems appropriate.

In the year 2017, the Board of Directors convened Seven (7) official Board Meetings.

Attendance at Board Meetings in 2017

Name	Attended/Number of meetings
Japheth Magomere	7/7
Peter Nyigei	6/7
Tom Gitogo	7/7
Michael Wambia	7/7
Gordon Owour	7/7
Jonah Mutuku	7/7
Mary Mungai	6/7
Rosemary Githaiga	7/7
Harrison Githae	7/7
Veronicah Leseya	6/7
Philip Lopokoiyit	7/7
James Njue	7/7
Gail Odongo (Secretary)	7/7

Board Committees

The Board has delegated work to Board Committees to more effectively deal with specialized issues. The mandate of these committees is clearly defined in each of the Committees', Terms of Reference. The Committees make recommendations for actions to the Board, which retains collective responsibility for decision making.

The Committee memberships are 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 Committee meetings at the following Board meeting as well as a verbal report from the Committee Chair on significant areas of discussion and key decisions.

Audit and Risk Committee

The core mandate of this committee is to ensure that material business risks facing the company have been identified and that appropriate and adequate controls, monitoring and reporting mechanisms are in place. The Committee is also responsible for assessing the results and effectiveness of the internal audit programs and the performance and objectivity of the internal audit.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

Audit and Risk Committee Members attendance at Meetings in 2017

Name	Attended/Number of meetings
Philip Lopokoiyit (Chairman)	4/4
Judith Olouch	4/4
James Njue	4/4
Peter Nyigei	3/4
Muyesu Luvai (Secretary)	4/4

Finance and Investment Committee

The key role of this Committee is to provide financial oversight to the Group. The role includes scrutinizing, reviewing and providing oversight on all major finance and investment activities of the Group and provide guidance and recommendations from the Group on these and related matters.

Finance and Investment Committee Members attendance at Meetings in 2017

Name	Attended/Number of meetings
Rosemary Githaiga (Chairlady)	8/8
Edwin Otieno	8/8
Cornelius Ashira	8/8
Tom Gitogo	8/8
Gail Odongo (Secretary)	8/8

Governance and Human Resource Committee

The Committee's purpose is to ensure that the company develops and implements an effective approach to corporate governance which enables the business and the affairs of the company to be carried out, directed and managed in accordance with the board objectives.

The Committee reviews the structure, size and composition (including skills, knowledge and experience) of the Board and key management staff. It makes recommendations to the board on the appointment and re-appointment of directors and also determines (guided by an objective market survey) the remuneration packages of senior management.

This Committee has been doubling up as the Nomination Committee. We deem that as presently constituted, the Committee does not meet the threshold set by the Code that requires that it be composed of mainly of independent directors. To resolve this, the Board has recommended that it will form an ad-hoc Nomination Committee that complies with the code that would be meeting on a need-be basis.

Governance and Human Resource Committee Members attendance at Meetings in 2017

Name	Attended/Number of meetings
Michael Wambia	7/7
Japheth Magomere	7/7
Harrison Githae	7/7
Jonah Mutuku	7/7
Tom Gitogo	7/7
Gail Odongo (Secretary)	7/7

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

Internal Controls

The Group has both an Audit Policy and a Risk Management Policy that has incorporated applicable principles of the International ISO 31000 Risk Management. The Policies set out the framework for risk management and compliance and at the Group.

These policies are designed to provide a comprehensive framework for the audit and risk function within the company.

The system of internal controls ensures that assets are safeguarded and that the company remains structured to secure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal controls and risk management, the Board takes into account the results of all the work carried out to audit and review the activities of the company. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators.

Weekly meetings are held by the Board of Management 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.

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 other stakeholders on acceptable behavior when conducting business.

Communication with Shareholders

The Group aims to communicate all important information relating to the Company to its shareholders. The Board has adopted a Continuous Disclosure Policy, which sets out the key obligations of the Board to ensure that the Group complies with its Disclosure obligations under the Code. The Board has the overall responsibility for the continuous disclosure though it has delegated this to authorized spokespersons of the company who include the Group Chairman, the GCEO and to an authorized extent, the Group Company Secretary.

Further, the Group endeavors to communicate all important information relating to the Company to its shareholders and that this information has included the following:

1. CMA announcements – announcements are made to the Capital Markets Authority in respect of annual and half-year results and on other occasions when the Company becomes aware of disclosable information.
2. The CIC Group website – copies of all Board Charters and policies are made available on the Company's website.
3. Shareholder communication – shareholders can sign up to receive announcements via email and can contact Company representatives via email addresses listed on its website.
4. Annual Report – the Annual Report is distributed to all shareholders and includes relevant information about the operations of the Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to other required disclosures.
5. Annual General Meeting – each shareholder is notified and given an opportunity to attend and participate in the Annual General Meeting through print media and by the notice posted on the Company website.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

SHAREHOLDING

1. Consolidated top ten shareholders schedule as at 31 December 2017

		2017		2016		Variance	
		Total Shares	% Shareholding	Total Shares	% Shareholding	Total Shares	% Shareholding
1	Co-operative Insurance Society Limited	1,943,441,304	74.30	1,943,441,304	74.30	-	0.00
2	Mr. Gideon Maina Muriuki	131,724,304	5.04	123,037,304	4.70	8,687,000	0.33
3	Standard Chartered Nominees Non-Resident Ac 9011	24,422,040	0.93	24,422,040	0.93	-	0.00
4	Weda Welton	15,556,800	0.59	15,556,800	0.59	-	0.00
5	NIC Custodial Services A/C 077	15,481,560	0.59	15,481,560	0.59	-	0.00
6	Goodwill (Nairobi) Limited A/C 94	14,751,089	0.56	0	0.00	14,751,089	0.56
7	Nelson Chege Kuria	13,909,800	0.53	13,909,800	0.53	-	0.00
8	Mr. John Njuguna Ngugi	11,041,600	0.42	1,472,800	0.06	9,568,800	0.37
9	Kenya Reinsurance Corporation Limited	10,800,000	0.41	10,800,000	0.41	-	0.00
10	Weda & Emily Achieng Chweya Welton	8,880,000	0.34	8,880,000	0.34	-	0.00
	Total	**2,190,008,497**	**83.73**	**2,157,001,608**	**82.47**	**33,006,889**	**1.26**
	Others (17,837 Shareholders)	425,530,031	16				
	Total	**2,615,538,528**	**100**				

2. Top Ten CIC Insurance Group Limited Individual Shareholders as at 31 December 2017

		2017		2016		Variance	
		Total Shares	% Shareholding	Total Shares	% Shareholding	Total Shares	% Shareholding
1	Mr. Gideon Maina Muriuki	131,724,304	5.04	123,037,304	4.70	8,687,000	0.33
2	Weda Welton	15,556,800	0.59	15,556,800	0.59	-	0.00
3	Nelson Chege Kuria	13,909,800	0.53	13,909,800	0.53	-	0.00
4	Mr. John Njuguna Ngugi	11,041,600	0.42	1,472,800	0.06	9,568,800	0.37
5	Weda & Emily Achieng Chweya Welton	8,880,000	0.34	8,880,000	0.34	-	0.00
6	Mr. Stanley Charles Muchiri	6,453,312	0.25	6,453,312	0.25	-	0.00
7	Mr. Amarjeet Baloobhai Patel; Baloobhai Patel	6,000,000	0.23	6,000,000	0.23	-	0.00
8	Peter Mutarura Mwaura	5,601,636	0.21	9,897,936	0.38	(4,296,300)	-0.16
9	Nancy Wangari Ndungu	5,520,000	0.21	5,520,000	0.21	-	0.00
10	Mr. Tom Mbuthia Gitogo	5,300,000	0.20	3,000,000	0.11	2,300,000	0.09
	Total	**209,987,452**	**8.03**	**193,727,952**	**7.41**	**16,259,500**	**0.62**

3. Category Summary of Shareholders as at 31 December 2017

	2017			2016			Variance	
Shareholder	No. of Shareholders	No. of Shares	% Shareholding	No. of Shareholders	Total Shares	% Shareholding	Shareholding	%
Foreign Companies	4	27,435,376	1.05%	6	29,633,376	1.13	(2,198,000)	0.00
Foreign Individuals	80	2,728,044	0.10%	75	2,505,344	0.10	222,700	0.00
Local Companies	696	2,022,981,624	77.34%	705	2,016,124,274	77.08	6,857,350	0.00
Local Individuals	17,067	562,393,484	21.50%	16,635	567,275,534	21.69	(4,882,050)	0.00
Total	**17,847**	**2,615,538,528**	**100.00%**	**17,421**	**2,615,538,528**	**100.00**	**0.00**	**0.00**

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

4. Distribution of Shareholders as at 31 December 2017

	2017			2016			Variance	
Shareholding	No. of Shareholders	No. of Shares	% Shareholding	No. of Shareholders	Total Shares	% Shareholding	Shareholding	%
1- 500	4,423	984,947	0.04%	4,019	914,771	0.03	70,176	-0.03
501 - 5,000	6,544	13,468,044	0.51%	6,478	13,381,279	0.51	86,765	-0.51
5,001- 10,000	1,646	12,341,862	0.47%	1,633	12,181,622	0.47	160,240	-0.46
10,001 - 100,000	4,615	130,317,845	4.98%	4,651	130,468,728	4.99	(150,883)	-4.94
100,001 - 1,000,000	557	133,467,968	5.10%	577	145,355,966	5.56	(11,887,998)	-5.51
Above 1,000,000	62	2,324,957,862	88.89%	63	2,313,236,162	88.44	11,721,700	-11.45
Total	**17,847**	**2,615,538,528**	**100**	**17,421**	**2,615,538,528**	**100**	**-**	

5. CIC Insurance Group Directors' Shareholding

		2017		2016	
	Name	NO. OF SHARES	%	NO. OF SHARES	%
1	Mary Mungai	-	-	-	0.00
2	Philip Lopokoiyit	-	-	-	0.00
3	Veronicah Leseya	-	-	-	0.00
4	Peter K. Nyigei	12,000	0.00	12,000	0.00
5	Jonah M. Mutuku	24,000	0.00	24,000	0.00
6	Michael O. Wambia	36,000	0.00	36,000	0.00
7	James Njiru	48,000	0.00	48,000	0.00
8	Harrison Githae	252,000	0.01	252,000	0.01
9	Gordon Owuor	264,000	0.01	264,000	0.01
10	Japheth Magomere	672,000	0.03	672,000	0.03
11	Rosemary Githaiga	2,589,600	0.10	2,589,600	0.10
12	Tom Gitogo	5,300,000	0.11	3,000,000	0.20
	Total	**9,197,600.00**	**0.27**	**6,897,600.00**	**0.35**

6. Top Ten Co-operative Insurance Society Limited Corporate Shareholders as at 31 December 2017

		2017		2016	
	Name	NO. OF SHARES	%	NO. OF SHARES	%
1	The Co-Operative Bank Of Kenya Ltd	694,056,720	35.71	694,056,720	35.71
2	Co-Operative Bank Savings And Credit Society Ltd	187,155,264	9.63	187,155,264	9.63
3	K-Unity Savings And Credit Co-Operative Society Limited.	63,017,776	3.24	62,537,776	3.22
4	Nawiri Savings And Credit Co-Operative Society Limited	36,132,130	1.86	36,132,130	1.86
5	Harambee Co-Operative Savings And Credit Society Ltd	35,234,280	1.81	35,234,280	1.81
6	Fep Co-Operative Savings And Credit Society Ltd	30,720,000	1.58	30,720,000	1.58
7	Kipsigis Teachers Savings & Credit Society Ltd	29,764,248	1.53	29,764,248	1.53
8	Stima Co-Operative Savings And Credit Society Ltd	26,162,384	1.35	26,162,384	1.35
9	Boresha Savings And Credit Co-Operative Society Limited	26,134,224	1.34	26,134,224	1.34
10	H& M Savings And Credit Co-Operative Society Ltd.	24,732,000	1.27	24,732,000	1.27
	Total	**1,153,109,026**	**59.33**	**1,152,629,026**	**59.31**

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

Governance Policies

Information Technology policy

CIC Group Kenya's ICT infrastructure and systems are a crucial aspect of its business operations, service delivery and customer experience. The company's technologies, communication infrastructure and corporate data are governed by an ICT Policy comprising of standards that adhere to global best practices primarily aimed at ensuring ICT acquisitions are at best price, implemented systems are robust, scalable and reliable. The policy also defines acceptable and responsible use of the groups ICT; the security protocols and controls to protect against loss of systems and data; guidelines for adherence to regulatory, copyright and privacy laws as well as others. Every aspect of the policy has initiatives aligned to the "business-first" Group ICT strategy with its five pillars comprising of; 1) IT Business Alignment, 2) Business Intelligence 3) Governance risk and compliance 4) Digital & Innovation and 5) Best People & Strategic Partnerships. The ICT policy and ICT Strategy have a key objective of ensuring that all business services dependent on these systems remain secure and available for business use in support of business objectives with exceptional customer experience, operational efficiency and digital innovation as the driving ethos behind implementation of any ICT technologies.

Whistleblowing policy

CIC Group's Whistle Blower Policy covers the Groups commitments on issues such as bribery, corruption and unethical business conduct, in addition to setting out the Company's whistleblowing procedures. The Whistleblowing policy provides the platform for employees to raise concerns regarding any suspected wrongdoing, and the policy details how such concerns are addressed.

Statement on Insider Dealing

In compliance with the Companies Act and the Code of Conduct Practices for Issuers of Securities to the Public 2015 the company has implemented a Shares Trading Policy which states that directors and employees with insider information that is not accessible to the public may not trade in the company's securities.

To this end the Company communicates open and closed periods for trading in its shares to its employees and directors on an annual basis.

Approved by the board of directors on 14th March, 2018 and signed on its behalf by:

....	....
Director	Director
Japheth Magomere OGW	**Tom Gitogo**

DIRECTORS REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The CIC Insurance Group vision is to be a world class provider of insurance and other financial services. Consequently, the company endeavours to attract and retain as directors high calibre individuals who are well equipped with the relevant expertise and experience to enable the company achieve its vision. To retain and motivate such individuals requires compensation that is not only commensurate to their skill and time devoted to the company, but also that is competitive.

The Group has developed and put in place a remuneration policy for both the executive and non-executive directors that is transparent and considers the business needs and the overall performance of the business. The policy has adopted a compensation and remuneration model that is competitive to attract and retain talent. The remuneration policy can be summed up as herein below:

Executive Directors

1. The remuneration for the executive director is as per a negotiated contract of employment. It incorporates a bonus scheme that is only triggered upon achieving various targets agreed with the board. The trigger was not reached in 2016 and 2017.
2. The CEO has a service gratuity of 31% of the annual basic pay payable at the end of the contract for each year worked.
3. The CEO is on a 5 year contract which commenced on 1st March 2015. The contract has a 3 months termination notice.

Non-Executive Directors

1. Directors are entitled to a sitting allowance for their attendance of a board or board committee meeting, lunch allowance (in lieu of lunch being provided), and mileage reimbursements (in lieu of transport being provided) at the Automobile Association of Kenya rates.
2. The directors receive annual honoraria.
3. Directors are paid a monthly retainer. The fees have been set by the board pursuant to the authorization granted by the shareholders at the AGM.
4. There are no directors' loans.
5. There is no directors' shares scheme.
6. An allowance is paid to non-executive directors for any day of travel away from their regular station in order to attend to duties of the company.
7. Independent Directors are on a three year contract renewable once.
8. Medical insurance cover is provided to all directors for their individual medical requirements covering both out-patient and inpatient services.

During the financial year ended 31 December 2017, the Board was composed of the following Directors:

Executive	Non-Executive	Independent
Tom Gitogo	Japheth Magomere (Chairman)	Veronicah Leseya
	Peter Nyigei (Vice Chairman)	Mary Mungai
	Michael Wambia	Philip Lopokoiyit
	Gordon Owuor	
	Harrison Githae	
	Jonah Mutuku	
	Rosemary Githaiga	
	James Njue	

DIRECTORS REMUNERATION REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

The following table shows remuneration for the Executive and Non-Executive Directors in respect of qualifying services on the group board for the year ended 31 December 2017.

Group Directors 2017 emoluments (KShs)

Name	Designation	Salary	Allowances	Retainer	Sitting Allowance	Honoraria	Board Expenses	Total
Tom Gitogo	GCEO	52,168,291	21,087,241	-	-	-	-	73,255,532
Japheth Magomere	Chairman			2,574,000	2,830,571	600,000	1,327,429	7,332,000
Peter Nyigei	V/Chairman			1,049,786	1,182,636	585,714	505,314	3,323,450
Gordon Owuor	Director			1,022,457	1,209,036	578,571	478,914	3,288,979
Harrison Githae	Director			1,042,257	1,355,886	585,714	492,114	3,475,971
James Njue	Director			1,022,457	1,055,586	578,571	478,914	3,135,529
Jonah Mutuku	Director			1,022,457	1,260,186	578,571	478,914	3,340,129
Mary Mungai	Director			982,857	821,286	571,429	465,714	2,841,286
Micheal Wambia	Director			1,022,457	1,362,486	578,571	478,914	3,442,429
Philip Lopokoiyit	Director			1,022,457	646,386	578,571	478,914	2,726,329
Rosemary Githaiga	Director			1,022,457	1,004,436	578,571	478,914	3,084,379
Veronicah Leseya	Director			1,022,457	646,386	578,571	478,914	2,726,329
Grand Total		**52,168,291**	**21,087,241**	**12,806,100**	**13,374,879**	**6,392,857**	**6,142,971**	**111,972,340**

Group Directors 2016 emoluments (KShs)

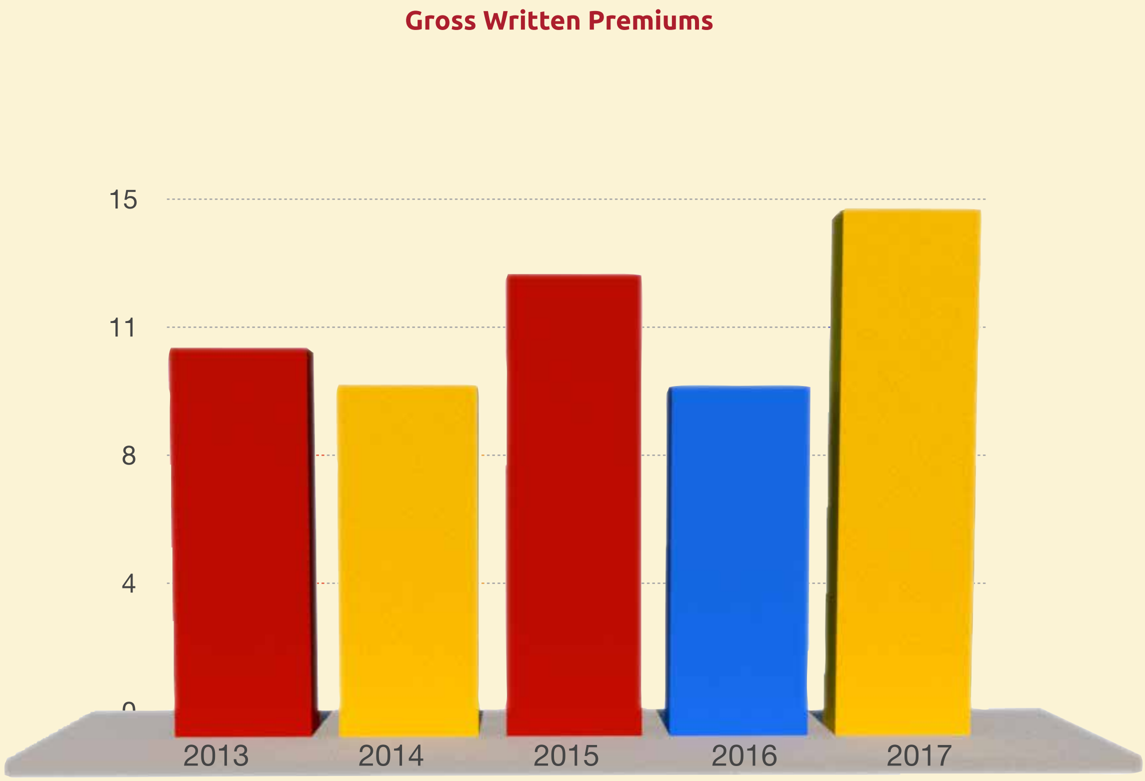
Name	Designation	Salary	Allowances	Retainer	Sitting Allowance	Honoraria	Board Expenses	Total
Tom Gitogo	GCEO	47,425,720	20,988,437					68,414,156
Japheth Magomere	Chairman			2,340,000	2,025,000	600,000	202,500	5,167,500
Peter Nyigei	V/Chairman			936,000	1,012,500	578,571	148,500	2,675,571
Veronicah Leseya	Director			936,000	465,000	578,571	139,500	2,119,071
James Njue	Director			600,000	504,000	-	135,000	1,239,000
Rosemary Githaiga	Director			936,000	558,000	571,429	139,500	2,204,929
Mary Mungai	Director			900,000	810,000	571,429	135,000	2,416,429
Jonah Mutuku	Director			900,000	999,000	571,429	139,500	2,609,929
Gordon Owour	Director			936,000	1,023,000	578,571	139,500	2,677,071
Harrison Githae	Director			954,000	1,056,000	585,714	144,000	2,739,714
Michael Wambia	Director			900,000	1,104,000	571,429	139,500	2,714,929
Rev. Peterson Kagane	Director			330,000	1,194,000	585,714		2,109,714
Philip Lopokoiyit	Director			936,000	558,000	-	139,500	1,633,500
Grand Total		**47,425,720**	**20,988,437**	**11,604,000**	**11,308,500**	**5,792,857**	**1,602,000**	**98,721,513**

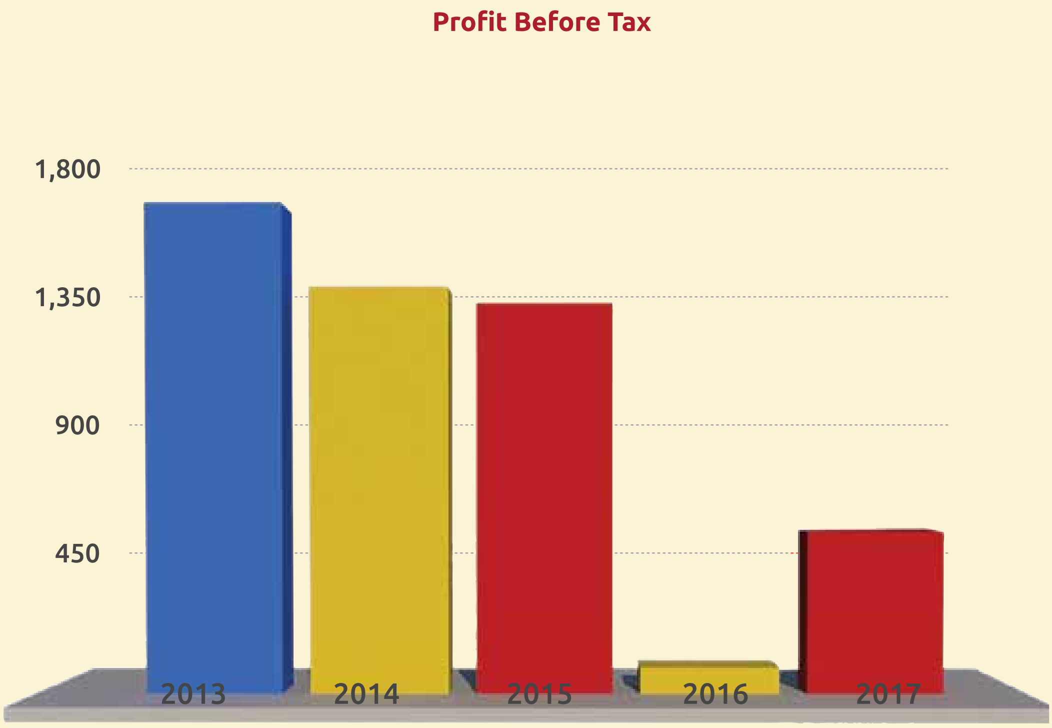
The company will not propose to make any changes in the remuneration level during the current financial year.

By Order of the Board

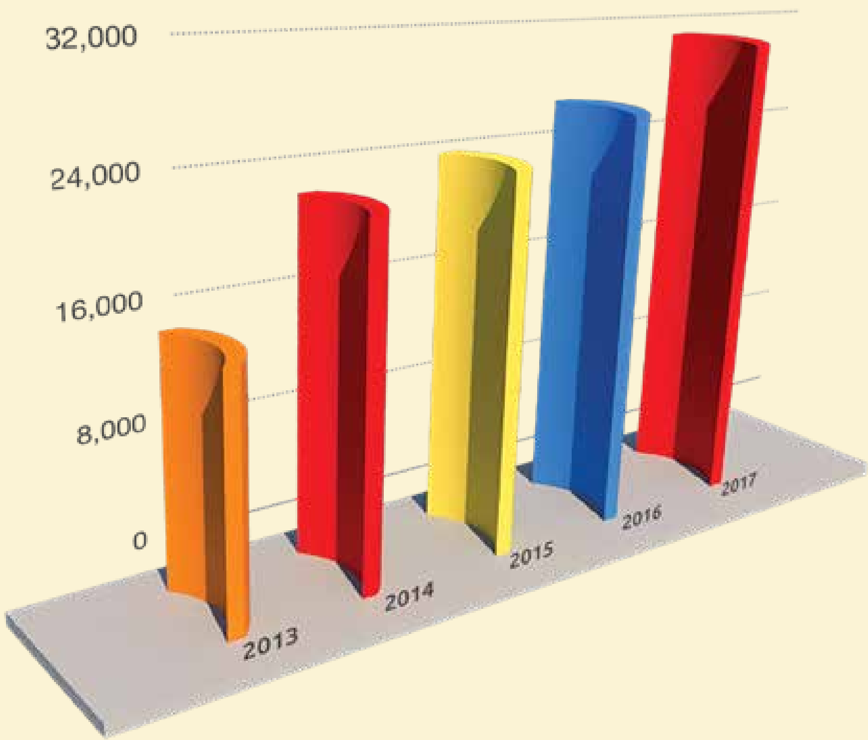
Gail Odongo
Group Company Secretary

FINANCIAL HIGHLIGHTS

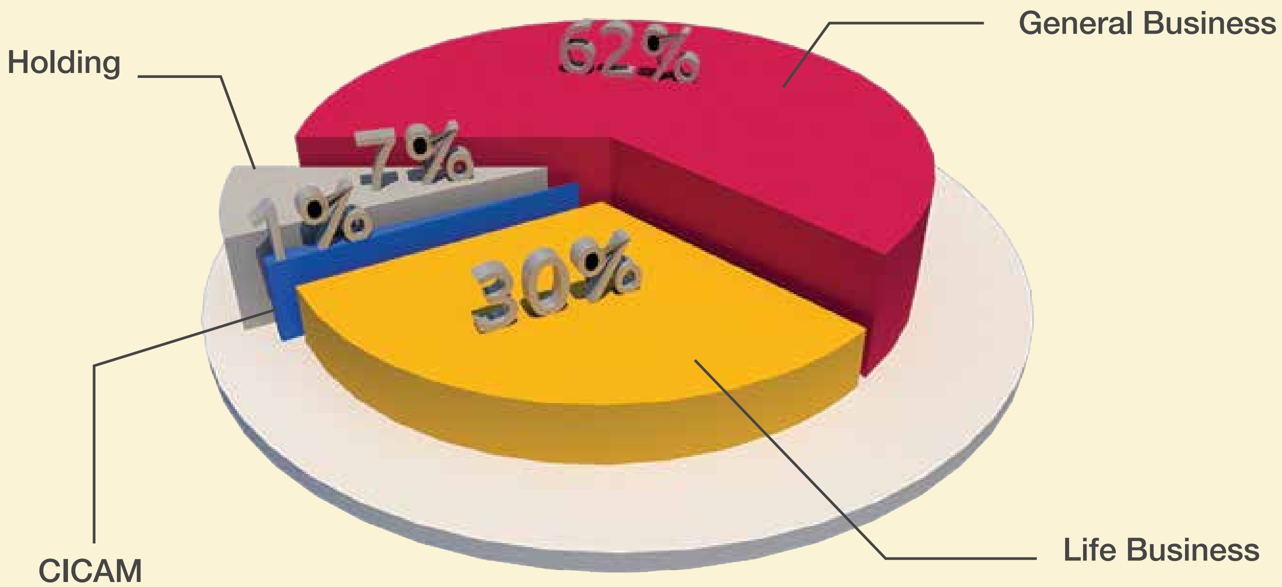




Total Assets



Subsidiaries Performance



FINANCIAL REVIEW
CHIEF FINANCE OFFICER

CIC Group revenues continued to grow at a fairly good rate as with the industry growth though it was not spared the tough economic and business environment that other industry players in the insurance and financial sector faced in the year 2017 where we witnessed depressed economic activity for the better part of the year because of the political season and unfavorable weather conditions.

Gross Written Premium
Gross written premium grew by 21% to Kshs 14.9 Billion compared to industry growth of 6.6%. This drove growth in our market share to 7.2%. We faced challenges in our foreign subsidiaries in Sudan due to hyperinflation and political instability and Malawi due to harsh economic challenges especially on suspension of donor funding.

Net Incurred Claims
Net incurred claims increased by 21% to close at Kshs 7.8B up from the 6.5B in the prior year, however like the industry we were impacted by claims from the Motor, Crop ,Fire and Liability classes of business. The industry claims grew at 17%. Our reinsurance program however heavily cushioned us from the big losses experienced.

Investment Income
Economic performance due to the political period and interest rate capping on the banks had a major impact on our investment income for 2017, however our income increased by 19% compared to 2016. We experienced increase in dividends receivable by 120%, bonds by 30%, commercial papers by 101% and a decline in bank deposit interest by 14%, we also got fairly good returns from our treasury bills with a growth of 93%.

Other Gains
Our other gains increased by 38%. This was mainly comprised of fair value gains on property which declined by Kshs 94M (15%) due to the current slow growth in the property market in 2017 compared to previous year. However the impact of the stock market performance affected us positively by Kshs 208M as well as the fair value loss on the chase bond which improved from prior year by Kshs11M.

South Sudan Pound Devaluation and Hyper-Inflation
Hyperinflation in South Sudan had a negative impact on our profits due to hyperinflation accounting application in our financial statements as per IAS29. The group had to absorb a Loss on net monetary position of Kshs 187M.

Operating Expenses
Our operating expenses grew by 8% to Kshs 4.2B; this was driven by our aggressive provisioning of doubtful debts by Kshs 530M and one off expenses in the year. The company has come up with cost containment initiatives that will control expenses for 2018.

Profit and Other Comprehensive Income
Profit before tax increased by 354% to Kshs 519M, we had a tax credit of Kshs 98M that reduced the tax payable to Kshs 40M. Our profit after tax was Kshs 478M. Foreign exchange translation loss of Kshs 100M especially from our South Sudan Subsidiary and surplus on revaluation of our buildings of Kshs 22M impacted on our other comprehensive income. The comprehensive income overall declined by 45% to Kshs 125M. Our total comprehensive income for the year increased by 953% to a profit of Kshs 353M.

CASH GENERATED FROM OPERATIONS

Despite the challenging year faced, we managed to generate cash from operations of Kshs 2.1B. Cash and cash equivalents declined by 34% to Kshs 2.9B.

Dividend
The directors recommend the payment of a first and final dividend of Kshs 313,869,000 (2016: 274,635,699) which represents 12% of paid up capital (2016:10.5%). During 2017, we made several key milestones, designed to drive business growth, efficiency and good customer service. We made significant strategic investment in information technology, processes, products and people thus giving us a much stronger foundation to run the business.

Other matters
Accounting standards and policies

CIC Group has prepared its annual Consolidated Financial Statements in accordance with IFRS. The application of the accounting standards and the accounting policies adopted by CIC Group are set out in the Accounting Policies and Procedures manual.

There were no material changes to the accounting standards or policies applied in 2017 from those applied in 2016. Future changes applicable on the accounting standards that will be applied by the Group are set out in the Notes on the Financial Statements (note 1 – Accounting Policies).The impact is not expected to be material to the Group's results.

The Company is working towards integrated reporting framework.

George Wafula
GROUP CFO

RISK MANAGEMENT REPORT

Introduction

The CIC Group's overall risk management programme focuses on the identification and mitigations of risks and seeks to minimise potential adverse effects on its financial performance. These risks are either unique to the insurance business operation or contributed to existing within the business environment within which the Group operates. The group manages its risks through the development of a risk aware culture. The key areas are monitoring underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximize return within an acceptable level of interest rate risk.

The risk management approach and framework

CIC Insurance Group is committed to optimal management of risks in order to achieve the vision of "being the world class provider of insurance and other financial services through the co-operative spirit."

For this commitment to be realized, the board and management have committed to manage risks intelligently. This means identifying the risks early, and making decisions on which risks to take, how to manage these risks and which risks should be avoided. Effective Risk management is key in CIC's ability to achieve its strategic goals. In order to achieve this systemic management of risks, the CIC board has developed an enterprise risk management (ERM) framework. This framework is meant to help CIC identify, categorize and deal with the risks.

The framework is GUIDED by the schedule of legislations in schedule 1 aligned to the committee of sponsoring organizations of the treadway commission (COSO), ISO 31000 and Solvency II. The risk covered within the framework include insurance risk, financial risk, credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. In addition emphasis is laid on Ethics as well as Fraud Prevention, with training programmes in place to equip staff with the skills necessary for detection, analysing and managing risk on an on-going basis.

Risk Management Roles

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board approves the Group's risk management policies, Appetites and sets the tolerance levels to govern the culture, identification, analyses, reporting and mitigation of material risk. The board oversees CIC's overall risk appetite, tolerance and strategy. The Group's risk management policies and processes are reviewed regularly to ensure they keep up with changes in current and prospective macroeconomic, financial, business and regulatory environment. The Group, through its training programs, management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board's Audit and Risk Management Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy and effectiveness of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in these functions by the Risk Management Department, which has oversight on enterprise wide risks with regular reporting to senior management and the Risk Management Committee of the Board.

All risks are owned and managed directly by the relevant business units which work as the first line of defence with direct managerial and operational responsibility for identifying, managing and responding to risks. The Risk Management Department works as the second line of defence providing oversight, tailor made processes and tools to enable the company quantify the risk and establish the appropriate level of solvency required to protect the company against the risks.

The Audit Division is the third line of defense providing regular audits to give assurance to the Board on the Identification and management of risks. CIC has established standards, policies and procedures to enable strong

Governance and management of risk.

All Units within the Subsidiaries and Shared services of the Group are provided with tools and skills to self- assess risks, identify key risk indicators, report and manage risks. The units have designated risk champions who work with the Risk Management Department to manage risks within their respective units.

I. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The CIC Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

II. Financial risk

The CIC Group is exposed to financial risk through its financial assets, financial liabilities (investment contracts), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk and credit risk.

The CIC Group manages these positions within an asset liability management ("ALM") framework that has been developed to match assets to the liabilities arising from insurance and investment contracts.

The exposure to currency exchange risk is minimal since most of the transactions are in Kenya Shillings. There is however a component of foreign currency risk arising from the group's foreign subsidiaries' operations, especially in the hyperinflationary South Sudan. Sound investment diversification, and minimizing foreign currency exchange while doing transactions help in minimizing this currency risk.

III. Credit risk

CIC is exposed to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when due. Key areas where the CIC Group is exposed to credit risk are:

- Insurance receivables;
- Reinsurance and coinsurance receivables; and
- Reinsurers' and co-insurers' share of insurance liabilities

Other areas where credit risk arises include cash at bank, corporate bonds and deposits with banks and other receivables. The Group has no significant concentrations of credit risk. It structures the levels of credit risk it accepts by placing limits on its exposure to a single counter-party, or groups of counter- parties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors. Reinsurance is used to manage insurance risk. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The exposure to individual counter-parties is also managed by other mechanisms, such as the right of offset where counter-parties are both debtors and creditors of the company.

Fraud Risk

CIC focuses proactively on management of fraud risk with emphasis on detecting and preventing fraud. The Group under its Risk and Compliance team has an Anti- Fraud section which also provides training and awareness for staff on fraud prevention. It is worth noting that the team's presence in the Risk Division denotes the Group's emphasis on proactive prevention of fraud as opposed to reactive investigation. A whistle blowing hotline for fraud is available with reported issues investigated and appropriate action taken.

Ethics and Code of Conduct

CIC adopts a zero tolerance position to all forms of corruption, bribery and unethical business practice at the workplace, and requires all persons associated with the Group to exhibit the behaviours and standards defined in the Group Code of Ethical Conduct. The Code covers a wide range of expected behaviour in business, and is supported by various documented procedures to handle specific situations as indicated in the below:

- Code of Conduct and Ethics
- CIC Group Gift Policy
- CIC Group Prevention of Insider trading
- CIC Group Confidentiality Policy
- CIC Group Whistle Blower Policy

CORPORATE SOCIAL RESPONSILBILITY

Introduction

CIC Foundation is the arm charged with running corporate social responsibility activities for CIC Group. Since its inception in 2014 the foundation has dedicated resources to support value adding initiatives that impact society. The foundation has two major pillars that guide its operation stated in its trust deed and policy. The first is to promote education opportunities for needy students, talent development and empowerment of youth and women. The second pillar is to promote environmental conservation. The foundation aims to impact society wherever it has a foot print and change the life story of many across the nation. The foundation's main sponsor is CIC Group.

Education for needy and bright students

CIC foundation views education as a critical component of development. Owing to CIC Group's composition of ownership, 75% owned by the cooperative movement and 25% by individual shareholders, CIC has been in touch with communities while engaging its key stakeholders, majority whom are locally based. Through engagement with communities, the foundation has identified access to education as a major challenge especially for members of society at the low income bracket. To address this challenge, the foundation in 2017 sponsored 21 needy and bright students drawn from across the country. Following the new intake, CIC Foundation has grown to have a total of 43 students in its high school sponsorship program as at end of 2017.

Education and Road Safety

In its quest to encourage access to education, the foundation supported a road safety initiative targeting school children from public primary schools. This was informed by reports of road carnage affecting children who are vulnerable road users owing to their age and lower sense of judgment. The program educated school children on road safety rules using a model that best relates to them, making it easier to embrace behavior change. The program also included crossing guards stationed in every school, aiding close to 10,000 children access their schools safely. The program has been successful, reducing the number of road accident cases reported by over 70% thereby improving the learning experience for the children. The program covered a total of 18 schools from Nairobi, Kisumu and Mombasa counties.

CIC staff sensitizing the public on observing road safety rules during one of its road safety campaigns.

CIC staff with pupils of St Anne's Primary School along Jogoo road after a road safety campaign

Environmental conservation

Kenya's forest cover is a key concern at the national level due to its reduction from over 10% at the turn of the century to less than 7% in present time. This change has been mainly attributed to increased human activity within forest areas. The government has since implemented programs to improve the forest cover but the intended goal of attaining a minimum of 10% by 2030 is still far from being realized. Owing to the importance of forest cover in protecting water catchment areas and supporting life, CIC worked with other cooperative members to plant over 500 trees during their annual Ushirika Celebrations. Members were able to enlighten the public on the need to conserve nature for survival.

CIC employees also took measures to maintain a clean and healthy environment where they operate. The staff participated in a series of clean-up activities targeting abandoned areas within Upperhill. The initiative under the Upperhill District Association (UHDA) brought together stakeholders sensitizing the community on the importance of maintaining a clean and healthy environment.

CIC staff ready for the clean up action accompanied by a Nairobi City County official

Clean-up held to promote a healthy environment within Upperhill area

Talent development through sports

CIC is keen on promoting talent development especially for the youth who form the largest proportion of Kenya's unemployed population. About 39% of Kenya's working age are unemployed, majority of this proportion being the youth. CIC sought to make its contribution towards addressing this problem. The company sponsored Kenya Harlequins rugby team giving over 50 players the opportunity to nurture their talent. The sponsorship also aimed at empowering the youth to view the sport as an avenue of earning a living. Following the sponsorship the team was able to participate in key tournaments showcasing their talent to the country and beyond. Harlequins closed the year as one of the best performing rugby teams in the country.

Harlequins' rugby team playing in one of the key tournaments in the country

CIC also sponsored golf tournaments aiming to grow the talent of young players. The tournaments saw a growing interest in the demographic, encouraging the young to develop their talent. Continued exposure to the young players is expected to provide Kenya increased representation of professional golfers at the global stage.

One of the young golfers with her fellow team mates at a CIC tournament

Serving the underprivileged

CIC reached out to the underprivileged visiting those vulnerable in society to empower them in the face of day to day challenges. Company staff gave food stuff and clothing to New Life Home Trust a children's home. The home takes care of abandoned children with centers in Nairobi, Nakuru and Kisumu. CIC staff also visited Mwamko Children's Home offering a similar level of support including mentorship. We pride ourselves in being responsive to societal needs and take pleasure in such initiatives which empower those who are many times forgotten.

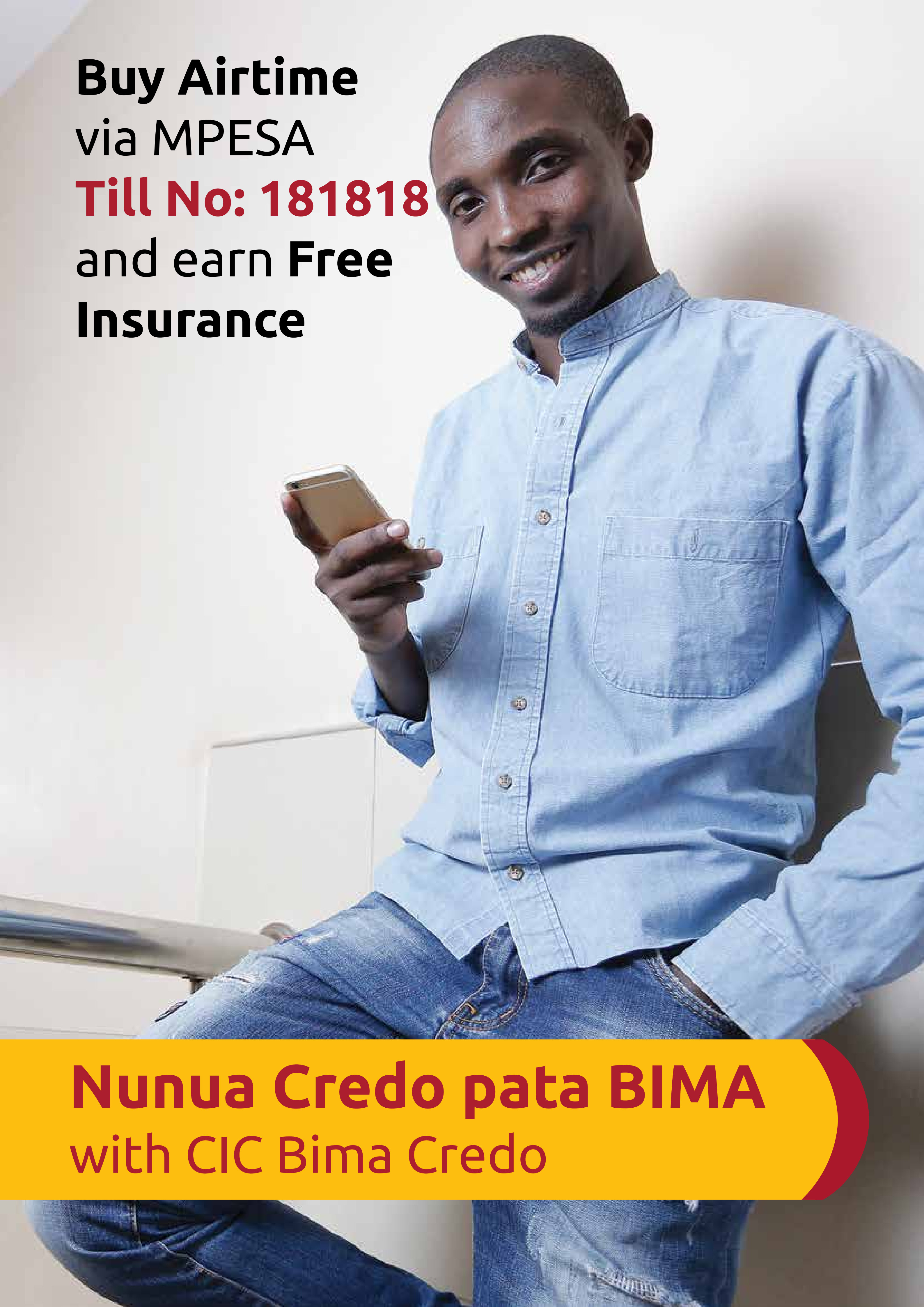
CIC Staff on Valentine's day spreading some love at Mbagathi District Hospital, Nairobi.

New Life Home team receive donations from CIC staff on Valentine 's Day

Other activities

Institutional talks held for Centonomy students on insurance and investment at CIC premises

CIC Group CEO Tom Gitogo with a CIC customer during St Andrews Charity Golf day.



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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors submit their report together with the audited financial statements for the year ended 31 December 2017.

1. INCORPORATION
The company is domiciled in Kenya where it is incorporated as a public company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 1.

2. DIRECTORATE
The directors who held office during the year and to the date of this report are set out on page 1.

3. PRINCIPAL ACTIVITIES
The principal activity of the Group is the transaction of general and life insurance business and fund management. The Group also invests in equity and government securities, properties and loans.

4. RECOMMENDED DIVIDEND
The directors recommend the approval of a first and final dividend of KShs 313,869,000. (2016: KShs 274,635,699) which represents 12% of paid up capital (2016: 10.5%)

5. GROUP RESULTS

	2017 KShs'000	2016 KShs'000
Profit before taxation	519,156	114,388
Taxation (charge)/credit	(40,683)	73,797
Profit for the year	**478,473**	**188,185**

6. BUSINESS REVIEW

Operating Model and Service delivery models

Our operating model is a customer driven model, where all our functions work together with a unitary goal of serving the customer at one stop (One CIC). A service delivery model defines how work adds value and relates to the business. At CIC Group, we operate a flexible and aligned service delivery model that will ensure that customers (both external and internal) are served promptly, and in a cost effective way.

Our service delivery model is also aimed at ensuring we deliver the best service to our customers at the same time aiming at creating shareholder value. We create shareholder value by focusing on several core areas, underpinned by our commitment to creating and maintaining a sustainable business. These are:

Products and Services

Our operating model includes a comprehensive and fully embedded risk management process which assists us in identifying and managing risks and opportunities to deliver the Group's strategy and the other essential elements of our business model. CIC Group is licensed to trade in all product lines except aviation. CIC Group was awarded the 2017 Group Life Company of the Year Award.

Claims Settlement and management process

The claims settlement process is the true value of an insurance cover. Claims account for the highest percentage of the group's cost. The manner in which a claims process is managed is therefore vital to the group's profitability and we endeavor to deliver on our promise of keeping our word and our promise to our clients. In addition, we have mechanism in place to ensure the fraudulent claims do not fall through and minimize the risks that come through as a result of fraudulent claims. The group has in place a strong and robust reinsurance program to cover any huge risks that may befall it at any point in time.

REPORT OF THE DIRECTORS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

6. BUSINESS REVIEW (CONTINUED)

In the year, Global Credit Rating (GCR) affirmed the national scale claims paying ability rating assigned to CIC General Insurance Limited of A (KE) while CIC Life Assurance Limited scored an A+ (KE) rating. Following a ddetailed analysis and research with key players in the motor vehicle accident and repair value chain CIC Insurance has set up its own motor assessment centre. This will enhance faster turnaround times, faster resolution of disputes leading to more efficient claims processing and management systems.

Distribution Network

The group has footprint across the country through the branch networks, brokers & independent agents and tied financial advisors. We endeavor to bring our products and services closer to our clients through our branch network all over the country and our regional offices in South Sudan, Uganda and Malawi. We have a head office at Upper hill, Nairobi and 24 branches situated in various parts of the country. We have also partnered with various intermediaries who are very instrumental in our process of making the products available to our clients. We have also entered into various strategic business partnerships including; The Cooperative Movement, banks and the intermediaries so that our products reach and serve every household in Kenya.

The group has also embraced ICT technology to distribute its products through M-bima platform. Social and mainstream media has also been used to create awareness of the group's products.

Income and Asset growth

Increasing assets, growing revenue and lowering unit costs enables us to drive our profit and further invest in growing our business. We derive our income through prudent underwriting processes in Life and General insurance products, managing client's investment under Asset management, Managing pensions, annuity funds on behalf of our customers and investment income generated from the funds we invest.

Our focus in setting such targets is to achieve sustainable performance over the short and long term. We supplement the income from our underwriting processes through the returns from the various investment portfolios. The Group owns two commercial buildings in Upper hill which generates rental income and parcels of land at Kisaju, Kiambu and Kajiado which continue to appreciate and offer competitive returns. The Kiambu property is in the final stage of development plans approvals.

We create value for our shareholders by efficiently managing the financial resources and strong management of the company as a whole.

Information Communication and Technology

The company has invested heavily in ICT infrastructure and systems. Currently, CIC Group has businesses operating all over Kenya with 25 branches. The Group customers can file a report including claims at any CIC branch offices countrywide. The branches are interconnected with the head office via a wide area network which makes communication easy.

The group has also heavily invested in a Life insurance distribution portal and mobile App. To enhance efficiency and timely reports, the group is implementing an ERP system within which will integrate processes and reports with other business systems.

Employees and leadership

Employees play the key role in delivering the group's strategic objectives and goals. The group is among the top companies in the industry with highly trained, skilled, motivated and remunerated employees. The group has heavily invested in employee training, development and coaching. CIC Group has a strong management and leadership which has long embraced and practiced strategic thinking and co-operative entrepreneurship spirit.

REPORT OF THE DIRECTORS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

6. BUSINESS REVIEW (CONTINUED)

Strong brand presence and Value proposition

CIC Group has a strong and visible brand presence all over the country. It offers unique value proposition to various customer segments using the right channels and products. Differentiation is one of the most important strategic and tactical activities in order to win in the chosen markets. We shall continue leveraging on this good will to maximize market and profitable growth.

Procurement

CIC Group spends a sizeable amount of its financial resources on procuring various goods, works and services to facilitate the discharge of its mandate and mission. This is done by following a uniform, systematic, efficient and cost effective procedure to ensure that best total value is achieved when procuring goods, services and works. The procurement process is conducted in a transparent manner to bring competition, fairness and elimination of arbitrariness in the system under the following principles

1. Value for money: This is the trade-off between price and performance that provides the greatest overall benefit under the specified selection criteria.
2. Fairness: To achieve best value for money, the procurement process must protect the Group from proscribed practices such as fraud, corruption, collusion and other unethical practices.
3. Integrity & Transparency: The manner in which the procurement process is undertaken must provide all internal and external stakeholders with assurance that the process is fair and transparent and that integrity has been maintained.
4. Effective Competition: By fostering effective competition among vendors, CIC Group applies the principles of fairness, integrity and transparency to achieve best value for money.
5. Best Interests: Undertaking procurement in the best interest means carrying out procurement activities in a manner that enables CIC Group attain its general and specific objectives in compliance with applicable procurement procedures.

CIC Group Procurement policy and manual is approved by the board every two years.

7. STATEMENT AS TO DISCLOSURE 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.

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 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 16 million has been charged to profit or loss in the year.

BY ORDER OF THE BOARD
Secretary

Gail Odongo
14th March, 2018
Nairobi, Kenya

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2017

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 and its subsidiaries (together 'the group') 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 group and company keeps proper accounting records that: (a) show and explain the transactions of the group and company; (b) disclose, with reasonable accuracy, the financial position of the group and company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Kenyan 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 group's and 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 group's and 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 14th March, 2018 and signed on its behalf by:

....	....
Director	Director
Japheth Magomere OGW	**Tom Gitogo**

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REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF CIC INSURANCE GROUP LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and separate financial statements of CIC Insurance Group Limited (the Company) and its subsidiaries (together, the Group), set out on pages 63 to 173, which comprise the consolidated and separate statements of financial position as at 31 December 2017, the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of CIC Insurance Group Limited as at 31 December 2017 and its consolidated and separate financial performance and consolidated and separate 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 Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate 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 Consolidated and Separate 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 consolidated and separate 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.

Partners: J K Cheboror, C O Atinda, H C Wasike, G Gitahi, M M Kimoni, C W Mbogo, A K Gichuhi,
L K Gathungu, A M Muthusi, J M Ngonga, F N M Kamau, N M Muhoya, T O Nyakoe, C A Munda.
A member firm of Ernst & Young Global Limited.

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Key Audit Matter	How the matter was addressed in the audit
Going concern of the subsidiaries	
The Group has invested in subsidiaries, namely, CIC Africa (Uganda) Limited based in Uganda, CIC Africa Insurance (SS) Limited based in South Sudan and CIC Africa Co-operatives Insurance Limited based in Malawi. CIC Africa (Uganda) Limited reported a loss of KShs 67 million for the year ended 31 December 2017, with accumulated losses of KShs 336 million. In addition, the company was in a net liability position of KShs 75 million. Therefore the company is technically insolvent. CIC Africa Co-operatives Insurance Limited reported a loss of KShs 74 million for the year ended 31 December 2017. In addition, the company was in a net liability position of KShs 13 million. Therefore the company is technically insolvent. The political instability in South Sudan has created an unfavourable business environment which has led to uncertainty about CIC Africa Insurance (SS) Limited's ability to remain as a going concern in the foreseeable future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the subsidiaries' ability to continue as going concerns. Except for CIC Africa Insurance (SS) Limited, the subsidiaries continue to rely on the parent for financial support to settle their obligations when they fall due. We have considered this issue as a key audit matter since the results of the subsidiaries are material to the Group's financial position and performance. Further, management's assessment as to whether these companies will remain as going concerns into the foreseeable future involves significant assumptions. Management has made disclosures on the going concern of the subsidiaries in note 57 of the financial statements.	We reviewed management's assessment of the Group's ability to continue as a going concern including the process management followed to make its assessment, the assumptions on which the assessment is based and management's plan for future actions. We assessed the effect of the going concern uncertainty of the subsidiaries on the Group. We reviewed letters of undertaking provided by the Group to the subsidiaries confirming that they will continue supporting them by settling their obligations as and when they fall due. We assessed whether the parent company has the ability to continue supporting the subsidiaries. We obtained representations from the Group management that they will continue to monitor the political situation in South Sudan and assess the ability of CIC Africa Insurance (SS) Limited to continue as a going concern into the foreseeable future. We assessed whether the financial statements disclosures on going concern are complete and adequate.

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Key Audit Matter	How the matter was addressed in the audit
Tax Assessment	
The Kenya Revenue Authority carried out an audit of the Group entities incorporated in Kenya covering Value Added Tax (VAT), Excise Duty and Corporation Tax for the period 2011 to 2014, and raised an assessment of KShs 140.9 million, being principal and interest. CIC Asset Management Limited settled KShs 24 million which was the principal amount assessed on VAT. The Group's management is confident that no further liability will crystallize from the assessment and hence no provision that has been made in the books of account. Management has disclosed a contingent liability of KShs 116.9 million in note 2 to the financial statements. We considered this issue a key audit matter since there is uncertainty as to whether any liability will crystallize.	We reviewed correspondence between the Group and the Kenya Revenue Authority to confirm the accuracy of the contingent tax liability as disclosed in the financial statements. We enquired from the tax consultants on the status of the matters that the Group is pursuing with Kenya Revenue Authority in relation to the assessment. We evaluated management's assumptions and judgements used in determining that no further liability will crystallize. We assessed the financial statement disclosures on the contingent liability.
Impairment of receivables arising out of direct insurance arrangements	
As at 31 December 2017, the Group's gross receivables arising out of direct insurance arrangements amounted to KShs 2.8 billion of which KShs 1.3 billion has been impaired as disclosed in note 28 (a). The impairment losses are recognised in profit or loss under operating and other expenses (note 8). At the end of the year, management assesses receivables aged over 120 days for impairment. As disclosed in note 2, assumptions are made in the determination of customers that will default, and judgment is involved in estimating the timing and amount of expected future cash flows to be used in calculating the impairment loss. We considered this issue to be a key audit matter since the determination of the impaired receivables is highly subjective. We also considered the disclosures to be of importance to the users' understanding of the financial statements.	We understood management's process for determining whether a receivable is impaired. On a sample basis, we tested the ageing of the receivables arising out of direct insurance arrangements balances used in the impairment assessment. We evaluated the provisions for doubtful receivables, including the assumptions and judgments applied in assessing the creditworthiness of the debtors. We assessed whether management's process for determining provisions for doubtful debts is in line with the Group's credit policy on impairment. We assessed whether the financial statements disclosures are complete and adequate.

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Key Audit Matter	How the matter was addressed in the audit
Valuation on Invetment property	
As at 31 December 2017, the carrying amount of the Group's investment property was KShs 6.7 billion as disclosed in note 14 to the financial statements. The investment property is measured at fair value in accordance with the International Accounting Standard (IAS) 40 Investment Property. The Group's policy is to revalue the investment property annually using an external valuer. The basis adopted in the valuation of investment property was open market value assessed using the investment, cost and market comparison analysis methods. Given that the fair valuation of investment property involves significant estimation and assumptions (such as future rent rates, expected maintenance), and the importance of the disclosures relating to the assumptions used in the valuation which are included in Note 14, we considered this as a key audit matter.	We evaluated the objectivity and independence of the external valuer. We assessed the underlying assumptions applied in the determination of the fair value were justifiable in the context of the industry and nature of the investment property. We assessed whether the valuation methodologies and assumptions adopted in determining the fair values of the investment property were in accordance with IFRS. We evaluated whether the determined fair values were in line with the market values for similar property in similar locations. We assessed the Group's disclosures in respect of the assumptions used in valuation of the investment properties.
Valuation of Policy Holders' Liabilities	
CIC Life Assurance Limited deals with 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). 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 Group's disclosures in respect of the assumptions used in valuation as set out in note 45 to the financial statements.

Key Audit Matter	How the matter was addressed in the audit
Valuation of Investments in Chase Bank Limited	
As at 31 December 2017, the Group held in its books of account a Chase Bank Limited corporate bond amounting to KShs 155 million which is 23 % of the total corporate bonds portfolio. Chase Bank Limited was placed under receivership for a maximum period of 12 months effective April 7, 2016. Trading of the corporate bond at the Nairobi Securities Exchange Limited was suspended on 8 April 2016 following a directive from the Capital Markets Authority. This suspension was yet to be lifted as at 31 December 2017. The bond is a financial instruments designated at fair value through profit or loss as per IAS 39: Financial Instruments: Recognition and Measurement. Since the bond is no longer listed on the Nairobi Securities Exchange, it is not possible to determine its fair value using market inputs. Therefore, its fair value has been determined using discounted cash flow (DCF) valuation model after determining an appropriate discount rate as disclosed in note 56. Management's disclosures about the valuation of this bond are included in notes 20 and 56. We considered this issue to be a key audit matter since the determination of the fair value of the bond is complex in nature and involves significant judgements and assumptions being made in determining the future cash flows to be received from the bond upon maturity as well as the appropriate rate to use in discounting those cash flows.	We evaluated the valuation methodologies used in determining the fair value of the Chase Bank Limited corporate bond. We involved our internal valuation specialists to examine the valuation inputs and assumptions made by management in determining the fair value of the bond in the absence of market inputs. We assessed the financial statement disclosures concerning those key valuation assumptions and inputs.
Recoverability of Deferred Tax Asset	
The company has recognised a net deferred tax asset amounting to KShs 246 million in the financial statements resulting from tax losses carried forward from tax losses as well as temporary differences arising from differences between the carrying amount and tax base of assets and liabilities as disclosed in note 17 of the financial statements. The significant assumptions relating to the recoverability of this deferred asset are disclosed in note 2 in the financial statements. The recognition of a deferred tax asset in respect of tax losses is permitted only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward. Management has done an assessment as to whether the recognition of the deferred tax is assessed as reasonable based on forecasted performance of the company. We considered this to be a key audit matter because the expected revenue growth from the company's planned real estate project, and other assumptions used in determining forecast profits for the future utilisation of deferred tax asset, are areas that required significant management judgement. We also considered the disclosures in relation to this matter to be important to the users' understanding of the financial statements.	We obtained the forecasted budget as prepared by the entity and evaluated the assumptions made in the budgets and forecasts supporting the recoverability of the deferred tax asset. We checked whether the budget has been subject to internal reviews and approved by those charged with governance. We tested the arithmetical accuracy of the calculations within the profitability forecasts. We determined completeness of the related disclosures in the financial statements.

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Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and 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 Group and Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the group and company's financial reporting processes.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and 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 Group and Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

i) in our opinion, the information given in the report of the directors on pages 50 to 52 is consistent with the consolidated and separate financial statements; and,

ii) in our opinion, the auditable part of directors' remuneration report on page 34 to 35 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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
27 /4 /.................................. 2018


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CONSOLIDATED AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Group 2017 KShs'000	Group 2016 KShs'000	Group 2017 KShs'000	2016 KShs'000
Gross written premiums	3 (a)	14,886,887	12,366,319	-	-
Gross earned premiums	3 (b)	14,336,192	11,814,012	-	-
Less: Reinsurance premiums ceded	3 (c)	(2,241,195)	(1,782,711)	-	-
Net earned premiums		12,094,997	10,031,301	-	-
Fees and commission income	4 (a)	1,023,407	649,682	-	-
Investment income	5	1,543,581	1,301,671	287,253	325,093
Other gains	6	704,373	509,385	491,246	444,120
Foreign exchange gain		233,904	525,321	-	-
Dividend income		-	-	262,000	262,000
		3,505,265	2,986,059	1,040,499	1,031,213
		15,600,262	13,017,360	1,040,499	1,031,213
Commissions expense	4 (b)	(2,122,470)	(1,538,723)	-	-
Claims and policyholders benefits payable					
Gross benefits and claims paid	7	(8,900,071)	(7,457,921)	-	-
Gross change in insurance contract liabilities	7	(946,294)	(726,611)	-	-
Claims ceded to reinsurers	7	1,989,897	1,715,059	-	-
Net benefits and claims	7	(7,856,468)	(6,469,473)	-	-
Operating and other expenses	8	(4,264,736)	(3,956,009)	(117,026)	(207,154)
Loss on net monetary position	9	(187,478)	(297,479)	-	-
		(14,431,152)	(12,261,684)	(117,026)	(207,154)
Finance cost	10	(650,000)	(650,000)	(650,000)	(650,000)
Share of profit of associate	17	46	8,712	-	-
Profit before taxation		519,156	114,388	273,473	174,059
Taxation (charge)/credit	11	(40,683)	73,797	98,275	120,714
Profit for the year		478,473	188,185	371,748	294,773
OTHER COMPREHENSIVE INCOME					
Other comprehensive income not to be reclassified to profit or loss in subsequent years					
Surplus on revaluation of buildings	13	21,914	38,824	-	-
Other comprehensive income to be reclassified to profit or loss in subsequent years					
Fair value (loss)/gain on government securities classified as available-for -sale investments	22	(51,308)	(9,706)	2,024	186
Fair value gain/(loss) on available-for -sale equity investments	23	3,586	(2,262)	-	-
Foreign exchange currency translation loss	37	(99,595)	(256,413)	-	-
		(125,403)	(229,557)	2,024	186
Total comprehensive income for the year		353,070	(41,372)	373,772	294,959
Earnings per share (KShs)	12	0.18	0.07	0.14	0.11

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 KShs'000	2016 KShs'000
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		489,485	118,060
NON - CONTROLLING INTERESTS		(11,012)	70,125
		478,473	188,185
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		421,296	(44,977)
NON CONTROLLING INTEREST		(68,226)	3,605
		353,070	(41,372)
EARNINGS PER SHARE (KShs) – BASIC AND DILUTED	12	0.18	0.07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 KShs'000	2016 KShs'000 Restated*
ASSETS			
Property and equipment	13 (a)	1,204,738	1,271,171
Investment properties	14 (a)	6,686,483	6,051,288
Intangible assets	15 (a)	171,257	68,246
Deferred tax asset	16 (a)	639,615	385,938
Investment in associate	17	137,924	182,610
Corporate bonds at fair value through profit or loss	19	672,660	614,124
Government securities classified as held to maturity	20	1,412,690	930,739
Loans receivable -Mortgage loans	21 (a)	392,728	475,267
-Other loans	21 (b)	429,056	502,471
Government securities classified as available for sale	22 (a)	5,005,009	3,981,758
Equity investments classified as available for sale	23	20,449	16,863
Equity investments at fair value through profit or loss	24	1,240,619	910,652
Deposits and commercial paper	25 (a)	1,295,182	1,667,942
Deferred acquisition costs	26	592,713	473,033
Receivables arising out of direct insurance arrangements	27 (a)	1,527,331	1,421,193
Receivables arising out of reinsurance arrangements	27 (b)	1,429,216	944,172
Reinsurers share of liabilities and reserves	28	2,252,569	2,040,889
Taxation recoverable	11 (b)	-	148,808
Other receivables	29 (a)	249,650	244,264
Due from related parties	30	45,886	103,300
Deposits with financial institutions	31 (a)	4,836,107	3,780,495
Cash and bank balances	51	263,494	611,463
Total assets		30,505,376	26,826,686
EQUITY AND LIABILITIES			
Share capital	32	2,615,578	2,615,578
Share premium	33	162,179	162,179
Statutory reserve	34	1,102,608	1,034,836
Contingency reserve	35	9,435	2,150
Revaluation surplus	36	128,423	109,368
Foreign currency translation reserve	37	(417,894)	(378,372)
Fair value deficit	38	(265,610)	(217,888)
Retained earnings	39	4,227,821	4,012,652
Equity attributable the owners of the parent		7,562,540	7,340,503
Non-controlling interest	40	74,568	138,960
Total equity		7,637,108	7,479,463
LIABILITIES			
Deferred tax liability	16 (a)	473,809	446,236
Borrowings	41	5,106,529	5,086,021
Other payables	42 (a)	949,764	650,474
Tax payable	11 (b)	43,341	-
Dividend payable	43	34,607	34,607
Payables arising from reinsurance arrangements and insurance bodies	27 (c)	132,403	116,575
Deposits administration contracts	44	2,113,915	1,279,674
Actuarial value of policyholder liabilities	45	4,268,880	3,563,995
Unit linked contracts	46	536,926	458,536
Provisions for unearned premiums reserve and unexpired risks	47	4,510,237	3,959,542
Insurance contracts liabilities	48	4,697,857	3,751,563
Total liabilities		22,868,268	19,347,223
Total equity and liabilities		30,505,376	26,826,686

*Certain figures shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 58.

The financial statements were approved by the Board of Directors on 14th March, 2018 and signed on its behalf by:

Group Chairman
Japheth Magomere OGW

Director
Philip Lopokoiyit

Group Chief Executive Officer
Tom Gitogo

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 KShs'000	2016 KShs'000 Restated*
ASSETS			
Property and equipment	13 (b)	53,602	65,380
Investment properties	14 (b)	3,100,000	2,600,000
Intangible assets	15 (b)	14,617	20,247
Deferred tax asset	16 (b)	245,344	147,069
Investment in associate	17	138,400	183,132
Investment in subsidiaries	18	3,528,633	3,364,754
Loans receivables – Mortgage loans	21 (a)	44,844	86,283
Other loans	21 (b)	29,080	44,176
Government securities classified as available for sale	22 (b)	35,113	33,089
Taxation recoverable	11 (e)	2,000	2,000
Deposits and commercial paper	25 (b)	888	92,392
Other receivables	29 (b)	1,072	324
Due from related parties	30	537,508	799,858
Deposits with financial institutions	31 (b)	1,849,624	2,031,930
Cash and bank balances	51	4,872	4,833
Total assets		9,585,597	9,475,467
EQUITY AND LIABILITIES			
Equity			
Share capital	32	2,615,578	2,615,578
Share premium	33	162,179	162,179
Fair value deficit	38	(4,887)	(6,911)
Retained earnings	39	1,461,018	1,363,903
Total equity		4,233,888	4,134,749
LIABILITIES			
Due to related parties	30	181,574	196,427
Borrowings	41	5,106,529	5,086,021
Other payables	42 (b)	28,999	23,663
Dividend payable	43	34,607	34,607
Total liabilities		5,351,709	5,340,718
		9,585,597	9,475,467

* Certain figures shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 58.

The financial statements were approved by the Board of Directors on 14th March, 2018 and signed on its behalf by:

Group Chairman
Japheth Magomere OGW

Director
Philip Lopokoiyit

Group Chief Executive Officer
Tom Gitogo

CIC INSURANCE GROUP LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital KShs'000	Share Premium KShs'000	Statutory Fund KShs'000	Revaluation surplus KShs'000	Contingency reserve KShs'000	Foreign Currency Translation Reserve Ksh'000	Fair value reserve KShs'000	Retained earnings KShs'000	Due to equity holders of the parent KShs'000	Non-controlling interests KShs'000	Total KShs'000
At 1 January 2017	2,615,578	162,179	1,034,836	109,368	2,150	(378,372)	(217,888)	4,012,652	7,340,503	138,960	7,479,463
Transfer to retained earnings	-	-	(115,000)	-		-	-	115,000	-	-	-
Contingency reserve	-	-	-	-	7,285	-	-	(7,285)	-	-	-
Additional Investment by minority interest	-	-	-	-	-	-	-	-	-	15,560	15,560
Acquired through business combination	-	-	-	-	-	-	-	109,874	109,874	(11,726)	98,148
Tax on transfer to retained earnings	-	-	-	-		-	-	(34,500)	(34,500)	-	(34,500)
Dividends declared – 2017	-	-	-	-		-	-	(274,633)	(274,633)	-	(274,633)
Profit for the year	-	-	182,772	-	-	-	-	306,713	489,485	(11,012)	478,473
Other comprehensive income for the year	-	-	-	19,055	-	(39,522)	(47,722)	-	(68,189)	(57,214)	(125,403)
Total comprehensive income for the year	-	-	182,772	19,055	-	(39,522)	(47,722)	306,713	421,296	(68,226)	353,070
At 31 December 2017	2,615,578	162,179	1,102,608	128,423	9,435	(417,894)	(265,610)	4,227,821	7,562,540	74,568	7,637,108

CIC INSURANCE GROUP LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital KShs'000	Share Premium KShs'000	Statutory Fund KShs'000	Revaluation surplus KShs'000	Contingency reserve KShs'000	Funds awaiting Allotment KShs'000	Foreign Currency Translation Reserve Ksh'000	Fair value reserve KShs'000	Retained earnings KShs'000	Due to equity holders of the parent KShs'000	Non-controlling interests KShs'000	Total KShs'000
At 1 January 2016	2,615,578	162,179	1,039,810	138,877	-	512	(195,091)	(205,921)	4,110,156	7,666,100	164,383	7,830,483
Transfer to retained earnings	-	-	(115,000)	-		-	-	-	115,000	-	-	-
Contingency reserve	-	-	-	-	2,150	-	-	-	(2,150)	-	-	-
Funds awaiting allotment-Refund	-	-	-	-		(512)	-	-	-	(512)	-	(512)
Tax on transfer to retained earnings	-	-	-	-		-	-	-	(34,500)	(34,500)	-	(34,500)
Dividends declared – 2015	-	-	-	-		-	-	-	(274,636)	(274,636)	-	(274,636)
Elimination on South Sudan translation (note 9)	-	-	-	(64,620)	-	-	-	-	93,648	29,028	(29,028)	-
Profit for the year	-	-	110,026	-	-	-	-	-	8,034	118,060	70,125	188,185
Other comprehensive income for the year	-	-	-	35,111	-	-	(183,281)	(11,967)	(2,900)	(163,037)	(66,520)	(229,557)
Total comprehensive income for the year	-	-	110,026	35,111	-	-	(183,281)	(11,967)	5,134	(44,977)	3,605	(41,372)
At 31 December 2016	2,615,578	162,179	1,034,836	109,368	2,150	-	(378,372)	(217,888)	4,012,652	7,340,503	138,960	7,479,463

CIC INSURANCE GROUP LIMITED AND ITS SUBSIDIARIES
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital KShs'000	Share Premium KShs'000	Fair value reserve KShs'00	Retained earnings KShs'000	Total KShs'000
At 1 January 2016	2,615,578	162,179	(7,097)	1,343,766	4,114,426
Dividends declared – 2016	-	-	-	(274,636)	(274,636)
Profit for the year	-	-	-	294,773	294,773
Other comprehensive income for the year	-	-	186	-	186
Total comprehensive income for the year	-	-	186	294,733	294,959
At 31 December 2016	2,615,578	162,179	(6,911)	1,363,903	4,134,749
At 1 January 2017	2,615,578	162,179	(6,911)	1,363,903	4,134,749
Dividends declared – 2017	-	-	-	(274,633)	(274,633)
Profit for the year	-	-	-	371,748	371,748
Other comprehensive income for the year	-	-	2,024	-	2,024
Total comprehensive income for the year	-	-	2,024	371,748	373,772
At 31 December 2017	2,615,578	162,179	(4,887)	1,461,018	4,233,888

CIC INSURANCE GROUP LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	50	2,199,646	890,592
Taxation paid	11 (b)	(109,125)	(435,118)
Net cash generated from operating activities		2,090,521	455,474
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	1,197,591	1,070,787
Dividend income	5	56,126	25,515
Purchase of property and equipment	13	(71,671)	(113,350)
Proceeds from sale of property and equipment		-	20,149
Purchase of investment property	14	(38,475)	(4,420)
Purchase of intangible assets	15	(48,840)	(41,776)
Investment in associate (Malawi)	17	-	(44,732)
Purchase of corporate bonds	19	(113,106)	(20,000)
Proceeds from maturity of corporate bonds	19	54,888	5,974
Purchase of government securities held to maturity	20	(222,220)	(58,774)
Maturities of government securities held to maturity	20	45,300	-
Mortgage loans advanced	21 (a)	(51,550)	(100,168)
Mortgage loan repaid	21 (a)	126,475	107,341
Other staff loans advanced	21 (b)	(151,064)	(107,811)
Other staff loan repaid	21 (b)	200,520	109,819
Purchase of government securities available for sale	22	(2,782,736)	(2,098,751)
Proceeds from disposal of government securities available for sale	22	1,386,363	429,000
Purchase of equity investment at fair value through profit or loss	24	(484,152)	(12,355)
Proceeds from sale of equity investments at fair value through profit or loss	24	219,282	15,183
Additions in deposits with non-financial institutions	25	(1,003,330)	(602,971)
Proceeds from maturities in deposits with non-financial institutions	25	1,095,764	1,172,341
Decrease in deposits with financial institutions (excluding cash and cash equivalents)	31	(1,916,110)	786,645
Net cash (used in)/generated from investing activities		(2,500,945)	537,646
CASH FLOWS FROM FINANCING ACTIVITIES			
Funds awaiting allotment		-	(512)
Additional investment by minority shareholder		15,560	-
Interest paid	41	(650,000)	(650,000)
Dividends and withholding tax paid	43	(274,633)	(274,636)
Net cash used in financing activities		(909,073)	(925,148)
INCREASE IN CASH AND CASH EQUIVALENTS		(1,319,497)	67,972
Effect of foreign exchange translations		(182,582)	(256,413)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		4,379,452	4,567,893
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	51	2,877,373	4,379,452

CIC INSURANCE GROUP LIMITED AND ITS SUBSIDIARIES
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		273,473	174,059
Adjustments for:			
Interest income	5	(287,253)	(325,093)
Interest expense	10	650,000	650,000
Write off of Transco-op expenses	10	-	44,096
Depreciation on property and equipment	13	16,965	14,810
Fair value gains on revaluation on investment property	14	(466,422)	(400,000)
Amortisation of intangible assets	15	6,346	5,073
Impairment of Nakumatt Holding commercial paper	25	59,832	-
Amortisation of bond expenses	41	20,508	17,984
Dividend income		(262,000)	(262,000)
Working capital changes;			
(Increase)/decrease in other receivables	29	(748)	31,863
Decrease/(increase) in related party balances	30	247,497	(185,904)
Increase/(decrease) in other payables	42	5,336	(10,949)
Cash generated from/(used in) operations		263,534	(246,061)
Taxation paid		-	-
Net cash generated from/(used in) operating activities		263,534	(246,061)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	280,252	299,731
Purchase of property and equipment	13	(5,187)	(18,334)
Purchase of investment property	14	(33,578)	-
Purchase of intangible assets	15	(716)	(25,320)
investment in associate (Malawi)	17	-	(44,732)
Investment in subsidiaries	18	(119,147)	27,425
Mortgage loans advanced	21 (a)	-	(4,824)
Mortgage loan repaid	21 (a)	41,439	14,956
Other staff loans advanced	21 (b)	-	(7,417)
Other staff loans repaid	21 (b)	15,096	14,720
Additions to deposits with non-financial institutions	25	-	(52,000)
Proceeds from maturities in deposits with non-financial institutions	25	38,673	957,858
Decrease/(increase) in deposits with financial institutions (excluding cash and cash equivalents)	31	2,504	(2,504)
Dividend received		262,000	262,000
Net cash generated from operations		481,336	1,421,559
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	41	(650,000)	(650,000)
Dividends paid	43	(274,633)	(274,636)
Net cash used in financing activities		(924,633)	(924,636)
INCREASE IN CASH AND CASH EQUIVALENTS		(179,763)	250,862
CASH AND CASH EQUIVALENTS AT 1 JANUARY		2,034,259	1,783,397
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	51	1,854,496	2,034,259

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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, 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 consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015.

The consolidated financial statements have been prepared on a historical cost basis, except for available –for sale investments, equity investments at fair value through profit or loss, building and investment properties which have been measured at fair value and actuarially determined liabilities at their present value. The consolidated financial statements are presented in Kenya Shillings and all values rounded to the nearest thousand (KShs '000), which is also the functional currency.

The consolidated financial statements comprise the statement of profit or loss and other comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in profit or loss. Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in 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 Group in their capacity as owners are recognised in the statement of changes in equity.

The Group 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 Group. 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) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

Specifically, the Group controls a subsidiary if, and only if, the Group has:

- Power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included/excluded in the consolidated financial statements from the date the Group gains control until the date when the Group ceases to control the subsidiary.

At company level, the investment in subsidiary is presented as an asset in the statement of financial position, and measured at cost.

Profit or loss and each component of OCI are attributed to the owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The Group financial statements reflect the result of the consolidation of the financial statements of the group and its subsidiaries, CIC General Insurance Limited, CIC Life Assurance Limited, CIC Asset Management Limited, CIC Africa Insurance (SS) Limited, CIC Africa (Uganda) Limited, CIC Africa Co-operatives Insurance Limited details of which are disclosed in note 18, made up to 31 December 2017.

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

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

(iii) Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(iii) Associates *(continued)*

a joint arrangement. The Group's and company's investment in its associate is accounted for using the equity method of accounting.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's and company's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity, either directly or through other comprehensive income. Profits or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of the associate is shown on the face of the statement of profit or loss. This is profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates after factoring in other comprehensive income.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring its accounting policies in line with the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associates. The Group determines at each reporting date, whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the statement of profit and loss.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. Any interest in the equity of the associate that was recorded directly in other comprehensive income of the investor is recycled to the profit or loss and is included in the calculation of the gain or loss on disposal.

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group's identifiable assets and liabilities are measured at their acquisition-date fair value.

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's net identifiable assets. Non-controlling interests that are not present ownership interests are measured at fair value. This accounting policy choice can be made on an individual business combination basis.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(c) Business combinations and goodwill *(continued)*

classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the amount recognised for non-controlling interests, and any previous interest held, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(d) New standards and interpretations

On 1 January 2017, the Group adopted the following new standards, new Interpretations and amendments to standards.

	Effective for accounting period beginning on or after
IAS 7 Disclosure Initiative – Amendments to IAS 7	1 January 2017
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	1 January 2017
IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12	1 January 2017

Standards issued but not yet effective:

New or revised standards

IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4	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
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
Prepayment Features with Negative Compensation - Amendments to IFRS 9	1 January 2019
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

Relevant new Standards issued but not effective in the year ended 31 December 2017

The above new standards and amendments to existing standards issued but not yet effective are not expected to have an impact on the Group except for IFRS 9, IFRS 15, IFRS 16 and IFRS 17.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

During 2017, the Group performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The Group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments .

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

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

The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 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 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. During 2017, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2016. During 2017, there had been no significant change in the activities of the Group that requires reassessment. The Group intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(d) New and amended standards and interpretations (continued)

Relevant new Standards issued but not effective in the year ended 31 December 2017 (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised 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 will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group expects to apply IFRS 15 using the modified retrospective application. Given insurance contracts are scoped out of IFRS 15, the Group does not expect the impact to be significant.

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). 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 lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group expects that the new standard will result in a change to the accounting policy for operating leases where the Group is the lessee, the Group expects to disclose the right of use asset and the lease liability relating the operating leases held. The Group expects to apply a modified retrospective approach. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(d) New and amended standards and interpretations (continued)

Relevant new Standards issued but not effective in the year ended 31 December 2017 (continued)

IFRS 17 Insurance Contracts (continued)

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

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. 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 Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above).

The Group plans to start a project to implement IFRS 17 .The Group expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Group and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(d) New and amended standards and interpretations (continued)

Relevant new Standards issued but not effective in the year ended 31 December 2017 (continued)

Transfers of Investment Property — Amendments to IAS 40 (continued)

applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

(e) Revenue recognition

Gross premiums

Gross recurring premiums on life 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. Gross written premiums under insurance contracts comprise the total premiums receivable for the whole period of the cover provided by the contract, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Gross earned premiums comprise the total premiums receivable for the respective accounting period which is under consideration, and are recognised up to the end of the reporting period. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

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

Investment income

Interest income is recognised in profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(e) Revenue recognition *(continued)*

Commission income

Insurance contract policyholders are charged for policy administration services, including other contract fees. These fees are recognised as revenue over the period in which the related services are performed. Commissions earned from reinsurance premium ceded is recognised in profit or loss in the period in which it is earned.

Realised / unrealised gains and losses

Unrealised / realised gains and losses on valuation of financial assets and investment properties at the reporting date or sale of financial assets are recognised in profit or loss. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Financial services income

Financial services income includes income from investment management and related activities. This is based on the value of the assets managed on behalf of clients such as fund management fees, collective investment and linked product administration fees. Initial fees that relate to the future rendering of services are deferred and recognised as those future services are rendered.

(f) Benefits and claims recognition

Gross benefits and claims

Gross benefits and claims for life insurance contracts 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. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

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

Reinsurance claims

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

(g) Expenses

Expenses are recognised in 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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(g) Expenses *(continued)*

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 recognised in the statement of profit or loss on the basis of systematic and rational allocation procedures. This is often necessary in recognising 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 amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

ii) An expense is recognised immediately in 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.

(h) Deferred acquisition costs

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

(i) 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 in (w) have been met.

(j) Reinsurance contracts held

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(j) Reinsurance contracts held *(continued)*

dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the year.

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss.

(k) 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 profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date. The prevailing tax rate and the amount expected to be paid are highlighted in note 11 of these financial statements.

The group 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 determined using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(k) Taxation *(continued)*

Deferred income tax (continued)

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.

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 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.

Income Taxes

Value Added Tax (VAT) and premium taxes

Revenues, expenses, assets and liabilities are recognised net of the amount of VAT and premium taxes except:

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

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

(l) Earnings per share

The Group calculates basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(l) Earnings per share *(continued)*

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

(i) profit or loss from continuing operations attributable to the parent entity; and
(ii) profit or loss attributable to the parent entity

is the amounts in (i) and (ii) adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

(m) Translation of foreign currencies

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Group's functional currency and the presentation currency is the Kenyan Shilling ("KShs").

Monetary assets and liabilities are translated into each entity's functional currency at the applicable exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions performed by the companies of the Group and from the translation of monetary assets and liabilities into each entity's functional currency are recognized in profit or loss. Effects of exchange rate changes on the fair value of equity instruments are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (except for subsidiary, CIC Africa Insurance (South Sudan) Limited domiciled in South Sudan, the economy of which is considered hyperinflationary) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the applicable closing rate at the respective reporting date;
(ii) income and expenses for each statement of profit or loss and statement of other comprehensive income are translated either at the rates prevailing at the dates of the transactions or at average exchange rates (in case this average is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedure: all amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position.

When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

Exchange differences arising on the translation of results and financial position of each of the Group's consolidated entities are included in components of other comprehensive income and taken to a separate component of equity.

The comparative information of the Group has not been adjusted for subsequent changes in price level or subsequent changes in exchange rates.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(n) 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 group 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 group and the cost of the item can be measured reliably.

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

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

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

Buildings	40 years
Computers	4 years
Motor vehicles	4 years
Furniture, fittings and equipment	8 years
Leasehold improvements	10 years

Property and equipment are reviewed for impairment as described in note (s) 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 costs of disposal and its value in use.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its 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 and are recognised in profit or loss in the year the asset is derecognised. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

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

(o) Investments properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is initially recognised at cost including the transaction costs. The investment properties are

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(o) Investments properties *(continued)*

subsequently carried at fair value, representing the open market value at the reporting date determined by annual valuations. Gains or losses arising from changes in the fair value are included in the profit or loss for the year to which they relate.

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

Investment properties are derecognised when either they have been disposed off 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.

(p) Intangible assets

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

Amortisation is calculated using the straight line method to write down the cost of each licence or item of software over its estimated useful life (four years).

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

Intangible assets 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.

(q) 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(q) Accounting for leases *(continued)*

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group 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.

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.

(r) 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 Group 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 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.

(s) Employee benefits

Defined contributions provident fund

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

Statutory pension scheme

The Group also makes contributions to the statutory defined contribution schemes in the four countries where operations are based. Contributions to defined contribution schemes are recognised as an expense in 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(s) Employee benefits *(continued)*

Bonus

An accrual is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal and constructive obligation to pay this amount as a result of past service provided by the employee, the obligation can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Termination Benefits

The Group recognises a liability and expense for termination benefits at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

(i) For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when the Group can no longer withdraw the offer of termination benefits is the earlier of when the employee accepts the offer and when a restriction (eg a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

(ii) For termination benefits payable as a result of the Group's decision to terminate an employee's employment, the Group then can no longer withdraw the offer when it has communicated to the affected employees a plan of termination meeting all of the following:

- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
- The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
- The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

(t) Segment reporting

An operating segment is a component of an entity:

(i) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)

(ii) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decision about resources to be allocated to the segment and assess its performance, and

(iii) For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues for example start-up operations may be operating segments before earning revenues. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (Board of Directors). Directors allocate resources to and assess the performance of the operating

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(t) Segment reporting *(continued)*

segments of the Group. The operating segments are based on the Group's management and internal reporting structure.

The directors consider the Group to comprise three business segments, general insurance business, long term insurance business and other business, and three geographical segments, in Kenya, Sudan Uganda and Malawi.

(u) Impairment of non-financial assets

The Group 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 Group 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.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group 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.

The following criteria are also applied in assessing impairment of specific assets:

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 Group 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.

(v) Other financial liabilities and insurance payables

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2017

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

(v) Other financial liabilities and insurance payables *(continued)*

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.

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

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

Insurance 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.

(w) Financial and insurance liabilities

Insurance contract liabilities and reinsurance liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net 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, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the profit or loss.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. It is assumed that premiums are earned uniformly over the contract period. The group used the 365th method in computing this reserve. The estimate of the incurred claims that have not yet been reported to the Group (IBNR) is computed using the basic chain ladder method. The basic assumption using this method is that claims will emerge in a similar way in each development year.

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 insurance liabilities are adequate and deferred acquisition cost (DAC) – by using an existing liability adequacy test as laid out under the Kenyan Insurance Act. This calculation uses current estimates of future contractual cash flows after

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(w) Financial and insurance liabilities *(continued)*

taking account of the investment return expected to arise on assets relating to the relevant nonlife insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

(x) Fair value measurement

The Group measures financial instruments such as available-for-sale at fair value and fair value through profit or loss at each reporting date.

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

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

The principal or the most advantageous market must be accessible to by the Group.
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 Group 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 group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as property and investment properties. Involvement of external valuers is decided upon annually by the finance and investment manager after discussion with and approval by the group's audit committee. Selection criteria include

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(x) Fair value measurement *(continued)*

market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group 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.

(y) 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. Purchases and sales of financial instruments are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets

The Group classifies its financial assets 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 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 Group has also transferred substantially all risks and rewards of ownership.

The fair values of quoted securities are based on current bid prices. If the market for a financial asset is not active, the Group 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 equity investments, corporate bonds and investment in collective investment scheme i.e CIC Unit Trust.

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 loans receivables, receivables arising from direct insurance arrangements, receivable arising from reinsurance arrangements, due from related parties, reinsurer share of liabilities and reserve other receivables and deposits with financial institutions

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(y) Financial instruments *(continued)*

Loans and receivables (continued)

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

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

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 Group's management has the positive intention and ability to hold to maturity.

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

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

Available-for-sale financial assets

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

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

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

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

Impairment of financial assets

The Group 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(y) Financial instruments *(continued)*

Impairment of financial assets (continued)

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- loans and receivables

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

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

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

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 investments

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

In the case of unquoted 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.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(y) Financial instruments *(continued)*

Available-for-sale financial investments *(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.

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.

De-recognition of financial assets

The group 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 group 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 group 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 group 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

Financial liabilities and equity instruments issued by the Group

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(y) Financial instruments *(continued)*

Financial liabilities *(continued)*

Loans and borrowings and payables

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

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

This category generally applies to interest-bearing borrowings and payables.

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, payables and financial guarantee contracts, net of directly attributable transaction costs. The Group's financial liabilities include long term bond (borrowing), other payables and 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. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. 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 IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial guarantee contracts

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(y) Financial instruments *(continued)*

The group holds funds for various retirement schemes where it guarantees the pension holders a minimum rate of return of 5%. See note 44 for more details.

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, as specifically disclosed in the accounting policies of the Group.

(z) 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, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the statement of financial position.

(aa) Dividends

Dividends on ordinary shares are charged directly to equity in the period in which they are declared and approved. Dividend distributions to the shareholders are recognised as a liability in the financial statements in the year in which the dividends are declared and approved by the shareholders.

(ab) Events after the reporting date

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

(ac) Share capital and share premium

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

(z) Cash and cash equivalents *(continued)*

(ad) Statutory fund

The Group matches the assets to liabilities, after which there is a surplus/deficit that is transferred to the statutory fund. The Insurance Act regulations stipulate that only a maximum of 30% of this can be transferred to the shareholders. The statutory actuary advices on the amount to be transferred to the shareholders. When a transfer is made to the shareholders, tax at the prevailing corporation rate 2017: 30% (2016:30%) is incurred.

(ae) Unit-linked investment contracts

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, 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 profit or loss. Fair value adjustments are performed at each reporting date and are recognised in profit or loss. Fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit prices at the reporting date are valued on a basis consistent with their measurement basis in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management - Note 53
- Financial risk management and policies - Note 54
- Sensitivity analyses disclosures - Note 54

Estimates and assumptions

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

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 volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See note 55 for further discussion.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 16.

Impairment of receivables

The Group 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 Group makes judgements about the debtor's financial situation. These estimate to provide all debts over 120 days is based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance (note 27).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

Estimates and assumptions (continued)

Valuation of life 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 Group base mortality and morbidity on standard industry and Kenya's mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group'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 Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

Valuation of non-life insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using the chain ladder method. The main assumption underlying these techniques is that a Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect once-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

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

Estimates and assumptions (continued)

Contingent liabilities

The Group 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 Group incurring related liabilities. However, provisions are only made in the financial statements where, based on the Directors' evaluation, a present obligation has been established. Judgement and assumptions are required in:

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

Tax assessment

The Kenya Revenue Authority (KRA) carried out an audit on the group companies during the year covering VAT, Excise Duty and Corporation Tax for the period between 2011 and 2014. KRA raised tax assessments as shown below for the respective subsidiary.

Company	Type of tax	Amount (KShs 'million)
CIC General Insurance Limited	Excise duty and corporate tax	55.6
CIC Life Assurance Limited	Corporation tax	50.8
CIC Asset Management Limited	VAT (principal, interest and penalties)	34.5
Total		**140.9**

CIC Asset Management Limited paid the principal tax of KShs 24 million in 2016, and is planning to apply for a waiver for the interest and penalties of KShs 10.5 million.

In the opinion of directors and after taking appropriate tax advice, the balance of KShs 116 million is not payable and they have appealed the matter through the Tax Appeals Tribunal to review the assessment. The directors are of the opinion that the outcome of their appeal will be favourable hence no provision has been made for any tax liability that may arise from this assessment in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

3. SEGMENT INFORMATION

The Group had adopted IFRS 8 Operating Segments. In accordance with IFRS 8, operating segments, the information presented hereafter by operating segment is the same as that reported to the Chief Operating Decision Maker (the Group Chief Executive Officer) for the purposes of making decisions about allocating resources to the segment and assessing its performance.

Under IFRS 8 the Group's reportable segments are long term business, short term business and other. Long term insurance business comprises the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a long term dependent on the termination or continuance of the life of an insured person. General insurance relates to all other categories of insurance business written by the Group and is analysed into several sub-classes of business based on the nature of the assumed risks. Other business comprises non insurance related businesses. The Group's main geographical segment of business is in Kenya.

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. There are no intersegment revenues and no single customer accounts for more than 10% of the revenue.

Factors that management uses to identify the entity's reportable segments

CIC Insurance Group Limited segments are strategic companies that offer different products and are managed separately based on regulatory requirements.

Description of the types of products and services from which each reportable segment derives its revenues

CIC Insurance Group Limited has reportable segments; general insurance business, long term insurance business and other business.

Group management internally evaluates its performance based upon:

- Reportable segment profits after tax.
- Capital employed (defined as the total of intangible and tangible assets and working capital).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

3. SEGMENT INFORMATION *(continued)*

The various products and services that the reporting segments derive their revenues from have been described as follows.

		2017 KShs'000	2016 KShs'000
(a)	Gross written premiums		
	General insurance business		
	Motor	5,023,179	4,584,403
	Medical	2,276,582	1,383,683
	Fire	885,684	760,005
	Personal accident	359,460	238,165
	Theft	513,932	449,493
	Public liability	228,840	243,447
	Marine	148,203	130,511
	Engineering	373,242	217,651
	Miscellaneous accident	343,753	261,333
	Others	486,545	298,961
	Sub - total	**10,639,420**	**8,567,652**
	Life assurance business		
	Ordinary life	1,173,390	975,653
	Group life	3,074,077	2,823,014
	Sub - total	**4,247,467**	**3,798,667**
	Total gross written premiums	14,886,887	12,366,319
(b)	Gross earned premiums		
	General insurance business		
	Motor	5,298,129	4,501,448
	Medical	1,944,395	1,071,324
	Fire	783,258	741,112
	Personal accident	331,932	205,516
	Theft	492,156	436,346
	Public liability	279,784	215,193
	Marine	154,746	136,818
	Engineering	306,656	195,268
	Miscellaneous accident	271,668	183,841
	Others	391,818	336,523
	Reinsurance share of increase in UPR (note 47)	(188,186)	(8,044)
	Sub - total	**10,066,356**	**8,015,345**
	Life assurance business		
	Ordinary life	1,191,420	975,653
	Group life	3,078,416	2,823,014
	Sub - total	4,269,836	3,798,667
	Total gross earned premiums	**14,336,192**	**11,814,012**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

3. SEGMENT INFORMATION *(continued)*

(b) Gross earned premiums (continued)

Reconciliation between gross written premiums and gross earned premiums

	2017 KShs '000	2016 KShs '000
Gross written premiums	14,886,887	12,366,319
Movement in Unearned Premium Reserve (Note 47)	(550,695)	(552,307)
Gross earned premiums	14,336,192	11,814,012

(c) Reinsurance premiums

	2017 KShs '000	2016 KShs '000
General insurance business class		
Motor	174,339	59,586
Medical	28,042	29,333
Fire	584,159	333,815
Engineering	196,990	205,860
Personal accident	49,428	32,630
Theft	27,153	28,577
Miscellaneous accident	228,104	134,058
Marine	61,755	38,981
Public liability	184,222	162,322
Others	40,640	28,707
Reinsurance share of increase in UPR (note 47)	(188,186)	(8,044)
Sub - total	1,386,646	1,045,825
Life assurance business class		
Group life	841,986	731,879
Ordinary life	12,563	5,007
Sub - total	854,549	736,886
Total reinsurance premiums	2,241,195	1,782,711

(d) Investment income:

	2017 KShs '000	2016 KShs '000
General insurance business class		
Interest from government securities held to maturity	302,328	152,460
Accrued Interest on corporate bonds	430	268
Discount on government securities held to maturity	(6,987)	(15,351)
Interest on deposit with financial institutions	183,232	229,964
Fair value loss on government securities reclassified from available for sale to held to maturity	(1,334)	-
Interest on staff loan receivables	14,185	19,501
Dividend income	24,132	16,707
Interest from deposits and commercial papers	44,239	13,288
Rental income from investment properties	140,141	141,864
Interest on government securities classified as available for sale	64,718	30,809
Sub - total	765,084	589,510

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

3. SEGMENT INFORMATION *(continued)*

		2017 KShs'000	2016 KShs'000
(d)	Investment income (continued)		
	Life assurance business class		
	Interest on government securities held to maturity	102,376	50,313
	Discount on government securities held to maturity	(7,982)	(4,572)
	Fair value loss on government securities reclassified from available for sale to held to maturity	(480)	-
	Interest on corporate bonds	29,734	30,869
	Interest on deposit with financial institutions	29,004	16,528
	Interest on staff loan receivables	29,396	20,744
	Dividend income	13,518	8,232
	Rental income from investment properties	47,580	39,230
	Accrued interest on government securities classified as available for sale	161,527	151,377
	Sub - total	404,673	312,721
	Other business category		
	Interest from government securities held to maturity	20,189	15,865
	Corporate bond interest receivable	5,541	5,742
	Interest on deposits and commercial papers	20,686	25,362
	Interest on deposit with financial institutions	315,581	312,126
	Interest on staff loan receivables	10,742	12,550
	Dividend income	548	575
	Fair value gain on corporate bonds	149	-
	Fair value gain on equity investment at fair value through profit or loss	388	27,220
	Sub - total	373,824	399,440
	Total investment income	1,543,581	1,301,671
(e)	Claims and policy holders' benefits expenses*		
	General insurance business class		
	- Gross benefits and claims paid	6,492,585	5,189,644
	- Gross change in insurance contract liabilities	800,486	726,546
	- Claims ceded to reinsurers	(1,322,677)	(1,371,985)
	Sub - total	5,970,394	4,544,205
	Life insurance business class		
	- Gross benefits and claims paid	2,407,486	2,272,553
	- Gross change in insurance contract liabilities	145,808	65
	- Claims ceded to reinsurers	(667,220)	(347,350)
	Sub - total	1,886,074	1,925,268
	Total claims and policy holders' benefits expenses	7,856,468	6,469,473

** Claims and policyholders benefits payable breakdown as presented in segment reporting, was previously disclosed in the format of gross and reinsurance share. In the current year, we changed the disclosure to make the breakdown to be consistent with the presentation on the face of the Statement of comprehensive income and note 7*

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

3. SEGMENT INFORMATION *(continued)*

Other disclosures:	General Insurance business KShs'000	Life Assurance Business KShs'000	Other business KShs'000	Total KShs'000
31 December 2017				
Reportable segment profits after tax	271,876	182,772	18,825	473,473
Reportable segment total assets	13,116,624	10,285,064	7,103,688	30,505,376
Less:				
: Related party balances	(38,291)	(181,575)	265,752	45,886
: Investment in subsidiaries	(1,700,000)	(800,000)	(1,028,633)	(3,528,633)
Reportable segment total assets - Net	11,378,333	9,303,489	6,340,807	27,022,629
Reportable segment total liabilities	9,120,980	8,253,188	5,494,100	22,868,268
Less: related party balances	(161,780)	(51,471)	213,251	-
Net	8,959,200	8,201,717	5,707,351	22,868,268
Interest income	562,225	351,375	629,981	1,543,581
Interest expense	-	-	650,000	650,000
Income tax charge/(credit)	(63,337)	(41,345)	63,999	(40,683)
Fees and commission income	429,836	298,321	295,250	1,023,407
Depreciation of property and equipment	70,066	44,074	62,505	176,645
Amortisation of intangible assets	22,174	8,909	13,083	44,166
Property and equipment additions	37,517	14,149	20,005	71,671
Intangible assets additions	45,494	2,630	716	48,840
31 December 2016				
Reportable segment profits after tax	5	110,026	78,154	188,185
Reportable segment total assets	11,982,280	8,352,836	6,491,570	26,826,686
Less:				
: Related party balances	(60,089)	(196,427)	359,816	103,300
: Investment in subsidiaries	(1,700,000)	(800,000)	(864,751)	(3,364,751)
Reportable segment total assets - Net	10,222,191	7,356,409	5,986,635	23,565,235
Reportable segment total liabilities	7,993,870	6,422,126	4,931,227	19,347,223
Less: related party balances	(360,275)	(49,744)	410,019	-
Net	7,633,595	6,372,382	5,341,246	19,347,223
Interest income	433,002	269,831	411,619	1,114,452
Interest expense	-	-	650,000	650,000
Income tax charge/(credit)	(283)	(30,265)	104,345	73,797
Fees and commission income	242,142	193,795	213,745	649,682
Depreciation of property and equipment	96,994	65,768	48,306	211,068
Amortisation of intangible assets	21,618	32,033	13,340	66,991
Property and equipment additions	34,745	50,478	28,127	113,350
Intangible assets additions	7,902	4,836	29,038	41,776

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

4. (a) Fees and commissions income

	2017 KShs'000	2016 KShs'000
General insurance business class		
Engineering	120,581	43,187
Fire	184,584	114,691
Public liability	38,008	43,727
Medical	1,723	-
Marine	23,305	7,076
Miscellaneous	63,492	24,841
Others	23,782	9,856
Sub total	455,475	243,378
Life assurance business class		
Group life commission	287,526	182,970
Ordinary life commission	18,357	10,825
Sub total	305,883	193,795
Other business category		
Fund management fees	229,587	179,883
Administration fee	31,500	25,901
Wealth management fee	-	5,974
Other income	962	751
Sub total	262,049	212,509
Total	1,023,407	649,682

(b) Commissions expense

	2017 KShs'000	2016 KShs'000
General Insurance business class		
Engineering	58,409	47,802
Fire	184,638	174,959
Public liability	42,027	40,702
Medical	197,543	91,474
Motor	616,091	418,327
Marine	20,170	25,079
Miscellaneous	29,184	30,364
Theft	81,473	78,684
Personal Accident	60,117	40,756
WIBA	64,531	49,759
Others	99,198	63,742
Sub total	1,453,381	1,061,648
Life assurance business class		
Group life	471,325	255,312
Ordinary Life	197,764	221,763
Sub total	669,089	477,075
Total	2,122,470	1,538,723

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

5. INVESTMENT INCOME

	2017 KShs'000	2016 KShs'000
GROUP		
Interest on government securities held to maturity	444,351	230,500
Interest on deposit with financial institutions	490,527	567,623
Corporate bond interest accrued and received	33,409	35,119
Corporate bond interest accrued but not yet received (note 19)	2,296	1,760
Interest on staff loan receivables	54,906	53,328
Dividend income	56,126	25,515
Rental income from investment properties	187,903	181,627
Interest income from deposits and commercial papers (note 25)	84,287	41,905
Discount on government securities classified as held to maturity (note 20)	(14,969)	(19,923)
Fair value loss on government securities reclassified from available for sale to held to maturity (note 22)	(1,814)	-
Interest income on government securities classified as available for sale	206,559	184,217
	1,543,581	1,301,671
Investment income earned on financial assets, analysed by category of asset is as follows:		
Held to maturity investments	918,095	778,200
Fair value through profit or loss Investments	35,705	36,879
Available for sale investments	206,559	184,750
Dividend income	56,126	25,515
Loans and receivables	139,193	95,233
Investment income earned on non-financial assets	187,903	181,094
Total investment income	1,543,581	1,301,671

Other fair value gains relating to financial assets classified as fair value through profit or loss is included in other gains and losses in note 6.

COMPANY	2017 KShs'000	2016 KShs'000
Interest from government securities classified available for sale	4,375	2,565
Interest on deposits and commercial paper (note 25 (b))	7,001	25,362
Interest on call and term deposits	275,877	297,166
	287,253	325,093

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

6. OTHER GAINS/(LOSSES)

	2017 KShs'000	2016 KShs'000
GROUP		
Fair value gain on investment properties (note 14 (a))	531,856	626,126
Fair value gain/(loss) on quoted equity investments at fair value through profit or loss (note 24)	65,097	(143,174)
Fair value loss on corporate bonds (note 19)	(1,978)	(13,235)
Miscellaneous income*	109,398	39,668
	704,373	509,385
COMPANY		
Fair value gains on investment properties (note 14 (b))	466,422	400,000
Miscellaneous income (sales of branded merchandise)	24,824	44,120
	491,246	444,120

*Miscellaneous income includes exchange gains, medical administration fees, sale of scraps, medical card replacement fees and sale of tenders and branded merchandise.

No other gains or losses have been recognised in respect of loans and receivables or held to maturity investments, other than as disclosed in this note and note 5 above and impairment losses recognised in respect of premium receivable (see note 8).

7. CLAIMS AND POLICYHOLDERS BENEFITS EXPENSES

	2017 KShs '000	2016 KShs '000
Claims and policyholders benefits payable:		
Gross benefits and claims paid	(8,900,071)	(7,457,921)
Gross change in insurance contract liabilities	(946,294)	(726,611)
Claims ceded to reinsurers	1,989,897	1,715,059
Net benefits and claims	(7,856,468)	(6,469,473)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

8. OPERATING AND OTHER EXPENSES

(a) GROUP

	2017 KShs'000	2016 KShs'000
The following items have been charged in arriving at profit before taxation:		
Staff costs (note 8 (b))	1,664,954	1,430,032
Auditors' remuneration	15,905	10,320
Directors' fees	26,181	22,913
Directors' emoluments	12,535	7,395
Subsidiaries' board expenses	67,936	32,313
Depreciation of property and equipment (note 13 (a))	176,645	211,068
Amortisation of intangible assets (note 15 (a))	45,011	66,991
Impairment charge for doubtful premium receivables (note 27)	529,769	332,731
Premium tax	102,963	92,157
Staff welfare	358,409	388,035
Utilities	348,820	221,202
Software licence costs	65,434	92,327
Printing and stationery	70,905	159,733
Business advertising and promotion	243,344	424,979
Professional fees	166,942	182,205
Statutory returns	51,107	43,259
Premium collection cost	-	1,938
Professional subscriptions	35,507	52,005
Write off of Trans coop expenses	-	44,096
Pension capitalisation	67,793	30,000
Provision for doubtful loans receivable	31,573	-
Provision for doubtful Nakumatt Holdings Limited commercial paper (note 25(a))	71,001	-
Investment management fees	4,701	-
Amortisation of bond expenses (note 41)	20,508	17,984
Settlement of VAT assessment	-	24,031
Membership fee access cards	-	25,206
Other expenses*	86,793	43,089
	4,264,736	3,956,009

*Other expenses relate to tender costs, postage, donations, entertainment loss on disposal of property and equipment and purchase of newspapers.

(b) STAFF COSTS

	2017 KShs'000	2016 KShs'000
Staff costs include the following:		
- Salaries and allowances**	1,550,581	1,333,890
- Defined contribution expense	84,501	68,178
- Termination benefits expense	1,126	3,919
- Leave pay	28,746	24,045
	1,664,954	1,430,032
Number of employees	496	500

** *Included in the staff costs is salary and allowances of KShs 73 million (2016: KShs 68 million) paid to the Group chief executive officer, who is also a director.*

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

8. OPERATING AND OTHER EXPENSES *(continued)*

(c) COMPANY	2017 KShs'000	2016 KShs'000
Branding costs	-	107,759
Staff welfare	-	181
Utilities	200	-
Impairment of Nakumatt Holdings commercial paper (note 25(b))	59,832	-
Depreciation of property and equipment (note 13 (b))	16,965	14,810
Amortisation of intangible assets (note 15 (b))	6,346	5,073
Audit fee	1,871	1,500
AGM expenses	336	353
Professional fees	1,584	11,334
Amortisation of bond expenses (note 41)	20,508	17,984
Investment management fees	4,701	-
Written off Trans-coop expenses	-	44,096
Directors expenses	307	-
Others	4,376	4,064
	117,026	207,154

9. LOSS ON NET MONETARY POSITION

For purposes of fair presentation of the CIC Africa Insurance (South Sudan) Limited in accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies", the historical information has been restated for changes in the general purchasing power of the South Sudan Pound. The standard requires that the financial statements prepared in the currency of the hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

On application of IAS 29, the subsidiary used the conversion coefficient derived from the consumer price index prepared by Trading Economics (www.tradingeconomics.com) as shown below:

Year	CPI	Conversion factor
2014	170	12.14
2015	357	5.79
2016	2,068	1
2017	4,502	0.78
Average CPI 2017	3,285	

The application of IAS 29 resulted in the loss on the net monetary position which represents the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of prfot or loss and other comprehensive income items and the adjustment of index linked assets and liabilities.

	2017 KShs'000	2016 KShs'000
Loss on net monetary position	(187,478)	(297,479)

10. FINANCE COST – GROUP AND COMPANY

	2017 KShs'000	2016 KShs'000
Interest expense on borrowings (note 41)	650,000	650,000

11. TAXATION

GROUP

(a) Statement of profit or loss	2017 KShs'000	2016 KShs'000
Current tax charge on taxable income at 30% (2016:30%)	266,774	145,755
Prior year under provision	-	8,476
Deferred tax credit (note 16 (a))	(226,091)	(228,028)
	40,683	(73,797)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

11. TAXATION *(continued)*

GROUP (continued)

		2017 KShs'000	2016 KShs'000
(a)	Statement of financial position		
	At 1 January	(148,808)	97,579
	Current tax charge for the year	266,774	145,755
	Prior year under provision	-	8,476
	Tax charge on transfer to retained earnings	34,500	34,500
	Paid during the year	(109,125)	(435,118)
	At 31 December	43,341	(148,808)
(c)	Reconciliation of taxation expense to expected tax based on accounting profit		
	Profit before taxation	519,156	114,388
	Tax calculated at a tax rate of 30% (2016:30%)	175,168	98,472
	Prior year under provision	-	8,476
	Tax effect of expenses not deductible for tax*	(227,684)	(251,980)
	Tax effect of income not subject to tax**	69,878	51,235
	Tax effect on capital gains	23,321	20,000
	Taxation charge for the year	40,683	(73,797)

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

	COMPANY	2017 KShs'000	2016 KShs'000
(d)	Statement of profit or loss and other comprehensive income		
	Deferred tax credit (note 16 (b))	(98,275)	(120,714)
(e)	Statement of financial position		
	At 1 January	2,000	2,000
	Taxation charge for the year	-	-
	Paid during the year	-	-
	At 31 December	2,000	2,000
(f)	Reconciliation of taxation expense to expected tax based on accounting profit		
	Profit before taxation	273,473	174,059
	Tax calculated at a tax rate of 30%	82,042	52,217
	Tax effect of income not subject to tax*	-	-
	Tax effect of expenses not deductible for tax**	(203,638)	(192,931)
	Tax effect on capital gains	23,321	20,000
	Taxation charge for the year	(98,275)	(120,714)

**These incomes are dividend income and interest on infrastructure bond*
***These expenses are donations and bond amortisation costs*

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

12. EARNINGS PER SHARE – BASIC AND DILUTED

Basic earnings per share is calculated based on the profit attributable to shareholders divided by the weighted average number of ordinary shares in issue in each period as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
Profit attributable to ordinary shareholders' (KShs'000)	478,473	188,185	371,748	294,773
Weighted average number of shares (in thousands)	2,615,578	2,615,578	2,615,578	2,615,578
Earnings per share (KShs) – Basic and diluted (KShs)	0.18	0.07	0.14	0.11

There were no dilutive shares during the year (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

13. (a) PROPERTY AND EQUIPMENT – GROUP

2017	Buildings KShs'000	Motor Vehicles KShs'000	Computers KShs'000	Furniture fittings & equipment KShs'000	Leasehold improvements KShs'000	Total KShs'000
COST OR VALUATION						
At 1 January	678,359	57,067	190,744	866,403	-	1,792,573
Addition through business combination		3,446	147	12,236	3,472	19,301
Additions	23,255	2,961	11,175	34,280	-	71,671
Elimination on disposals	-	(12,648)		(118)	-	(12,766)
Gross gain on revaluation	21,914	-	-	-	-	21,914
Foreign exchange differences on translation	9,176	2,059	6,323	(20,212)	-	(2,654)
Elimination of depreciation charge on revaluation	(22,236)	-	-	-	-	(22,236)
At 31 December	710,468	52,885	208,389	892,589	3,472	1,867,803
ACCUMULATED DEPRECIATION						
At 1 January	-	41,616	149,622	330,164	-	521,402
Charge for the year (note 8)	22,236	10,222	20,648	123,153	386	176,645
Foreign exchange differences on translation	-	(650)	2,840	(2,632)	-	(442)
Eliminated on disposal		(12,206)		(98)	-	(12,304)
Elimination on revaluation	(22,236)	-	-	-	-	(22,236)
At 31 December	-	38,982	173,110	450,587	386	663,065
CARRYING AMOUNT						
At 31 December	710,468	13,903	35,279	442,002	3,086	1,204,738

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

13. (a) PROPERTY AND EQUIPMENT – GROUP (continued)

2016	Buildings KShs'000	Motor Vehicles KShs'000	Computers KShs'000	Furniture fittings & equipment KShs'000	Total KShs'000
COST OR VALUATION					
At 1 January	659,442	68,470	157,199	808,340	1,693,451
Additions	1,168	4,825	33,636	73,721	113,350
Elimination on disposal	-	(16,228)	(91)	(15,658)	(31,977)
Gross gain on revaluation	38,824	-	-	-	38,824
Elimination of depreciation charge on revaluation	(21,075)	-	-	-	(21,075)
At 31 December	678,359	57,067	190,744	866,403	1,792,573
ACCUMULATED DEPRECIATION					
At 1 January	-	35,056	92,600	221,088	348,744
Charge for the year (note 8)	21,075	17,464	57,060	115,469	211,068
Elimination on disposal	-	(10,904)	(38)	(6,393)	(17,335)
Elimination on revaluation	(21,075)	-	-	-	(21,075)
At 31 December	-	41,616	149,622	330,164	521,402
CARRYING AMOUNT					
At 31 December	678,359	15,451	41,122	536,239	1,271,171

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

13. (a) PROPERTY AND EQUIPMENT – GROUP *(continued)*

An independent valuation of the buildings in Kenya was carried out at 31 December 2017 by Crystal Valuers Limited, registered valuers, on open market value basis. The resultant revaluation surplus has been dealt with through other comprehensive income and accumulated in revaluation surplus as a separate component of equity. CIC Plaza in South Sudan was revalued on 31 December 2017 by registered valuers, Kenval Realtors Limited on open market value basis. The fair value of property and equipment are assessed every year.

There were no borrowing costs related to the additions in property and equipment during the year and hence none has been capitalised. Additionally, none of the above assets was pledged as collateral for the group liabilities.

(b) PROPERTY AND EQUIPMENT – COMPANY

2017	Motor vehicles KShs'000	Computers KShs'000	Furniture fittings & Equipment KShs'000	Total KShs'000
COST OR VALUATION				
At 1 January 2017	16,907	15,514	59,032	91,453
Additions	-	5,074	113	5,187
At 31 December 2017	16,907	20,588	59,145	96,640
ACCUMULATED DEPRECIATION				
At 1 January 2017	8,454	2,005	15,614	26,073
Charge for the year	4,227	4,129	8,609	16,965
At 31 December 2017	12,681	6,134	24,223	43,038
CARRYING AMOUNT				
At 31 December 2017	4,226	14,454	34,922	53,602

2016	Motor vehicles KShs'000	Computers KShs'000	Furniture fittings & Equipment KShs'000	Total KShs'000
COST OR VALUATION				
At 1 January 2016	16,907	79	56,133	73,119
Additions	-	15,435	2,899	18,334
At 31 December 2016	16,907	15,514	59,032	91,453
ACCUMULATED DEPRECIATION				
At 1 January 2016	4,227	19	7,017	11,263
Charge for the year (note8)	4,227	1,986	8,597	14,810
At 31 December 2016	8,454	2,005	15,614	26,073
CARRYING AMOUNT				
At 31 December 2016	8,453	13,509	43,418	65,380

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

14. INVESTMENT PROPERTIES

(a) GROUP

	CIC plaza in Kenya and South Sudan KShs'000	Kamiti Land KShs'000	Kajiado Land KShs'000	Total KShs'000
At 1 January 2016	1,760,742	2,200,000	1,460,000	5,420,742
Additions	4,420	-	-	4,420
Fair value gains (note 6)	71,126	400,000	155,000	626,126
At 31 December 2016	1,836,288	2,600,000	1,615,000	6,051,288
At 1 January 2017	1,836,288	2,600,000	1,615,000	6,051,288
Additions	4,897	33,578	-	38,475
Foreign exchange differences on translation	64,864	-	-	64,864
Fair value (loss)/gains (note 6)	(16,566)	466,422	82,000	531,856
At 31 December 2017	1,889,483	3,100,000	1,697,000	6,686,483

(b) COMPANY

	2017 KShs'000	2016 KShs'000
KAMITI LAND		
At 1 January	2,600,000	2,200,000
Additions	33,578	-
Fair value gains (note 6)	466,422	400,000
At 31 December	3,100,000	2,600,000

All investment properties except for CIC Plaza in South Sudan, were re-valued by Crystal Valuers Limited, registered valuers as at 31 December 2017 on the basis of open market value. Crystal Valuers Limited are industry specialists in valuing these types of investment properties. CIC Plaza in South Sudan was revalued on 31 December 2017 by registered valuers, Kenval Realtors Ltd on open market value basis. In arriving at the value 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.

On the other hand, Kamiti 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 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

14. INVESTMENT PROPERTIES *(continued)*

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	196,105,455
	Annual rent growth rate	6%
	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. The valuation takes into account recent prices of similar properties with adjustments made to reflect any changes in economic conditions since the date of the transactions at those prices.

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 tendencies and also considers the normal lease structure for similar buildings.

15. INTANGIBLE ASSETS

(a) GROUP

			2017	2016
	Computer software KShs'000	Goodwill KShs'000	Total KShs'000	Computer software KShs'000
COST				
At 1 January	219,329	-	219,329	177,553
Additions	48,840	-	48,840	41,776
Acquisition of subsidiary	1,691	-	1,691	-
Acquisition through business combination	-	98,148	98,148	-
Foreign exchange differences on translation	5,015	-	5,015	-
At 31 December	274,875	98,148	373,023	219,329
ACCUMULATED AMORTISATION				
At 1 January	151,083	-	151,083	84,092
Charge for the year (note 8)	45,011	-	45,011	66,991
Foreign exchange differences on translation	5,672	-	5,672	-
At 31 December	201,766	-	201,766	151,083
CARRYING AMOUNT				
At 31 December	73,109	98,148	171,257	68,246

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

15. INTANGIBLE ASSETS

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The Group performed its annual impairment test on December 2017. The Group considers the relationship between its probable market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2017, the market capitalisation of the Group was above the book value of its equity, indicating that no potential impairment of goodwill. In addition, the insurance industry in the country remains stable.

The Group has not identified separate cash generating units (CGUs) and as such goodwill has not been allocated.

(b) COMPANY

	2017 KShs'000	2016 KShs'000
COST		
At 1 January	25,320	-
Additions	716	25,320
At 31 December	26,036	25,320
ACCUMULATED AMORTISATION		
At 1 January	5,073	-
Charge for the year (note 8)	6,346	5,073
At 31 December	11,419	5,073
CARRYING AMOUNT		
At 31 December	14,617	20,247

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

16. DEFERRED TAXATION

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2016: 30%).

(a) GROUP

	Net deferred tax asset/(liability)	
	2017 KShs'000	2016 KShs'000
CIC Asset Management Limited	2,146	1,214
CIC General Insurance Limited	392,125	237,655
CIC Life Assurance Limited	(473,809)	(446,236)
CIC Insurance Group Limited – company	245,344	147,069
	165,806	60,298
CLASSIFICATION:		
Classified as deferred tax asset	639,615	385,938
Classified as deferred tax liability	(473,809)	(446,236)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

16. DEFERRED TAXATION *(continued)*

COMPANY	At 1 January KShs'000	Recognized in Profit or loss KShs'000	At 31 December KShs'000
2016			
Arising from:			
Unutilised tax losses	108,192	140,714	248,906
Deferred tax on capital gains	(81,837)	(20,000)	(101,837)
Net deferred tax asset	26,355	120,714	147,069
2017			
Arising from:			
Unutilised tax losses	248,906	121,596	370,502
Deferred tax on capital gains	(101,837)	(23,321)	(125,158)
Net deferred tax asset	147,069	98,275	245,344

Directors are of the opinion that the company will make adequate future taxable profits beginning from financial year 2019 to offset the tax losses carried forward. This opinion is based on projected profits from a real estate project that is at the approval stage.

17. INVESTMENT IN ASSOCIATE

The investment in Takaful Insurance of Africa Limited represents 22% (2016 – 22%) of the issued ordinary share capital The associate is a limited liability company incorporated and domiciled in Kenya. Its principal activity is transaction of general insurance and life business and the financial year end is 31 December. The company is not listed on any securities exchange. Included in the 2016 is the investment in CIC Africa Co-operatives Insurance Limited which was transferred to investment in subsidiary.

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
At 1 January	182,610	129,166	183,132	138,400
Share of profit after taxation for Takaful Insurance of Africa Limited	46	8,712	-	-
(Dilution)/Investment in CIC Africa Co-operatives Insurance Limited	(44,732)	44,732	(44,732)	44,732
At 31 December	137,924	182,610	138,400	183,132

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

17. INVESTMENT IN ASSOCIATE *(continued)*

Summarised financial information in respect of the associate is set out below:

	2017 KShs'000	2016 KShs'000
Total assets	1,973,445	1,497,469
Total liabilities	1,292,140	974,861
Equity	681,305	522,608
Cash and cash equivalents	211,293	167,605
Net earned premiums	529,325	658,590
Investment and other income	177,051	196,126
Net claims and policy holder benefits payable	(206,630)	(153,412)
Operating and commissions expense	(499,535)	(606,059)
Profit for the year	211	95,245
Group's share of profit of associate	46	8,712
Group's share of associate's contingent liabilities	Nil	Nil

The extent to which outflow of funds will be required on the Group's share of associate's contingent liabilities is dependent on the future operations of the associate being more or less favourable than currently expected. In common practice with the insurance industry in general, the associate is subjected to litigation arising in the normal course of insurance business.

18. INVESTMENT IN SUBSIDIARIES

(a) COMPANY

	2017 KShs'000	2016 KShs'000
CIC Asset Management Limited: 15,550,000 ordinary shares of KShs 20 each at cost	311,000	311,000
CIC General Insurance Limited: 85,000,000 ordinary shares of KShs 20 each at cost	1,700,000	1,700,000
CIC Life Assurance Limited: 40,000,000 ordinary shares of KShs 20 each at cost	800,000	800,000
CIC Africa Insurance (South Sudan) Limited 690,000 ordinary shares of USD 5 each at cost (1 KShs =USD 0.93)	319,962	319,962
CIC Africa Co-operatives Insurance Limited 789,977 ordinary shares of MK 1,000 each at cost (1KShs = MK 7)	113,882	-
CIC Africa (Uganda) Limited 720,093 (2016: 714,994) ordinary shares of UShs 10,000 each at cost (1Kshs = UShs 30)	283,789	233,792
	3,528,633	3,364,754

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

18. INVESTMENT IN SUBSIDIARIES *(continued)*

(a)

COMPANY	*Share capital KShs '000*	*Country of Incorporation*	*Principal activity*	*Percentage Holding*
CIC Asset Management Limited	311,000	Kenya	Funds and assets management as regulated by the Capital Markets Authority.	100%
CIC General Insurance Limited	1,700,000	Kenya	Underwriting general insurance business.	100%
CIC Life Assurance Limited	800,000	Kenya	Underwriting life assurance business.	100%
CIC Africa Insurance (SS) Limited	319,962	South Sudan	Underwriting general and life insurance business.	69%
CIC Africa Co-operatives Insurance (Malawi) Limited	113,882	Malawi	Underwriting general and life insurance business.	82%
CIC Africa (Uganda) Limited	283,789	Uganda	Underwriting general and life insurance business.	100%

At 1 January 2017, the company owned a 49% shareholding in CIC Africa Co-operatives Insurance Limited, a company incorporated in Malawi with its principal activity being underwriting of general and life insurance business. The company's interest in CIC Africa Co-operatives Insurance Limited was accounted for using equity method. In January 2017, the Group acquired a further 33%, bringing its shareholding to 82%. The consideration (conversion of related party balances) for the acquisition was KShs 44.7 million. The net liabilities acquired as at that date was KShs 65.1 million with a minority interest of KShs 11.7 million. The goodwill that arose on acquisition was KShs 98.1 million. (Refer to note 18 (b) below)

(b) The fair value of assets and liabilities of CIC Insurance Co-operatives Limited as at the date of acquisition were as follows:

Assets	KShs'000
Property and equipment	19,184
Intangible assets	1,682
Reinsurance assets	430
Taxation recoverable	19
Other receivables	2,447
Insurance receivables	10,640
Due from related parties	6,018
Cash and bank balances	18,148
	58,568
Liabilities	
Advance share capital	41,534
Insurance payables	1,620
Insurance contract liability	29,887
Due to related parties	39,677
Other payables	10,992
	123,710
Total identifiable net assets at fair value	(65,142)
Non-controlling interest	11,726
	(53,416)
Consideration for 33% additional interest – fair value of previous held value of investment	(44,732)
Goodwill arising on acquisition (note 15)	(98,148)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

19. CORPORATE BONDS

The credit quality of each corporate bond is assessed and is acceptable within the parameters used to measure and monitor credit risk. No collective or specific impairment losses are recognized on the corporate bonds.

	2017 KShs'000	2016 KShs'000
Kenya Electricity Generating Company Limited	11,259	14,955
UAP Insurance Kenya Limited	32,978	32,966
CIC Insurance Group Limited	16,295	16,290
Real People Kenya Limited	22,332	22,323
East African Breweries Limited	115,707	-
Centum Investment Company Limited	78,632	79,490
Chase Bank Limited	155,504	157,765
Housing Finance Company Limited	23,212	74,193
Family Bank Limited	20,520	20,504
Jamii Bora Bank Limited	52,532	52,514
ABC Bank Limited	122,527	121,969
Consolidated Bank Limited	21,162	21,155
	672,660	614,124
The movement in the corporate bonds is as follows:		
At 1 January	614,124	611,573
Additions	113,106	20,000
Maturities	(54,888)	(5,974)
Accrued interest on corporate bond (note 5)	2,296	1,760
*Fair value loss on Chase Bank Limited bond (note 6)	(1,978)	(13,235)
At 31 December	672,660	614,124

*see note 56 on determination of fair value loss for the Chase Bank Limited corporate bond.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

20. GOVERNMENT SECURITIES CLASSIFIED AS HELD TO MATURITY

GROUP	2017 KShs '000	2016 KShs '000
At 1 January	930,739	891,888
Reclassification from Government securities available for sale	320,000	
Additions	222,220	58,774
Discount (note 5)	(14,969)	(19,923)
Maturities	(45,300)	-
At 31 December	1,412,690	930,739
Maturity analysis		
Within 1 year	36,871	141,063
In 1-5 years	945,672	221,480
In over 5 years	430,147	568,196
	1,412,690	930,739

Government securities classified as held to maturity 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.

21. LOAN RECEIVABLES

The loans refers to advances given to staff and have collateral held on them. Upon resignation the credit quality of each loan is assessed and is acceptable within the parameters used to measure and monitor credit risk. Impairment losses have been recognised on doubtful loans receivables and have been recorded in profit or loss.

Mortgage and other staff loans are advanced at an interest rate of 6%. Mortgage loans are repayable within 20 years, while other staff loans which include the car loans and study loans are repayable within 4 years and 5 years respectively.

(a) MORTGAGE LOANS

		2017 KShs '000	2016 KShs '000
(i)	GROUP		
	At 1 January	475,267	482,440
	Loans advanced	51,550	100,168
	Loan repayments	(126,475)	(107,341)
	Loans provisions	(7,614)	-
	At 31 December	392,728	475,267
	Maturity profile:		
	Within 1 year	6,663	4,555
	In 1-5 years	45,281	45,799
	In over 5 years	340,784	424,913
		392,728	475,267
(ii)	COMPANY		
	At 1 January	86,283	96,415
	Loans advanced	-	4,824
	Loan repayments	(41,439)	(14,956)
	At 31 December	44,844	86,283
	Maturity profile:		
	Within 1 year	1,390	17,477
	In 1-5 years	7,348	68,806
	In over 5 years	36,106	-
		44,844	86,283

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

21. LOANS RECEIVABLES *(continued)*

(b) OTHER LOANS

		2017 KShs '000	2016 KShs '000
(i)	GROUP		
	Staff loans	297,895	371,310
	Policy loans	131,161	131,161
		429,056	502,471
	Movement:		
	At 1 January	502,471	504,479
	Loans advanced	151,064	107,811
	Loan repayments	(200,520)	(109,819)
	Loan provisions	(23,959)	-
	At 31 December	429,056	502,471
	Maturity profile:		
	Within 1 year	9,975	19,976
	In 1-5 years	291,128	282,107
	In over 5 years	127,953	200,388
		429,056	502,471
(ii)	COMPANY		
	At 1 January	44,176	51,479
	Loans advanced	-	7,417
	Loan repayments	(15,096)	(14,720)
	At 31 December	29,080	44,176
	Maturity profile:		
	Within 1 year	6,005	2,146
	In 1-5 years	2,419	13,025
	In over 5 years	20,656	29,005
	At 31 December	29,080	44,176

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

22. GOVERNMENT SECURITIES CLASSIFIED AS AVAILABLE FOR SALE

	2017 KShs'000	2016 KShs'000
(a) GROUP		
At 1 January	3,981,758	2,321,713
Additions	2,782,736	2,098,751
Disposals	(1,386,363)	(429,000)
Reclassified to government securities held to maturity	(320,000)	-
Fair value loss on government securities reclassified from available for sale to held to maturity (note 5)	(1,814)	-
Fair value loss	(51,308)	(9,706)
At 31 December	5,005,009	3,981,758
(b) COMPANY		
At 1 January	33,089	32,903
Fair value gain	2,024	186
At 31 December	35,113	33,089

23. EQUITY INVESTMENTS CLASSIFIED AS AVAILABLE FOR SALE

GROUP

	2017 KShs'000	2016 KShs'000
Unquoted investment:		
Shares held in Co-op Holding Co-operative Society Limited	20,449	16,863
The movement in available-for-sale investments is as follows:		
At 1 January	16,863	19,125
Fair value gain/(loss)	3,586	(2,262)
At 31 December	20,449	16,863

The shares held in Co-op Holding Co-operative Society Limited were acquired before the initial public offer (IPO) in 2009 and are not listed at the Nairobi Securities Exchange Limited (NSE). These shares are not available to the public market, they can only be sold to other members of the Co-operative entity at a specified agreed value. Thus the agreed price represents the exit price for these shares. They are to be valued at the higher of 60% of the average of the month's quoted Co-operative Bank of Kenya Limited shares at the Nairobi Securities Exchange Limited or KShs 13.70 per shareholders agreement. In the current year the shares have been valued at KShs 9.60 which approximates the fair value.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 KShs'000	2016 KShs'000
At 1 January	910,652	1,056,654
Additions	484,152	12,355
Disposal	(219,282)	(15,183)
Fair value gain/(loss) (note 6)	65,097	(143,174)
At 31 December	1,240,619	910,652

At year end, these are valued at the weighted average price at the Nairobi Securities Exchange on the last day of trading in that year.

25. DEPOSITS AND COMMERCIAL PAPERS

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

(a) GROUP

	2017 KShs'000	2016 KShs'000
DEPOSITS		
Nawiri Co-operative Society Limited	-	21,804
CIC Sacco Society Limited	14,379	15,898
CIC Unit Trust Scheme – Collective Investment Scheme	1,216,595	1,231,266
KCB Bank Kenya Limited	-	293,612
COMMERCIAL PAPERS:		
Nakumatt Holdings Limited	71,001	96,858
Long Horn Publishers Limited	5,291	-
Crown Paints Kenya Limited	49,710	-
Platinum Credit Limited	9,207	8,504
	1,366,183	1,667,942
Less: Provision for Nakumatt Holdings Limited	(71,001)	-
	1,295,182	1,667,942
Maturity analysis		
Maturing within three months	1,257,172	1,319,469
Maturing after 3 months	38,010	348,473
Total deposits and commercial papers	1,295,182	1,667,942
Movement:		
At 1 January	1,667,942	2,195,407
Additions	1,003,330	602,971
Maturities	(1,095,764)	(1,172,341)
Transfer to deposits with financial institutions	(293,612)	-
Provision for doubtful commercial paper (note 8)	(71,001)	-
Interest on deposits and commercial papers (note 5)	84,287	41,905
At 31 December	1,295,182	1,667,942

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

25. DEPOSITS AND COMMERCIAL PAPERS *(continued)*

(a) COMPANY

	2017 KShs'000	2016 KShs'000
DEPOSITS		
CIC Unit Trust Scheme – Collective Investment Scheme	888	30,459
COMMERCIAL PAPERS:		
Nakumatt Holdings Limited	59,832	61,933
	60,720	92,392
Less: Provision for Nakumatt Holdings Limited	(59,832)	-
	888	92,392
Maturity analysis		
Maturing within three months	888	92,392
Maturing after 3 months	-	-
Total deposits and commercial papers	888	92,392
Movement:		
At 1 January	92,392	972,888
Additions	-	52,000
Maturities	(38,673)	(957,858)
Provision for doubtful commercial paper (note 8)	(59,832)	-
Interest on deposits and commercial papers (note 5)	7,001	25,362
At 31 December	888	92,392

26. DEFERRED ACQUISITION COSTS

	2017	2016
At 1 January	473,033	416,220
New acquisition costs	198,791	70,377
Amortization charge	(79,111)	(13,564)
At 31 December	592,713	473,033

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

27. (a) 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 have not been received as at year end.

	2017 KShs'000	2016 KShs'000
1 January	1,421,193	1,372,319
Gross written premiums	14,886,887	12,366,319
Provision for doubtful premiums*	(1,256,686)	(726,917)
Payments received	(13,524,063)	(11,590,528)
31 December	1,527,331	1,421,193
Past due but not impaired		
1-30 Days	684,256	538,675
31-60 Days	392,933	299,177
61-90 Days	304,853	583,341
91-120 Days	60,757	-
Over 120 days	84,532	-
Total	1,527,331	1,421,193

*The movement in provision for doubtful premium is as follows:

	2017 KShs'000	2016 KShs'000
At 1 January	726,917	394,186
Charge for the year (note 8)	529,769	332,731
At 31 December	1,256,686	726,917

(b) RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

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

	2017 KShs'000	2016 KShs'000
1 January	944,172	622,989
Increase in reinsurance receivables	910,094	321,183
Decrease in reinsurance receivables	(425,050)	-
31 December	1,429,216	944,172

(c) PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

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

	2017 KShs'000	2016 KShs'000
1 January	116,575	25,631
Increase in reinsurance payables	15,828	90,944
31 December	132,403	116,575

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

28. REINSURERS' SHARE OF LIABILITIES AND RESERVES

	2017 KShs'000	2016 KShs'000
Reinsurers' share of:		
- General insurance contract liabilities	967,033	1,051,120
- Life assurance contract liabilities	96,122	51,173
Total (note 48)	1,063,155	1,102,293
- Reinsurers share of actuarial value of policyholder reserve (note 45)	498,033	435,401
- Unearned premium and unexpired risks (note 47)	691,381	503,195
Total	2,252,569	2,040,889

Amounts due from reinsurers in respect of claims already paid by the Group on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above reinsurance assets are shown in note 49.

29. OTHER RECEIVABLES

(a) GROUP

	2017 KShs'000	2016 KShs'000
Staff advances	13,380	24,335
Other receivables	76,762	53,235
Receivable from custodian	-	17,746
Rent receivable	19,816	8,334
Medical fund administration scheme	1,303	3,382
Motor vehicle benefits recoverable	10,961	63,329
Available for sale bond interest receivable	91,783	59,622
Prepayments	35,645	14,281
	249,650	244,264

(b) COMPANY

	2017 KShs'000	2016 KShs'000
Prepayment	732	-
Interest receivable on government securities classified as available for sale	340	324
	1,072	324

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

30. RELATED PARTIES

The ultimate parent company is Co-operative Insurance Society Limited. The Group has various related parties, most of whom are related by virtue of being the investor, and partly due to common directorships. There were no provisions made or amounts written off on related party balances during the year (2016: nil). The amounts due from related parties are non- interest bearing and the balances are not secured.

GROUP	2017 KShs'000	2016 KShs'000
Due from related company:		
Co-operative Insurance Society Limited	16,718	16,718
CIC Foundation	1,775	11,630
CIC Africa Co-operatives Insurance Limited	-	45,579
CIC Unit Trusts	27,393	29,373
	45,886	103,300

(a) Transaction with related parties during the year

	2017 KShs'000	2016 KShs'000
The following transactions were carried out with related parties during the year:		
Receipts* from related party		
CIC Foundation	14,234	11,630
CIC Africa Co-operatives Insurance Limited	-	149,746
CIC Unit Trust Scheme	80,223	29,373
Payments* to related party		
CIC Foundation	4,379	-
CIC Africa Co-operatives Insurance Limited	-	104,167
CIC Unit Trust Scheme	78,243	-

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

(b) Key management and directors remuneration*

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

	2017 KShs'000	2016 KShs'000
Short-term employment benefits:		
Directors		
- Directors 'emoluments – Fees	52,540	30,681
- Others (travel and accommodation)	54,112	31,940
Key management staff**:		
Salaries	276,663	114,672
Leave allowance	4,449	1,940
Car allowance	72,586	12,603
National Social Security Fund (NSSF)	53	467
Contribution to defined contribution scheme	13,796	7,992
	474,199	200,295

* *The balance disclosed in 2016 relates to 5 employees while that of 2017 relates to 12 employees which includes senior management from the group subsidiaries.*

** *Included in key management staff is salary and allowances of KShs 73 million (2016: KShs 68 million) paid to Group chief executive officer, who is also a director.*

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

30. RELATED PARTIES *(continued)*

COMPANY	2017 KShs'000	2016 KShs'000
Due from related company:		
Co-operative Insurance Society Limited	16,718	16,718
CIC Asset Management Limited	51,400	56,392
CIC General Insurance Limited	161,313	360,275
CIC Africa (Uganda) Limited	280,392	299,538
CIC Africa Co-operatives Insurance Limited	13,777	45,579
CIC Africa Insurance (SS) Limited	12,134	9,726
CIC Foundation	1,775	11,630
	537,509	799,858
Due to related company:		
CIC Life Assurance Limited	181,574	196,427

The company has various related parties, most of whom are related by virtue of common shareholding.

(a) Transaction with related parties during the year

	2017 KShs'000	2016 KShs'000
Receipts from related party		
CIC Asset Management Limited	31,488	54,209
CIC General Insurance Limited	1,574,453	479,267
CIC Africa (Uganda) Limited	180,232	186,102
CIC Africa Co-operatives Insurance Limited	38,210	-
CIC Africa Insurance (SS) Limited	17,892	18,308
CIC Foundation	14,234	11,630
CIC Life Assurance Limited	20,700	55,040
Payments to related party		
CIC Asset Management Limited	36,480	47,517
CIC General Insurance Limited	1,375,491	839,542
CIC Africa (Uganda) Limited	199,378	3,227
CIC Africa Co-operatives Insurance Limited	70,012	-
CIC Africa Insurance (SS) Limited	15,485	51,124
CIC Foundation	4,379	-
CIC Life Assurance Limited	33,552	-

(b) Loans to directors of the group and the company

The Company and its subsidiaries did not advance loans to the directors in the year ended 31 December 2017 and 31 December 2016.

(c) Key management personnel remuneration

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

	2017 KShs'000	2017 KShs'000
Directors 'emoluments – fees	235,000	118,000

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

31. DEPOSITS WITH FINANCIAL INSTITUTIONS

(a) GROUP

	2017 KShs'000	2016 KShs'000
The Co-operative Bank of Kenya Limited	3,188,849	3,006,666
Housing Finance Company of Kenya Limited	122,291	282,139
Bank of Africa Limited	26,062	-
Gulf African Bank Limited	118,165	-
KCB Bank Kenya Limited*	566,494	108,189
Development Bank of Kenya Limited	27,726	15,325
Nico Asset Managers Limited	12,320	-
Equity Bank of Kenya Limited	11,509	-
ABC Bank Kenya Limited	8,490	-
Transnational Bank Limited	52,714	29,112
Family Bank Limited	82,525	-
Jamii Bora Bank Limited	20,073	-
Commercial Bank of Africa Limited	1,581	15,173
Barclays Bank of Uganda Limited	159,818	151,589
Imperial Bank of Kenya Limited	28,453	31,601
Nedbank Limited (Malawi)	47,683	-
Credit Bank Limited	74,093	-
Diamond Trust Bank Limited	-	50,558
Spire Bank Limited	59,110	81,003
Victoria Commercial Bank Limited	203,578	-
Kenya Women Finance Trust Limited	18,180	8,031
NIC Bank Kenya Limited	34,846	2,504
Sidian Bank Limited	-	30,206
	4,864,560	3,812,096
Provision for doubtful Imperial Bank of Kenya Limited deposit	(28,453)	(31,601)
Net deposits	4,836,107	3,780,495
Maturity analysis:		
Maturing within three months	2,613,879	3,767,989
Maturing after 3 months	2,222,228	12,506
	4,836,107	3,780,495

In 2015, Imperial Bank Limited was placed under statutory management by the Central Bank of Kenya (CBK) and management assessed the recoverability of the deposits placed with the bank to be doubtful. During the year, KShs 3.1 million was received from the bank. The deposit has been fully provided for in the books of account.

* Included in the deposits with KCB Bank Kenya Limited, are deposits of KShs 293.6 million which have been held as collateral for staff loans. The weighted average interest rate earned on the deposits during the year was 2.5 % (2016 - 2.5%).

(b) COMPANY

	2017 KShs'000	2016 KShs'000
The Co-operative Bank of Kenya Limited	1,849,624	1,942,114
Housing Finance Group	-	87,312
National Industrial and Credit Bank	-	2,504
	1,849,624	2,031,930
Maturity analysis:		
Maturing within 3 months	1,849,624	2,029,426
Maturing after 3 months	-	2,504
	1,849,624	2,031,930

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

32. SHARE CAPITAL

	2017		2016	
	Number of shares KShs'000	Share capital KShs'000	Number of shares KShs'000	Share capital KShs'000
Authorised ordinary shares of KShs 1 each (2016: KShs 1 each): At 1 January and at 31 December	3,000,000	3,000,000	3,000,000	3,000,000
Issued and fully paid up share capital: At 1 January and at 31 December	2,615,578	2,615,578	2,615,578	2,615,578

33. SHARE PREMIUM

	2017 KShs'000	2016 KShs'000
At 1 January and at 31 December	162,179	162,179

34. STATUTORY RESERVE

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, 2015.

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. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated surplus of the long term business.

35. CONTINGENCY RESERVE

The contingency reserve represents at 2% of the gross premium for non-life insurance business and 1% for life business that is set aside as required by the Insurance Act in Uganda.

36. REVALUATION SURPLUS

The revaluation surplus represents the surpluses on the revaluation of buildings and is not distributable as dividends.

37. FOREIGN CURRENCY TRANSLATION RESERVE

The exchange differences arising on the translation of foreign operations to the presentation currency are transferred to the foreign currency translation reserve. On disposal of the net investment, the cumulative exchange differences relating to the operations disposed of are released to the statement of profit or loss.

38. FAIR VALUE RESERVE/(DEFICIT)

The fair value reserve/(deficit) represents fair value gains / (losses) arising from available for sale financial instruments and is not distributable as dividends.

39. RETAINED EARNINGS

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

Retained earnings include fair value gains on revaluation of investment properties which are unrealised and whose distribution is subject to restrictions imposed by the Kenya Insurance Act.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

40. NON-CONTROLLING INTEREST

	2017 KShs'000	2016 KShs'000
At 1 January	138,960	164,383
Profit for the year	(11,012)	70,125
Other comprehensive income for the year	(57,214)	(66,520)
Total comprehensive income for the year	(68,226)	3,605
Additional Investment by minority interest	15,560	-
Acquired through business combination	(11,726)	-
Elimination on South Sudan translation (note 9)	-	(29,028)
At 31 December	74,568	138,960

Financial information of CIC Africa Insurance (South Sudan) Limited that has material Non-Controlling Interest (NCI) in Co-operative Bank of Sudan Limited and CIC Africa Insurance Co-operative Limited (Malawi) in MUSSCO and FUM is provided below;

	South Sudan		Malawi	
	2017	2016	2017	2016
Proportion of ownership held by NCI	31%	31%	18%	-
Proportion of voting rights held by NCI	31%	31%	18%	-
Accumulated balances of NCI (KShs '000)	84,268	138,960	(9,701)	-
Profit/(loss) accumulated to NCI (KShs '000)	73,227	70,125	(13,535)	-
Dividends paid to NCI in the year (KShs '000)	-	-	-	-

Summarised financial information of the subsidiary is provided below:

	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016
Total revenue	377,807	593,863	75,827	-
Profit for the year	10,007	226,210	(74,242)	-
Other comprehensive income	(182,731)	(270,303)	(950)	-
Total comprehensive income	(172,724)	(44,093)	(75,192)	-
Total non-current assets	359,007	323,823	14,575	-
Total current assets	231,928	219,917	94,631	-
Total non-current liabilities	-	-	-	-
Total current liabilities	109,240	67,947	122,824	-
Cash flows from operating activities	(46,593)	643	(25,604)	-
Cash flows from financing activities	(2,024)	(2,053)	77,878	-
Cash flows from investing activities	57,972	36,447	(80,859)	-

41. BORROWINGS- CORPORATE BOND

	2017 KShs'000	2016 KShs'000
At start of year	5,086,021	5,068,037
Interest expense incurred and paid in the year (note 10)	500,000	500,000
Accrued interest for the year (note 10)	150,000	150,000
Interest repayment during the year	(650,000)	(650,000)
Amortisation of bond expenses (note 8)	20,508	17,984
	5,106,529	5,086,021

The principal amount of the corporate bond is KShs 5 billion with a maturity date of 2 October 2019. Interest rate is at 13% per annum, payable semi -annually, with the principal amount payable on maturity of the bond after five years.

At end of year

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

42. OTHER PAYABLES

	2017 KShs'000	2016 KShs'000
(a) GROUP		
Sundry payables	472,693	258,276
Payroll creditors	45,851	52,502
Advance premiums	331,915	192,851
Leave pay provision	37,702	27,633
Rent deposits	27,577	30,113
Commissions payable	-	55,073
Finance lease obligation	34,026	34,026
	949,764	650,474
(b) COMPANY		
Sundry payables	26,480	16,536
Lease rentals payable	-	4,807
Provision for auditors remuneration	1,063	1,375
Withholding tax payable	1,456	945
	28,999	23,663

43. DIVIDENDS

In respect of the current year, the directors propose a first and final dividend of KShs 274,635,699 (2016: KShs 274,635,699) which represents 10.5% (2016 – 10.5%) of the paid up share capital to be paid to shareholders. This is subject to approval by shareholders at the Annual General Meeting and has not been recognised as a liability in these financial statements.

Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence status of the shareholders during the year as per the provision of the Kenyan Income Tax Act.

	2017 KShs'000	2016 KShs'000
At 1 January	34,607	34,607
Declared during the year	274,633	274,636
Paid during the year	(271,177)	(271,144)
Withholding tax paid	(3,456)	(3,492)
At 31 December	34,607	34,607

44. DEPOSIT ADMINISTRATION CONTRACTS

The group administers the funds of a number of retirement benefit schemes on their behalf. The liability of the group to the schemes is measured at amortised cost 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 and other comprehensive income of the group. 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:	2017 KShs'000	2016 KShs'000
Pension contributions	760,324	565,718
Investment income	229,049	55,108
Total income for the year	989,373	620,826
Policy benefits (net)	(119,597)	(81,187)
Administrative expenses	(35,535)	(16,062)
Total outflow	(155,132)	(97,249)
Net movement for the year	834,241	523,577
Balance at beginning of the year	1,279,674	756,097
Balance at end of year	2,113,915	1,279,674

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

45. 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 2016 and revealed actuarial liabilities of KShs 3,563,995 (2016: KShs 2,962,122). A transfer of KShs. 115,000,000 (2016: 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 KShs'000	Net KShs'000
As at 1 January 2017	1,495,952	1,632,642	3,128,594	435,401	3,563,995
Actuarial adjustments	339,272	302,981	642,253	62,632	704,885
As at 31 December 2017	1,835,224	1,935,623	3,770,847	498,033	4,268,880
As at 1 January 2016	1,344,984	1,343,676	2,688,660	273,462	2,962,122
Actuarial adjustments	150,968	288,966	439,934	161,939	601,873
As at 31 December 2016	1,495,952	1,632,642	3,128,594	435,401	3,563,995

46. UNIT LINKED CONTRACTS

Unit linked contracts are designated financial liabilities at amortised cost. The benefits offered under these contracts are based on the return of a portfolio of equities and debt instruments. 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.

	2017 KShs'000	2016 KShs'000
At 1 January	458,536	403,049
Contributions received	107,028	74,887
Surrenders	(15,886)	(19,400)
Maturities	(12,752)	-
At 31 December	536,926	458,536

47. PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS

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

	Gross KShs '000	Reinsurance KShs '000	Net KShs '000
2017			
At 1 January	3,959,542	(503,195)	3,456,347
Increase in the year (net)	550,695	(188,186)	362,509
At 31 December	4,510,237	(691,381)	3,818,856
2016			
At 1 January	3,407,235	(495,151)	2,912,084
Increase in the year (net)	552,307	(8,044)	544,263
At 31 December	3,959,542	(503,195)	3,456,347

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

48. INSURANCE CONTRACTS LIABILITIES

Gross claims reported, claims handling expense liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2016 and 2017 are not material.

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

2017						
Accident Year	2013 KShs'000'	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	Total KShs'000'
Estimated ultimate claims cost						
at end of accident year	3,886,436	4,410,961	4,538,520	7,792,024	5,377,985	26,005,926
one year later	4,311,453	4,738,575	5,969,581	6,628,190	-	21,647,799
two years later	4,347,712	6,348,218	6,563,367	-	-	17,259,297
three years later	5,239,957	6,399,196	-	-	-	11,639,153
four years later	5,545,718	-	-	-	-	5,545,718
Current estimate of cumulative claims	5,545,718	6,399,196	6,563,367	6,628,190	5,377,985	30,514,456
Less: cumulative payments to date	(5,277,827)	(6,160,260)	(5,813,251)	(6,044,430)	(3,788,625)	(27,084,393)
	267,891	238,936	750,116	583,760	1,589,360	3,430,063
Liability incurred but not reported claims	-	-	-	-	1,267,794	1,267,794
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	4,697,857

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

48. INSURANCE CONTRACTS LIABILITIES *(continued)*

2016 Accident Year	2012 KShs'000'	2013 KShs'000'	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	Total KShs'000'
Estimated ultimate claims cost						
at end of accident year	3,034,989	3,886,436	4,410,961	4,538,520	7,792,024	23,662,930
one year later	3,409,469	4,311,453	4,738,575	5,969,581	-	18,429,078
two years later	3,425,598	4,347,712	6,348,218	-	-	14,121,528
three years later	3,448,841	5,239,957	-	-	-	8,688,798
four years later	3,699,677	-	-	-	-	3,699,677
Current estimate of cumulative claims	3,699,677	5,239,957	6,348,218	5,969,581	7,792,024	29,049,457
Less: cumulative payments to date	(3,615,282)	(5,055,354)	(6,000,166)	(5,450,417)	(6,081,487)	(26,202,706)
	84,395	184,603	348,052	519,164	1,710,537	2,846,751
Liability incurred but not reported claims	-	-	-	-	904,812	904,812
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	3,751,563

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

48. INSURANCE CONTRACTS LIABILITIES *(continued)*

GROUP	2017 KShs'000	2016 KShs'000
Claims reported and claims handling expenses:		
At 1 January		
- General insurance	2,438,392	2,209,174
- Life assurance	210,878	296,023
	2,649,270	2,505,197
Claims incurred in the year (note 49)	7,856,468	6,469,473
Payments for claims and claims handling expenses (note 49)	(6,871,036)	(6,325,400)
At 31 December	3,634,702	2,649,270
Comprising:		
- General insurance	3,384,437	2,438,392
- Life assurance	250,265	210,878
At 31 December	3,634,702	2,649,270
Comprising:		
At 31 December:		
Gross amounts	4,697,857	3,751,563
Reinsurers share (note 28)	(1,063,155)	(1,102,293)
	3,634,702	2,649,270

Movement in insurance contract liabilities is shown in note 49.

49. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

2017	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
Notified claims	2,846,746	(912,462)	1,934,284
Incurred but not reported	904,817	(189,831)	714,986
At 1 January	3,751,563	(1,102,293)	2,649,270
Payments for claims and claims handling expenses in the year	(8,900,071)	2,029,035	(6,871,036)
Claims incurred in the year	9,846,365	(1,989,897)	7,856,468
At 31 December	4,697,857	(1,063,155)	3,634,702
Notified claims	3,430,063	(1,063,155)	2,366,908
Incurred but not reported	1,267,794	-	1,267,794
At 31 December	4,697,857	(1,063,155)	3,634,702

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

49. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS *(continued)*

2016

	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
Notified claims	2,455,535	(400,289)	2,055,246
Incurred but not reported	569,417	(119,466)	449,951
At 1 January	3,024,952	(519,755)	2,505,197
Payments for claims and claims handling expenses in the year	(7,457,921)	1,132,521	(6,325,400)
Claims incurred in the year	8,184,532	(1,715,059)	6,469,473
At 31 December	3,751,563	(1,102,293)	2,649,270
Notified claims	2,846,746	(912,462)	1,934,284
Incurred but not reported	904,817	(189,831)	714,986
At 31 December	3,751,563	(1,102,293)	2,649,270

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

50. NOTES TO THE STATEMENT OF CASH FLOWS

GROUP

Reconciliation of profit before taxation to cash generated from operations:

CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	2017 KShs'000	2016 KShs'000
Profit before taxation		519,156	114,388
Adjustments for:			
Interest income	5	(1,281,878)	(1,112,692)
Dividend income	5	(56,126)	(25,515)
Discount on government securities held to maturity	5	14,969	19,923
Fair value loss realised on reclassification of government securities	5	1,814	-
Write off of Transco-op expenses	8	-	44,096
Loss/(gain) on disposal of property and equipment		462	(5,507)
Provision for staff loans	8	7,614	-
Provision for other loans	8	23,959	-
Provision of Nakumatt Holdings commercial paper	8	71,001	-
Provision for doubtful receivables	8	529,769	-
Interest expense	10	650,000	650,000
Depreciation on property and equipment	13	176,645	211,068
Fair value gains on revaluation on investment property	14	(531,856)	(626,126)
Amortisation of intangible assets	15	45,011	66,991
Share of profits of associate	17	(46)	(8,712)
Fair value loss on corporate bond	19	1,978	13,235
Accrued interest on corporate bond	19	(2,296)	(1,760)
Fair value (gain)/loss on equity investment at fair value through profit or loss	24	(65,097)	143,174
Amortisation of bond expenses	41	20,508	17,984
Increase in provision for unearned premium	47	550,695	552,307
Increase in insurance contracts liabilities	48	946,294	726,611
Working capital changes;			
Increase in receivables arising out of direct insurance arrangements		(635,907)	(48,874)
Increase in receivables arising out of reinsurance arrangements		(485,044)	(321,183)
Increase in reinsurance share of liabilities and reserves		(211,680)	(675,501)
(Increase)/decrease in other receivables		(5,386)	127,624
Increase/(decrease) in other payables		299,277	(132,500)
Increase in actuarial value of policyholders liabilities		704,885	601,873
Increase in payables arising from reinsurance arrangement and other insurance bodies		15,828	90,944
Increase in deposits administration contracts		834,241	523,577
Increase in unit linked contracts		78,390	55,487
Increase in deferred acquisition costs		(119,680)	(56,813)
Decrease/(increase) in related party balances		102,146	(53,507)
Cash generated from operations		2,199,646	890,592

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

51. CASH AND CASH EQUIVALENTS

	Notes	2017 KShs'000	2016 KShs'000
Cash and cash equivalents comprises of:			
GROUP			
Bank and cash balances		263,494	611,463
Deposits with banks maturing within 3 months	31	2,613,879	3,767,989
		2,877,373	4,379,452
COMPANY			
Bank and cash balances		4,872	4,833
Deposits with banks maturing within 3 months	31	1,849,624	2,029,426
		1,854,496	2,034,259

52. 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	2017 %	2016 %
Government securities	Fixed	12.50	11
Corporate bonds	Fixed	12.85	11
Mortgage loans	Fixed	6	6
Staff loans	Fixed	6	6
Policy loans	Fixed	12.78	8
Deposits with financial institutions	Fixed	12.78	9
Other deposits and commercial papers	Variable	12.78	9
Cash and cash equivalents	Fixed	7.50	9

53. CONTIGENCIES AND COMMITMENTS

a. Legal proceedings and regulations

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

53. CONTIGENCIES AND COMMITMENTS *(continued)*

b. Commitments, operating leases and bank guarantees

Commitments

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

	2017 KShs'000	2016 KShs'000
Committed but not contracted for	208,550	404,423

Operating leases

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

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

	2017 KShs'000	2016 KShs'000
Within one year	116,209	90,915
After one year but not more than two years	254,971	187,741
After two year but not more than five years	-	89,329
Total operating lease rentals receivable	371,180	367,985

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

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

	2017 KShs'000	2016 KShs'000
Within one year	56,420	62,106
After one year but not more than two years	206,714	187,547
After two year but not more than five years	-	28,819
Total operating lease rentals payable	263,134	278,472

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

53. CONTIGENCIES AND COMMITMENTS *(continued)*

b. Commitments, operating leases and bank guarantees (continued)

Bank Guarantees

	2017 KShs'000	2016 KShs'000
Bank guarantees	168,519	131,870

In common practice with the insurance industry in general, the Group is subjected to litigation arising in the normal course of insurance business. The directors are of the opinion that any pending litigations will not have a material effect on the financial position or performance of the Group.

54. RISK MANAGEMENT FRAMEWORK

a. Governance framework

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

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

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

b. Capital management objectives, policies and approach

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

54. RISK MANAGEMENT FRAMEWORK *(continued)*

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

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Kenyan Insurance Regulatory Authority (IRA). These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

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

Approach to capital management

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

The group'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 group in the light of changes in economic conditions and risk characteristics. An important aspect of the group'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 group is focused on the creation of value for shareholders.

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

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

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

	2017 KShs'000	2016 KShs'000
Share capital	2,615,578	2,615,578
Share premium	162,179	162,179
Statutory reserve	1,102,608	1,034,836
Contingency reserve	9,435	2,150
Revaluation surplus	128,423	109,368
Translation reserve	(417,894)	(378,372)
Fair value deficit	(265,610)	(217,888)
Retained earnings	4,227,821	4,012,652
Equity attributable the owners of the parent	7,562,540	7,340,503
Non-controlling interest	74,568	138,960
Total equity	7,637,108	7,479,463

The Group had external borrowings at 31 December 2017 of KShs 5.1 billion (2016 - 5.1 billion), and had capital gearing ratio of 201% in 2017 (2016 - 201%).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

54. RISK MANAGEMENT FRAMEWORK *(continued)*

c. Regulatory framework

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

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

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 group faces, due to the nature of its investments and liabilities, is interest rate risk. The group manages these positions within an ALM framework that has been developed to achieve long–term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the group's ALM is to match assets to the liabilities arising from insurance and investment 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 Group's ALM is:

- Integrated with the management of the financial risks associated with the group's other financial assets and liabilities not directly associated with insurance and investment liabilities
- As an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts

55. INSURANCE AND FINANCIAL RISK

55.1 Insurance risk

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

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

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 group 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 group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55.1 Insurance risk *(continued)*

1. Life insurance contracts

Life insurance contracts offered by the group 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.

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.

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.

The main risks that the Group 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 Group, type of risk insured or by industry.

The group'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 group 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 group to pursue third parties for payment of some or all costs. The group 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 group.

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. Groupwide reinsurance limits of Kshs. 3,000,000 on any single life insured insured are in place.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

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 Group charges for death and disability risks on a yearly basis. Under these contracts the group has the right to alter these charges to take account of death and disability experience, thereby mitigating the risks to the group

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.

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

31 December 2017

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF KShs'000	Investment contract liabilities KShs'000	Insurance contract liabilities KShs'000	Total Insurance and investment contract liabilities KShs'000	Insurance liabilities KShs'000	Net liabilities KShs'000
Group life	-	-	281,052	281,052	79,179	201,873
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 45)	1,058,124	-	3,210,756	4,268,880	498,033	3,770,847
Unit linked (note 46)	-	536,926	-	536,926	-	536,926
Total	1,058,124	536,926	3,210,756	4,805,806	498,033	4,307,773

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

31 December 2016

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF KShs'000	Investment contract liabilities KShs'000	Insurance contract liabilities KShs'000	Total Insurance and investment contract liabilities KShs'000	Insurance liabilities KShs'000	Net liabilities KShs'000
Group life	-	-	180,649	180,649	43,348	137,301
Group credit	-	-	1,887,395	1,887,395	392,053	1,495,342
Endowment	698,004	-	-	698,004	-	698,004
Term assurance	-	-	202,529	202,529	-	202,529
Annuities	-	-	595,418	595,418	-	595,418
Total insurance liabilities (Note 45)	698,004	-	2,865,991	3,563,995	435,401	3,128,594
Unit linked (note 46)	-	458,536	-	458,536	-	458,536
Total	698,004	458,536	2,865,991	4,022,531	435,401	3,587,130

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

Key Assumptions

Material judgment 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 group'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 group'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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

Key Assumptions (continued)

- 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 group'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.

- 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 group'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 group are listed below:

	Mortality and Morbidity rates		Lapse and surrender rates				Discount rates	
	2017	2016		2017		2016	2017	2016
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%	13.15%	10%
Life insurance*	KE 2007 – 2010 Tables for Assured Lives	KE 2007 – 2010 Tables for Assured Lives	15%	10%	15%	10%	Yield curve	7.5%

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 policy holder's liabilities.*

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK (continued)
55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

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.

Life insurance contracts

	31 December 2017		31 December 2016	
	KShs '000	% change	KShs '000	% change
Main basis	4,567,572	-	2,990,408	-
Expenses plus 10%	4,598,172	0.67%	3,005,359	0.50%
Mortality and other claims experience plus 10%	4,569,345	0.04%	2,990,646	0.01%
Interest rate less 1%	4,752,563	4.05%	3,068,010	2.60%
Expense inflation plus 1%			2,997,870	0.25%
Withdrawals plus 10%	4,569,046	0.03%	2,989,605	-0.03%

2. Non-life insurance contracts

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.1 Insurance risk (continued)

2. Non-life insurance contracts (continued)

The group uses commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the group, the following table shows hypothetical claims arising for various realistic disaster scenarios based on the group's average risk exposures during 2017 and 2016.

The group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic.

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

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

	31 December 2017			31 December 2016		
	Gross liabilities KShs '000	Reinsurance of liabilities KShs '000	Net liabilities KShs '000	Gross liabilities KShs '000	Reinsurance of liabilities KShs '000	Net Liabilities KShs '000
Engineering	111,878	(57,550)	54,328	95,061	(14,086)	80,975
Fire	132,983	(50,978)	82,005	95,826	(43,376)	52,450
Liability	778,974	(662,418)	116,556	758,592	(133,544)	625,048
Marine	29,109	(318)	28,791	56,235	(22,476)	33,759
Motor	2,254,358	(159,127)	2,095,231	2,092,530	(635,628)	1,456,902
Medical	216,352	(2,164)	214,188	91,849	(77,884)	13,965
Others	589,229	(34,478)	554,751	299,419	(124,126)	175,293
Total	4,112,883	(967,033)	3,145,850	3,489,512	(1,051,120)	2,438,392

Key Assumptions

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

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

Sensitivities

The non–life insurance claim liabilities are not subject to significant estimation uncertainty as the tails are short. In addition, the estimation of the liabilities is based on sufficient claims data. Therefore a stable and reliable pattern of the future development of claims can be obtained and applied in the chain-ladder reserving models.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

a. Credit risk

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

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

- A group credit risk policy which sets out the assessment and determination of what constitutes credit risk for the group. Compliance with the policy is monitored and exposures and breaches are reported to the group's risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each counterparty or group of counterparties, and industry segment (i.e., limits are set for investments and cash deposits, and minimum credit ratings for investments that may be held).
- The group further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it enters into significant volumes of transactions. However, such arrangements do not generally result in offsetting assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis.
- Guidelines determine when to obtain collateral and guarantees (i.e., certain derivative transactions are covered by collateral and derivatives are only taken out with counterparties with a suitable credit rating). The group maintains strict control limits by amount and terms on net open derivative positions. The amounts subject to credit risk are limited to the fair value of "in the money" financial assets against which the group either obtains collateral from counteparties or requires margin deposits. Collateral may be sold or repledged by the group and is repayable if the contract terminates or the contract's fair value falls.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long–term credit ratings.
- The credit risk in respect of customer balances incurred on non–payment of premiums or contributions will only persist during the grace period of 120 days specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The Group 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 Group has no credit risk on unit–linked financial assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

a. Credit risk (continued)

It is the group's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

The group has not provided the credit risk analysis for the financial assets of the unit-linked business. This is due to the fact that, in unit-linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities and the shareholders have no direct exposure to any credit risk in those assets.

During the year, no credit exposure limits were exceeded.

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

The table below indicates the maximum exposure of assets bearing credit risk:

	2017 KShs	2016 KShs
Corporate bonds at fair value through profit or loss	672,660	614,124
Government securities classified as held to maturity	1,412,690	930,739
Loans receivable	821,784	977,738
Government securities classified as available for sale	5,005,009	3,981,758
Deposits and commercial paper	1,295,182	1,667,942
Receivables arising out of direct insurance arrangements	1,527,331	1,421,193
Receivables arising out of reinsurance arrangements	1,429,216	944,172
Other receivables	249,650	244,264
Due from related parties	45,886	103,300
Deposits with financial institutions	4,836,107	3,780,495
Cash and bank balances	263,494	611,463
Total	17,559,009	15,277,188

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk (continued)

Long term business

Age analysis of financial assets past due but not impaired

31 December 2017	< 30 days KShs '000	31 to 60 days KShs '000	61to 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
31 December 2016					
Receivables arising out of reinsurance arrangements	32,134	45,133	49,917	2,521	129,705
Receivables arising out of direct insurance arrangements	92,337	21,166	6,001	28,589	148,093
Staff mortgages	-	-	-	10,244	10,244
Other staff loans	-	-	-	3,974	3,974
Total	124,471	66,299	55,918	45,328	292,016

General insurance business

Age analysis of financial assets past due but not impaired

31 December 2017	< 30 days KShs '000	31 to 60 days KShs '000	61to 90 days KShs '000	Over 90 days KShs '000	Total past–due but not impaired KShs '000
Loans and receivables	-	-	-	257,145	257,145
Reinsurance assets	722,850	1,449,856	395,569	43,952	2,612,227
Insurance receivables	475,494	376,148	284,313	49,467	1,185,422
Total	1,198,344	1,826,004	679,882	350,564	4,054,794
31 December 2016					
Loans and receivables	-	-	-	336,798	336,798
Reinsurance assets	1,630,093	419,167	251,500	27,945	2,328,705
Insurance receivables	532,965	294,037	294,262	104,012	1,225,276
Total	2,163,058	713,204	545,762	468,755	3,890,779

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk (continued)

Short term business

Impaired financial assets

At 31 December 2017, there are impaired insurance assets of KShs 1.2 billion (2016: KShs 726 million).

For assets to be classified as "past–due and impaired" contractual payments must be in arrears for more than 120 days. No collateral is held as security for any past due or impaired assets.

The group records impairment allowances for receivables arising out of direct insurance arrangements in a separate impairment allowance account. A reconciliation of the allowance for impairment losses for loans and receivables is, as:

	2017 KShs '000	2016 KShs '000
At 1 January	726,917	394,186
Charge for the year	500,000	332,731
At 31 December	1,226,917	726,917

Collateral

The loans receivables have collateral held on them of KShs 915 million (2016: KShs 977 million). No collateral is held in respect of the other receivables that are past due but not impaired.

Financial assets neither past due nor impaired

There were no financial assets that are neither impaired nor past due as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

b. 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 group's exposure to liquidity risk:

- A group liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the group. Compliance with the policy is monitored and exposures and breaches are reported to the group 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 group'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 group based on remaining undiscounted contractual obligations, including interest payable and receivable.

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums have been excluded from the analysis as they are not contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

The group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The group also has committed lines of credit that it can access to meet liquidity needs.

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55. INSURANCE AND FINANCIAL RISK *(continued)Financial risks (continued)*

b. Liquidity risk *(continued)*

The table below provides a contractual maturity analysis of the group's financial assets and liabilities:

General insurance business:

	31 December 2017				31 December 2016			
	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000
Financial assets:								
Government securities held to maturity	-	-	1,359,974	1,359,974	-	-	971,860	971,860
Corporate bonds	-	-	289,477	289,477	-	-	364,520	364,520
Government securities available for sale	-	-	4,291,332	4,291,332	-	94,834	1,601,652	1,696,486
Equity investments:								
- At fair value through profit or loss	-	-	581,231	581,231	-	-	359,134	359,134
- Available for sale	-	-	20,449	20,449	-	-	16,863	16,863
Loans receivable	46,573	57,156	519,803	623,532	27,165	32,961	656,418	716,544
Receivables arising out of reinsurance arrangements	954,407	-	-	954,407	336,841	185,835	291,584	814,260
Receivables arising out of direct insurance arrangements	851,642	333,780	-	1,185,422	532,965	294,037	398,274	1,225,276
Deferred acquisition costs	592,713	-	-	592,713	212,524	110,643	149,866	473,033
Deposit with Financial Institutions	2,020,595	-	-	2,020,595	1,032,828	-	-	1,032,828
Due from related party	38,291	-	-	38,291	70,099	-	-	70,099
Cash and bank balances	131,951	-	-	131,951	381,260	-	-	381,260
Total financial assets	4,636,172	390,936	7,062,266	12,089,374	2,593,682	718,310	4,810,171	8,122,163
Financial liabilities:								
Insurance contract liabilities	4,112,883	-	-	4,112,883	3,489,512	-	-	3,489,512
Payables arising from reinsurance arrangements	-	45,903	-	45,903	-	65,464	39,869	105,333
Due to related party	-	-	161,780	161,780	425,125	-	-	425,125
Other payables	287,542	-	-	287,542	168,929	-	-	168,929
Total financial liabilities	4,400,425	45,903	161,780	4,608,108	4,083,566	65,464	39,869	4,188,899
Net liquidity gap	235,747	345,033	6,900,486	7,481,266	(1,489,884)	652,846	4,770,302	3,933,264

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

b. Liquidity risk (continued)

Long term insurance business	31 December 2017				31 December 2016			
	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000
Government securities held to maturity	-	38,021	1,167,143	1,205,164	-	-	748,046	748,046
Government securities available for sale	67,025	16,586	6,770,305	6,853,916	-	51,092	3,856,437	3,907,529
Equity investments at fair value through profit or loss	647,147	-	-	647,147	343,425	-	-	343,425
Corporate bonds	-	12,159	524,962	537,121	-	-	581,526	581,526
Loans receivables	3,073	3,092	553,593	559,758	2,120	10,557	765,172	777,849
Receivables arising out of insurance and reinsurance arrangement	572,808	-	-	572,808	277,798	-	-	277,798
Due from related party	181,575	-	-	181,575	196,427	-	-	196,427
Other receivables	52,273	-	-	52,273				
Deposits with financial institutions	1,388,326	-	-	1,388,326	583,786		-	583,786
Cash and bank balances	83,756	-	-	83,756	181,322	-	-	181,322
Total financial assets	2,995,983	69,858	9,016,003	12,081,846	1,584,878	61,649	5,951,181	7,597,683
Insurance contract liabilities	346,387	-	-	346,387	262,051	-	-	262,051
Payables arising from reinsurance arrangements	10,375	-	-	10,375	3,785	-	-	3,785
Deposits administration contracts	-	-	2,100,286	2,100,286	-	-	3,395,356	3,395,356
Unit linked contract	-	-	536,926	536,926	-	-	1,216,633	1,216,633
Due to related party	51,471	-	-	51,471	49,744	-	-	49,744
Other payables	470,820	-	-	470,820	358,389	-	-	358,389
Total financial liabilities	879,053	-	2,637,212	3,516,265	673,969	-	4,611,989	5,285,958
Net liquidity gap	2,116,930	69,858	6,378,791	8,565,579	910,909	61,649	1,339,192	2,311,725

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

b. Liquidity Risk (continued)

Other Business	31 December 2017				31 December 2016			
	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000
Government securities held to maturity	-	-	115,621	115,621	-	-	99,401	99,401
Government securities available for sale	-	-	35,113	35,113	-	-	80,766	80,766
Equity investments at fair value through profit or loss	12,241	-	-	12,241	208,093	-	-	208,093
Corporate bonds	-	-	-		-	53,575	-	53,575
Loans and receivables from insurance and reinsurance contracts	-	341,480	-	341,480	-	249,026	-	249,026
Deposits with financial institutions	2,558,863	-	-	2,558,863		2,195,580	-	2,195,580
Cash and bank balances	47,275	-	-	47,275	48,933	-	-	48,933
Total financial assets	2,618,379	341,480	150,734	3,110,593	257,026	2,498,181	180,167	2,935,374
Insurance contract liabilities	-	238,587	-	238,587	-	-	-	-
Payables arising from reinsurance arrangements	76,125	-	-	76,125	7,456	-	-	7,456
Deposits administration contracts	-	-	-	-	-	-	-	-
Unit linked contract	-	-	-	-	-	-	-	-
Other payables	191,389	-	-	191,389	145,131	-	-	145,131
Total financial liabilities	267,514	238,587	-	506,101	152,587	-	-	152,587
Net liquidity gap	2,350,865	102,893	150,734	2,604,492	104,439	2,498,181	180,167	2,782,787

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

- The group's market risk policy sets out the assessment and determination of what constitutes market risk for the group. Compliance with the policy is monitored and exposures and breaches are reported to the group risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with their expectations.
- The group stipulates diversification benchmarks by type of instrument, as the group 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 group'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 will fluctuate because of changes in foreign exchange rates.

The Group's principal transactions are carried out in Kenya Shilling and its exposure to foreign exchange risk arise primarily with respect to South Sudan Pounds (SSP), Uganda Shillings (UGSH) and Malawian Kwacha (MK).

The group's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities. This mitigates the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance contract liabilities are expected to be settled.

The table below summarises the group's assets and liabilities by major currencies;

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

c. Market Risk (continued)

i. Currency risk ((continued)

2017	SSP KShs'000	UGSH KShs'000	MK KShs'000	OTHER KShs'000	TOTAL KShs'000
ASSETS					
Property and equipment	146,687	17,820	13,643	1,026,588	1,204,738
Investment properties	188,608	-	-	6,497,875	6,686,483
Intangible assets	151	5,996	847	66,115	73,109
Deferred taxation	-	-	-	764,759	764,759
Corporate bonds	-	-	-	639,615	639,615
Investment in associate	-	-	-	137,924	137,924
Government securities classified as held to maturity	-	115,621	-	1,297,069	1,412,690
Loans receivable -Mortgage loans	23,561	-	85	369,082	392,728
-Other loans	-	-	-	429,056	429,056
Government securities classified as available for sale	-	-	-	5,005,009	5,005,009
Equity investments classified as available for sale	-	-	-	20,449	20,449
Equity investments at fair value through profit or loss	-	-	-	1,240,619	1,240,619
Deposits and commercial paper	165,204	-	-	1,129,978	1,295,182
Deferred acquisition costs	2,527	27,584	-	562,602	592,713
Receivables arising out of direct insurance arrangements	16,688	161,416	5,952	1,343,275	1,527,331
Receivables arising out of reinsurance arrangements	13,860	31,667	8,633	1,375,056	1,429,216
Reinsurers share of liabilities and reserves	594	-	11,646	2,240,329	2,252,569
Other receivables	-	20,682	43	228,925	249,650
Due from related parties	-	-	-	45,886	45,886
Deposits with financial institutions	-	159,818	60,003	4,616,286	4,836,107
Cash and bank balances	33,055	21,464	8,374	200,601	263,494
Goodwill	-	-	-	98,148	98,148
Total assets	590,935	562,068	109,226	29,243,147	30,505,376
EQUITY AND LIABILITIES					
Share capital	463,712	286,657	138,548	1,726,661	2,615,578
Share premium	-	-	-	162,179	162,179
Statutory reserve	-	-	-	1,102,608	1,102,608
Revaluation surplus	-	-	-	128,423	128,423
Foreign currency translation reserve	(242,950)	(36,052)	(950)	(137,942)	(417,894)
Contingency reserve	-	9,435	-	-	9,435
Fair value reserve	-	-	-	(265,610)	(265,610)
Retained earnings	260,933	(336,621)	(151,196)	4,454,705	4,227,821
Non-controlling interest	-	-	-	74,568	74,568
Total equity	481,695	(76,581)	(13,598)	7,245,592	7,637,108
LIABILITIES					
Deferred taxation	-	-	-	473,809	473,809
Borrowings	-	-	-	5,106,529	5,106,529
Other payables	43,946	95,649	14,019	796,150	949,751
Due to related party	12,133	280,391	13,777	(306,301)	-
Tax payable	-	-	1,404	41,937	43,341
Dividend payable	-	-	-	34,607	34,607
Payables arising out of reinsurance arrangements insurance bodies	8,905	57,679	9,541	56,278	132,403
Deposits and administration contracts	-	-	-	2,113,915	2,113,915
Actuarial value of policyholder liabilities	2,170	-	17,225	4,249,485	4,268,880
Unit linked contracts	-	-	-	536,926	536,926
Provisions for unearned premiums reserve and unexpired risks	31,243	-	44,044	4,434,950	4,510,237
Insurance contracts liabilities	10,843	204,930	22,814	4,459,270	4,697,857
Total liabilities	109,240	638,649	122,824	21,997,555	22,868,268
Total equity and liabilities	590,935	562,068	109,226	29,243,147	30,505,376

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

c. Market Risk (continued)

i. Currency risk (continued)

2016	SSP KShs'000	UGSH KShs'000	OTHER KShs'000	TOTAL KShs'000
ASSETS				
Property and equipment	124,834	21,305	1,125,032	1,271,171
Investment properties	158,788	-	5,892,500	6,051,288
Intangible assets	253	12,325	55,668	68,246
Corporate bonds	-	-	614,124	614,124
Investment in associate	-	-	182,610	182,610
Government securities classified as held to maturity	-	99,401	831,338	930,739
Loans receivable -Mortgage loans	39,948	-	435,319	475,267
-Other loans	-	-	502,471	502,471
Government securities classified as available for sale	-	-	3,981,758	3,981,758
Equity investments classified as available for sale	-	-	16,863	16,863
Deferred taxation	-	-	385,938	385,938
Equity investments at fair value through profit or loss	195,547	-	715,105	910,652
Deposits and commercial paper	-	-	1,667,942	1,667,942
Deferred acquisition costs	1,547	10,429	461,057	473,033
Receivables arising out of direct insurance arrangements	6,086	41,738	1,373,369	1,421,193
Receivables arising out of reinsurance arrangements	207	-	943,965	944,172
Reinsurers share of liabilities and reserves	-	-	2,040,889	2,040,889
Taxation recoverable	-	-	148,808	148,808
Other receivables	-	7,340	236,924	244,264
Due from related parties	-	-	103,300	103,300
Deposits with financial institutions	-	151,589	3,628,906	3,780,495
Cash and bank balances	16,530	25,652	569,281	611,463
Total assets	543,740	369,779	25,913,167	26,826,686
EQUITY AND LIABILITIES				
Share capital	463,712	233,790	1,918,076	2,615,578
Share premium	-	-	162,179	162,179
Statutory reserve	-	-	1,034,836	1,034,836
Revaluation surplus	-	-	109,368	109,368
Foreign currency translation reserve	(267,471)	(35,228)	(75,673)	(378,372)
Contingency reserve	-	2,150	-	2,150
Fair value reserve	-	-	(217,888)	(217,888)
Retained earnings	279,552	(261,155)	3,994,255	4,012,652
Non-controlling interest	-	-	138,960	138,960
Total equity	475,793	(60,443)	7,064,113	7,479,463
LIABILITIES				
Deferred taxation	-	-	446,236	446,236
Borrowings	-	-	5.086,021	5,086,021
Other payables	42,527	48,920	559,027	650,474
Dividend payable	-	-	34,607	34,607
Due to related party	9,725	299,538	(309,263)	-
Payables arising from reinsurance arrangements and insurance bodies	598	6,858	109,119	116,575
Deposits and administration contracts	-	-	1,279,674	1,279,674
Actuarial value of policyholder liabilities	285	-	3,563,710	3,563,995
Unit linked contracts	-	-	458,536	458,536
Payables arising out of reinsurance arrangements	12,706	-	3,946,836	3,959,542
Insurance contracts liabilities	2,106	74,906	3,674,551	3,751,563
Total liabilities	67,947	430,222	18,849,054	19,347,223
Total equity and liabilities	543,740	369,779	25,913,167	26,826,686

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

c. Market Risk (continued)

i. Currency risk (continued)

The group has no significant concentration of currency risk.

CIC Africa Insurance (South Sudan) Limited primarily transacts in South Sudan Pounds but a significant portion of the company's assets and liabilities are denominated in other currencies. The net impact on the subsidiary's operating results and retained earnings due to changes in foreign exchange rates was significant due to depreciation of the South Sudanese Pound against the US Dollar, which depreciated from SSP 84.39 to the US Dollar as at 31 December 2016 to SSP 133.89 to the US Dollar as at 31 December 2017.

The following table demonstrates the sensitivity to a reasonably possible change in US Dollars (USD) exchange rates with all other variables held constant. The Group's exposure to foreign currency exposures for all other currencies is immaterial.

	Change in USD rate	Effect on Pre-tax profit and equity
		KShs '000
2017	+60%	209,881
	-60%	(209,881)
2016	+400%	496,190
	+400%	(496,190)

The impact of the change on equity in the above case would be the same.

Foreign currency sensitivity

The following analysis is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on profit before tax (PBT) and equity due to changes in the fair value of currency sensitivity monetary assets and liabilities including insurance contract claim liabilities. The correlation of variables will have a significant effect in determining the ultimate impact of currency risk, but to determine the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear. The method used for deriving sensitivity information and significant variables did not change from previous period.

		Effect on PBT and equity due to an increase/decrease of 10% in exchange rates			
		31 December 2017		31 December 2016	
Currency	Increase/(decrease) in variables	Impact on PBT KShs'000'	Impact on Equity KShs'000'	Impact on PBT KShs'000'	Impact on Equity KShs'000'
SSP	+10%	1,001	1,001	22,621	22,621
SSP	-10%	1,001	1,001	22,621	22,621
UGSH	+10%	(6,474)	(6,474)	(15,847)	(16,008)
UGSH	-10%	(6,474)	(6,474)	(15,847)	(16,008)
MK	+10%	(6,697)	(6,697)	-	-
MK	-10%	(6,697)	(6,697)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

c. Market 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 group to cash flow interest risk, whereas fixed interest rate instruments expose the group to fair value interest risk.

The group'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. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Group'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 Group's overall exposure to interest rate sensitivities included in the Group's ALM framework and its impact in the Group's profit or loss by business.

	Effect on profit due to an increase/decrease of 5% in interest rates	
	2017 KShs '000	2016 KShs '000
Government securities available for sale	10,328	11,525
Corporate bonds	1,776	1,755
Mortgage loans	-	2,639
Deposits with financial institutions	24,695	29,812
Other deposits and commercial paper	4,214	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

c. Market Risk

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 Group is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss and available for sale investments. Exposure to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Securities Exchange Limited (NSE).

The Group has a defined investment policy which sets limits on the Group's exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

Investment management meetings are held monthly. At these meetings, senior managers meet to discuss investment return and concentration of the equity investments.

Equity investment through profit or loss represent 96% (2016: 98%) of total equity investments. If equity market indices had increased/ decreased by 5%, with all other variables held constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by KShs 2,487,400 (2016: KShs 6,289,650).

d. 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 group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

56. FAIR VALUE MEASUREMENT

The group 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 group'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.
- 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 group considers relevant and observable market prices in its valuations where possible.

The table below shows an analysis of assets recorded at fair value by level of the fair value hierarchy.

31 December 2017	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Recurring Fair value Measurements				
Corporate bonds	-	517,154	155,506	672,660
Equity investments classified:				
- at fair value through profit or loss	1,240,619	-	-	1,240,619
- as available for sale	-	20,449	-	20,449
Government securities classified as available for sale	5,005,009	-	-	5,005,009
Government securities classified as held to maturity	1,412,690	-	-	1,412,690
Due from related party	-	52,310	-	52,310
Loans receivables	-	876,766	-	876,766
Deposits with financial institutions		4,836,107	-	4,836,107
Deposits and commercial paper	-	1,295,182	-	1,295,182
Owner occupied property and equipment	-	-	710,468	710,468
Investment properties	-	-	6,686,483	6,686,483
Total assets at fair value	7,658,318	7,597,968	7,552,457	22,808,743
Deposits administration contracts	-	-	2,113,915	2,113,915
Unit linked contracts	-	-	536,926	536,926
Total liabilities at fair value	-	-	2,650,841	2,650,841

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

56. FAIR VALUE MEASUREMENT *(continued)*

31 December 2016

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Recurring Fair value Measurements				
Corporate bonds	-	456,359	157,765	614,124
Equity investments classified:				
- at fair value through profit or loss	910,652	-	-	910,652
- as available for sale	-	16,863	-	16,863
Government securities classified as available for sale	3,981,758	-	-	3,981,758
Government securities classified as held to maturity	930,739	-	-	930,739
Due from related party	-	117,762	-	117,762
Loans receivables	-	1,114,621	-	1,114,621
Deposits and commercial paper	-	1,667,942	-	1,667,942
Owner occupied property and equipment	-	-	678,359	678,359
Investment properties	-	-	6,051,288	6,051,288
Total assets at fair value	5,823,149	3,373,547	6,887,412	16,084,108
Deposits administration contracts	-	-	1,279,674	1,279,674
Unit linked contracts	-	-	458,536	458,536
Total liabilities at fair value	-	-	1,738,210	1,738,210

Valuation methods used in determining the fair value of assets and liabilities

Instrument	Applicable Level	Valuation methods	Inputs
Loans and receivables	2	Discounted cash flow model (DCF)	Average Market interest rates 14%
Corporate bonds	2	Discounted cash flow model (DCF)	Interest rates
Due from related parties	2	Discounted cash flow model (DCF)	Average Market interest rates 14%
Equity investments classified as available for sale	2	Net Asset Value	Current unit price of underlying unitised assets and interest rates.
Deposits and commercial paper	2	Net Asset Value and Discounted Cash Flow (DCF)	Current unit price of underlying unitised assets and interest rates.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

56. FAIR VALUE MEASUREMENT *(continued)*

The significant unobservable inputs used in the fair value measurements categorised in level 3 of the fair value hierarchy as at 31December 2017 are as shown below.

Instrument	Level	Valuation basis	Rate	Significant unobservable Inputs	Sensitivity of input to the fair value
Corporate Bonds -Chase Bank	3	Discounted cash flow model (DCF)	17.52	Discount rate used	Increase/(decrease) in discount of 5% would decrease/ (increase) fair value by KShs 77 million.
Investment properties	3	Discounted cash flow model (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in discount by 5% would decrease/ (increase) fair value by KShs 334 million
Owner occupied property and equipment	3	Discounted Cash Flow (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in discount of 5% would decrease/ (increase) fair value by KShs 35 million.
Unit Linked contracts	3	Number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price	N/A	Market value of assets of the fund	Increase/(decrease) in the market price by 5% of the assets in the fund would increase/ (decrease) fair value by KShs 26 million.
Deposits Administration contracts	3	Deposits, withdrawals and investment returns from the fund.	N/A	Market value of assets of the fund	Increase/(decrease) in the market price of the assets in the fund would increase/ (decrease) fair value by KShs 106 million.

Corporate bonds includes Chase Bank Corporate bonds of KShs 171,000,000 which was listed at the Nairobi Securities Exchange Limited (NSE). The corporate bond issuer, Chase Bank Limited (IR), was placed under receivership by the Central Bank of Kenya on 7 April 2016 for a maximum period of 12 months. Consequently, Nairobi Securities Exchange Limited (NSE) under the directive of the Capital Markets Authority of Kenya (CMA), suspended the trading of the corporate bond with effect from 8 April 2016.

The discount for lack of marketability represents the amount that the Group has determined that market participants would take into account when pricing the corporate bonds. The management determined that the rate of return of a government bond of similar maturity period as the corporate bond is 12.52% and the estimated credit risk spread as 5% to arrive at discount rate of 17.52% used to estimate the fair value of the Chase Bank corporate bonds

Reconciliation of fair value measurement under Level 3 hierarchy

Corporate bonds

	2017 KShs '000	2016 KShs '000
At 1 January	157,765	-
Re-measurement recognised in profit or loss during the period	(2,259)	(13,235)
Purchases	-	-
Sales	-	-
Transfer from level 2	-	171,000
At 31 December	155,506	157,765

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

57. GOING CONCERN STATUS OF THE SUBSIDIARIES

CIC Africa (Uganda) Limited
The subsidiary is technically insolvent. It reported a loss of KShs 68 million for the year ended 31 December 2017 (2016 - KShs 160 million). In addition, the subsidiary's accumulated losses stood at KShs. 336 million (2016 - KShs 268 million) as at 31 December 2017 while its total liabilities exceeded total assets by KShs 76 million (2016 – net asset position of KShs 60 million).

CIC Africa Co-operatives Insurance Limited
The subsidiary is technically insolvent. It reported a loss of KShs 74 million for the year ended 31 December 2017 (2016 - KShs 45 million). In addition, the associate's total liabilities exceeded total assets by KShs 13 million (2016 – KShs 19 million).

CIC Africa Insurance (South Sudan) Limited
The political instability in South Sudan has created an unfavourable business environment which has led to uncertainty of the subsidiary's ability to remain a going concern in the foreseeable future.

The conditions detailed above, in respect of the three subsidiaries, cast significant doubt on their ability to continue as a going concern. However, the subsidiaries rely on the parent company for provision of working capital and their ability to continue as a going concern depends on the continued support they receive from the parent company. The parent company confirms its commitment to continue giving financial support to the subsidiaries, and it has issued an undertaking in this respect to the subsidiaries. The undertaking affirms the parent company commitment to continue providing sufficient financial support, if necessary, to enable the subsidiaries meet their financial obligations, as and when they fall due, and to ensure they continue trading into the foreseeable future.

Further, the directors have assessed business outlook of the subsidiaries, and they are confident that their financial performance will improve, and they will become profitable in the foreseeable future. The directors have no immediate plan to cease operations for any of the subsidiaries, and /or liquidate them.

Therefore, the directors are of the opinion that the financial statements of the subsidiaries be prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the subsidiaries will have adequate resources to meet obligations as and when they fall due, and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

58. COMPARATIVES

Included in the company's statement of financial position as at 31 December 2016 was a deferred tax asset of KShs 248,906,000 and deferred tax liability of KShs 101, 837,000. These amounts should have been netted off and presented as a deferred tax asset of KShs 147,069,000 as required by IAS 12, Income Taxes. Therefore, the deferred tax asset and deferred tax liability were overstated by KShs 101,837,000, respectively. This misstatement was carried to the consolidated statement of financial position which presented the deferred tax asset of KShs 487,775,000 and a deferred tax liability of KShs 548,073,000.The consolidated and separate financial statements for the year ended 31 December 2016 have been restated to correct this error. The effect of the restatement on those financial statements is summarised below.

	2016 KShs '000
Effect on the statement of financial position	
Decrease in deferred tax asset	(101,837)
Decrease in deferred tax liability	101,837
Impact on statement of profit or loss and other comprehensive income/ impact on equity	-

There was no impact on the basic and diluted earnings per share

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2017

59. INCORPORATION

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

60. HOLDING COMPANY

The holding entity is Co-operative Insurance Society Limited which is incorporated and domiciled in Kenya.

61. CURRENCY

The financial statements are presented in Kenya shillings thousands (KShs '000') which is also the functional currency of the Company and the Group.

62. EVENTS AFTER REPORTING DATE

There were no events after the reporting date which could have a material impact on the financial statements for the Group or the company which have not been adequately adjusted for.

CIC LIFE ASSURANCE LIMITED
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

APPENDIX I

	Ordinary Life KShs '000	Group Life KShs '000	Total 2017 KShs '000	Total 2016 KShs '000
Gross premium written	1,086,076	3,048,775	4,134,851	3,787,129
Less: Reinsurance payable	(12,563)	(805,606)	(818,169)	(736,886)
Net premium income	1,073,513	2,243,169	3,316,682	3,050,243
Policyholders' benefits:				
Life and health claims	(9,485)	(1,052,394)	(1,061,879)	(1,202,786)
Maturities	(292,010)	-	(292,010)	(210,176)
Surrenders	(72,407)	-	(72,407)	(59,972)
Actuarial adjustment of policy holders liability	(339,272)	(283,871)	(623,143)	(447,665)
Net policyholders' benefits	(713,174)	(1,336,265)	(2,049,439)	(1,920,599)
Commissions paid	(178,361)	(161,633)	(339,994)	(283,280)
Expenses of management	(168,122)	(1,009,161)	(1,177,283)	(1,110,229)
Premium tax	(8,884)	-	(8,884)	(7,126)
Total expenses and commissions	(355,367)	(1,170,794)	(1,526,161)	(1,400,635)
Investment income	178,490	304,545	483,035	411,282
Increase in life fund before tax	183,462	40,655	224,117	140,291
Tax charge on transfer to shareholders	-	(41,345)	(41,345)	(30,265)
Increase in life fund after tax	183,462	(690)	182,772	110,026
Increase in life fund for the year	183,462	(690)	182,772	110,026

The revenue account was approved by the board of directors on 14th March, 2018 and was signed on its behalf by:

Director

Director

Principal Officer

CIC GENERAL INSURANCE LIMITED
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

APPENDIX II

	C.A.R & Engin-eering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Com-mercial Shs.'000	Motor Pool Shs.'000	Medical insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Work men's Comp. Shs.'000	Misc. Accident Shs.'000	Micro solutions Shs.'000	Total 2017 Shs.'000
Gross premium written	351,105	91,456	734,460	214,651	132,239	2,390,466	2,517,109	-	2,257,659	336,679	458,488	348,290	271,954	36,552	10,141,108
Unearned premium transferred in	225,676	29,255	227,459	163,786	43,491	1,088,045	1,153,816	-	643,066	57,057	117,214	109,012	76,509	12,447	3,946,833
Unearned premium c/f	297,730	31,111	330,057	108,997	37,994	1,052,539	1,151,419	-	969,116	76,017	135,399	123,024	111,921	9,624	4,434,948
Gross earned premium	279,051	89,600	631,862	269,440	137,736	2,425,972	2,519,506	-	1,931,609	317,719	440,303	334,278	236,542	39,375	9,652,993
Reinsurance premium	(180,987)	(5,153)	(358,113)	(183,639)	(61,174)	(125,036)	(46,257)	-	(28,042)	(49,025)	(26,560)	(15,160)	(220,115)	(230)	(1,299,491)
Net earned premium	98,064	84,447	273,749	85,801	76,562	2,300,936	2,473,249	-	1,903,567	268,694	413,743	319,118	16,427	39,145	8,353,502
Gross claims paid	37,682	15,454	162,070	207,525	83,248	2,159,273	1,545,423	-	1,244,752	63,800	155,664	144,904	378,540	9,917	6,208,252
Outstanding claims c/f	111,878	14,514	118,469	778,974	29,109	1,149,967	1,102,298	2,092	216,352	89,733	82,097	275,515	140,532	1,353	4,112,883
Outstanding claims transferred in	92,964	15,290	78,421	741,851	54,994	1,072,714	971,542	2,092	89,788	41,831	90,256	137,203	22,200	1,353	3,412,499
Gross claims incurred	56,596	14,678	202,118	244,648	57,363	2,236,526	1,676,179	-	1,371,316	111,702	147,505	283,216	496,872	9,917	6,908,636
Recoveries	(37,693)	23	(94,232)	(154,994)	(35,804)	(244,281)	(208,982)	-	(12,567)	(21,921)	(22,787)	(98,620)	(359,795)	-	(1,291,653)
Net incurred Claims	18,903	14,701	107,886	89,654	21,559	1,992,245	1,467,197	-	1,358,749	89,781	124,718	184,596	137,077	9,917	5,616,983
Commission receivable	114,181	1,263	170,705	37,962	23,305	-	-	-	-	13,394	3,617	1,916	63,492	-	429,835
Commissions payable	55,484	16,817	156,755	40,357	20,170	282,598	319,527	-	196,784	60,117	81,473	64,531	22,125	7,058	1,323,796
Net commission	(58,697)	15,554	(13,950)	2,395	(3,135)	282,598	319,527	-	196,784	46,723	77,856	62,615	(41,367)	7,058	893,961
Management Expenses	41,787	33,687	125,656	18,290	54,298	534,284	680,910	-	273,392	126,557	217,641	91,639	59,996	8,907	2,267,044
Premium Tax	4,335	1,129	9,068	2,650	1,633	29,512	31,076	-	27,873	4,157	5,660	4,300	3,358	451	125,202
Total	46,122	34,816	134,724	20,940	55,931	563,796	711,986	-	301,265	130,714	223,301	95,939	63,354	9,358	2,392,246
Total claims expenses and commissions	(39,794)	30,255	93,936	92,049	18,424	2,274,843	1,786,724	-	1,555,533	136,504	202,574	247,211	95,710	16,975	6,510,944
Underwriting profit/(loss)	91,736	19,376	45,089	(27,188)	2,207	(537,703)	(25,461)	-	46,769	1,476	(12.132)	(24,032)	(142,637)	12,812	(549,688)

The revenue account was approved by the board of directors on 14th March, 2018 and was signed on its behalf by:

Group Chairman
Japheth Magomere OGW

Director
Philip Lopokoiyit

Group Chief Executive Officer
Tom Gitogo

CIC GENERAL INSURANCE LIMITED
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

APPENDIX II

	C.A.R & Engin-eering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Com-mercial Shs.'000	Motor Pool Shs.'000	Medical insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Work men's Comp. Shs.'000	Misc. Accident Shs.'000	Micro solutions Shs.'000	Total 2017 Shs.'000
Gross premium written	208,243	92,045	619,724	239,754	129,415	2,058,192	2,487,351	-	1,379,510	235,894	418,799	277,469	196,706	64,396	8,407,498
Unearned premium transferred in	26,941	34,107	89,347	30,194	41,765	948,873	1,140,221	-	245,479	24,991	117,823	89,833	12,798	24,998	2,827,370
Unearned premium c/f	49,473	27,582	88,790	55,050	34,971	1,006,186	1,153,771	-	633,006	56,632	113,916	109,012	25,791	12,445	3,366,625
Gross earned premium	185,711	98,570	620,281	214,899	136,209	2,000,879	2,473,801	-	991,983	204,253	422,706	258,290	183,713	76,949	7,868,243
Reinsurance premium	(127,393)	(6,492)	(326,135)	(162,322)	(38,982)	(26,980)	(32,606)	-	(29,333)	(32,630)	(28,577)	(10,575)	(134,058)	(230)	(956,313)
Net earned premium	58,318	92,078	294,146	52,576	97,227	1,973,899	2,441,195	-	962,650	171,623	394,129	247,716	49,655	76,716	6,911,930
Gross claims paid	91,108	17,260	263,569	191,791	29,523	1,702,106	1,552,360	-	865,990	63,312	162,208	78,632	48,950	7,878	5,074,687
Outstanding claims c/f	92,964	15,291	78,421	741,851	54,994	1,072,714	971,542	2,092	89,788	41,831	90,256	137,203	22,200	1,353	3,412,500
Outstanding claims transferred in	84,735	16,969	131,275	271,791	11,451	794,613	788,389	2,092	364,842	36,030	86,393	72,890	23,131	1,353	2,685,954
Gross claims incurred	99,337	15,582	210,715	661,851	73,065	1,980,207	1,735,514	-	590,936	69,113	166,071	142,945	48,019	7,878	5,801,233
Recoveries	(4,391)	(317)	(67,861)	(524,658)	(12,393)	(223,041)	(315,943)	-	(64,449)	(4,469)	(45,721)	(850)	(15,565)	-	(1,279,658)
Net incurred Claims	94,946	15,265	142,854	137,193	60,672	1,757,167	1,419,570	-	526,487	64,644	120,350	142,095	32,454	7,878	4,521,575
Commission receivable	42,707	1,128	113,143	43,727	7,076	-	-	-	-	7,786	-	1,734	24,841	-	242,142
Commissions payable	47,801	25,334	149,625	40,702	25,079	180,361	237,966	-	91,474	40,756	78,684	49,793	17,241	13,090	997,906
Net commission	5,094	24,206	36,482	(3,025)	18,003	180,361	237,966	-	91,474	32,970	78,684	48,059	-7,600	13,090	755,764
Management Expenses	39,694	32,000	119,361	17,374	51,578	507,518	646,799	-	259,696	120,217	206,738	87,049	56,993	8,461	2,153,475
Premium Tax	2,577	1,139	7,669	2,966	1,602	25,470	30,780	-	17,071	2,919	5,182	3,433	2,434	797	104,039
Total	42,271	33,139	127,030	20,340	53,180	532,988	677,579	-	276,767	123,136	211,920	90,482	59,427	9,258	2,257,517
Total claims expenses and commissions	142,311	72,610	306,366	134,168	131,856	2,470,515	2,335,115	-	894,728	220,750	410,954	280,636	84,281	30,226	7,534,856
Underwriting profit/(loss)	(83,993)	19,468	(12,220)	(101,932)	(34,629)	(496,616)	106,080	-	67,922	(49,127)	(16,825)	(32,921)	(34,626)	46,493	(622,926)

The revenue account was approved by the board of directors on 14th March, 2018 and was signed on its behalf by:

Group Chairman
Japheth Magomere OGW

Director
Philip Lopokoiyit

Group Chief Executive Officer
Tom Gitogo

CIC INSURANCE GROUP LIMITED
GLOSSARY OF INSURANCE TERMS
FOR THE YEAR ENDED 31 DECEMBER 2017

APPENDIX III

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

Claims development table — A table that compares actual claims paid and current estimates of claims with previously reported estimates of the same claims, demon strating the sufficiency or otherwise of those previous estimates.

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

Deferred expenses – deferred acquisition costs (DAC) — Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts and/or investment contracts with DPF, which are deferred and brought to account as expenses of future reporting periods.

General insurance — An insurance contract which provides coverage other than life insurance to the policyholder. Examples include motor, household, third party liability, marine and business interruption. Short-term life and health insurance is also frequently classified as general insurance.

*Financial risk** — The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non–financial variable that the variable is not specific to a party to the contract.

*Insurance contract** — A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to com pensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Incurred but not report (IBNR) — Claims to be made by a policyholder, but not yet reported to the insurance company.

*Insurance risk** — Risk, other than financial risk, transferred from the holder of a contract to the issuer.

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.

Liability adequacy test — An annual assessment of the sufficiency of insurance to cover future insurance obligations.

Outstanding claims provision — Comprises claims reported by the policyholder to the insurance company, and IBNR claims.

Premiums earned — In the case of general insurance business, earned premium is the proportion of written premiums (including, where relevant, those of prior accounting periods) attributable to the risks borne by the insurer during the accounting period. For non-life insurance contracts the premium income attributable to the insurance risks borne by the insurer in the reporting period, that is, after adjusting for the opening and closing balances of unearned premium.

Premiums written — Premiums to which the insurer is contractually entitled becoming due for payment in the accounting period.

Provision for premium deficiency — The provision for premium deficiency reflects management assessment of claims expected to be incurred after the reporting date in re spect 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.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE FORTIETH (40TH) ANNUAL GENERAL MEETING OF CIC INSURANCE GROUP LIMITED WILL BE HELD AT THE HILTON HOTEL, ON 23RD MAY 2018 AT 10.00AM TO TRANSACT THE FOLLOWING BUSINESS:-

AGENDA

Ordinary Business

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive, consider and if thought fit, adopt the Annual Report and Financial Statements for the year ended 31st December 2017 together with the Directors' and Auditor's Report thereon.

4. To declare a first and final dividend of Kshs. 0.12 per share in respect of the year ended 31st December 2017, to be paid on or before 23rd June 2018 to the shareholders appearing on the Register of Members at the close of business on 21st May 2018.

5. Election of Directors:

a. Peter Nyigei retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible offers himself for re-election.

b. Mary Mungai retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible offers herself for re-election.

c. Gordon Owour retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible offers himself for re-election.

d. To note the retirement of Director Veronicah Leseya, who has served her full tenure.

6. In accordance with the provisions of section 769 (1) of the Companies Act 2015, the following Directors, being members of the Audit Committee of the Board, be confirmed to continue to serve as members of the said Committee:

   a. Philip Lopokoiyit
   b. James Njue
   c. Judith Oluoch
   d. Peter Nyigei

7. In accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, to authorize Jonah Mutuku to continue in office as director for the remainder of his term despite having attained the age of seventy.

8. To approve the remuneration of Directors and the Directors' Remuneration Report for the year ended 31 December 2017.

9. To consider and if thought fit re-appoint Ernst & Young as Auditors of the Company, having expressed their willingness to continue in office as auditors of the company in accordance with section 721 (2) of the Companies Act, No 17 of 2015 and to authorize the directors to fix their remuneration.

Special Business

10. To consider, and if found fit, pass the following resolutions as special resolutions:

    a. Change of Name

    THAT the name of the Company be changed to "The CIC Insurance Group PLC", subject to the approval of Registrar of Companies.

    b. Changes to the Company's Articles of Association

    THAT the Articles of Association of the Company be amended as per the draft amended Articles of Association available on the Company's website, www.cic.co.ke, the changes being principally to align the Articles of Association to the Companies Act, No 17 of 2015 and the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015.

    c. THAT the Company's Board of Directors be and is hereby instructed and authorized to take all such actions as are necessary to give effect to the resolutions above.

11. To transact any other business which may be properly transacted at an Annual General Meeting.

Dated at Nairobi this 27th day of April 2018

By Order of the Board,

GAIL ODONGO
GROUP COMPANY SECRETARY AND CHIEF LEGAL OFFICER

NB:

1. In accordance with section 298(1) of the Companies Act 2015 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. Shareholders who do not purpose to be at the annual general meeting are requested to complete and return the form to custody at the Registrar, CIC plaza II Mara Road P.O Box 59485-00200 Nairobi.

3. A copy of the entire Annual Report and Accounts may be viewed at our Company's website www.cic.co.ke. A copy of the proxy form is also available on the website.

FORM OF PROXY

The fortieth (40th) Annual general Meeting of CIC Insurance Group Limited to be held at The Hilton Hotel, on 23rd may 2018 at 10.00am.

I/We ______________________________ ID Number ____________________

Member/CDS Account Number ______________________________________

of (address) ______________________________ Mobile Number ____________________

being a member(s) of CIC Insurance Group Limited and entitled to ____________________ votes (shares)

hereby appoint

Name(s)____________________ ID Number __________ Mobile Number __________

or

Name(s)____________________ ID Number __________ Mobile Number __________

or, failing him, the duly appointed Chairman of the meeting to be my/our Proxy, to vote on my/our behalf the Annual General Meeting of the Company to be held at 10:00 a.m. on 23rd May 2018 at Hilton Hotel, Nairobi or at any adjournment thereof.

As witness to my/our hands this ________ day of ____________________ 2018

Signature(s) ____

Notes

1. This Proxy is to be delivered to the Registrar of CIC Insurance Group Limited, CIC Plaza, Mara Road, and of P.O. Box 59485-00200 Nairobi or at any Co-operative Bank Branch from the date hereof until 10:00 a.m. on 21st May 2018 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

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CIC GROUP