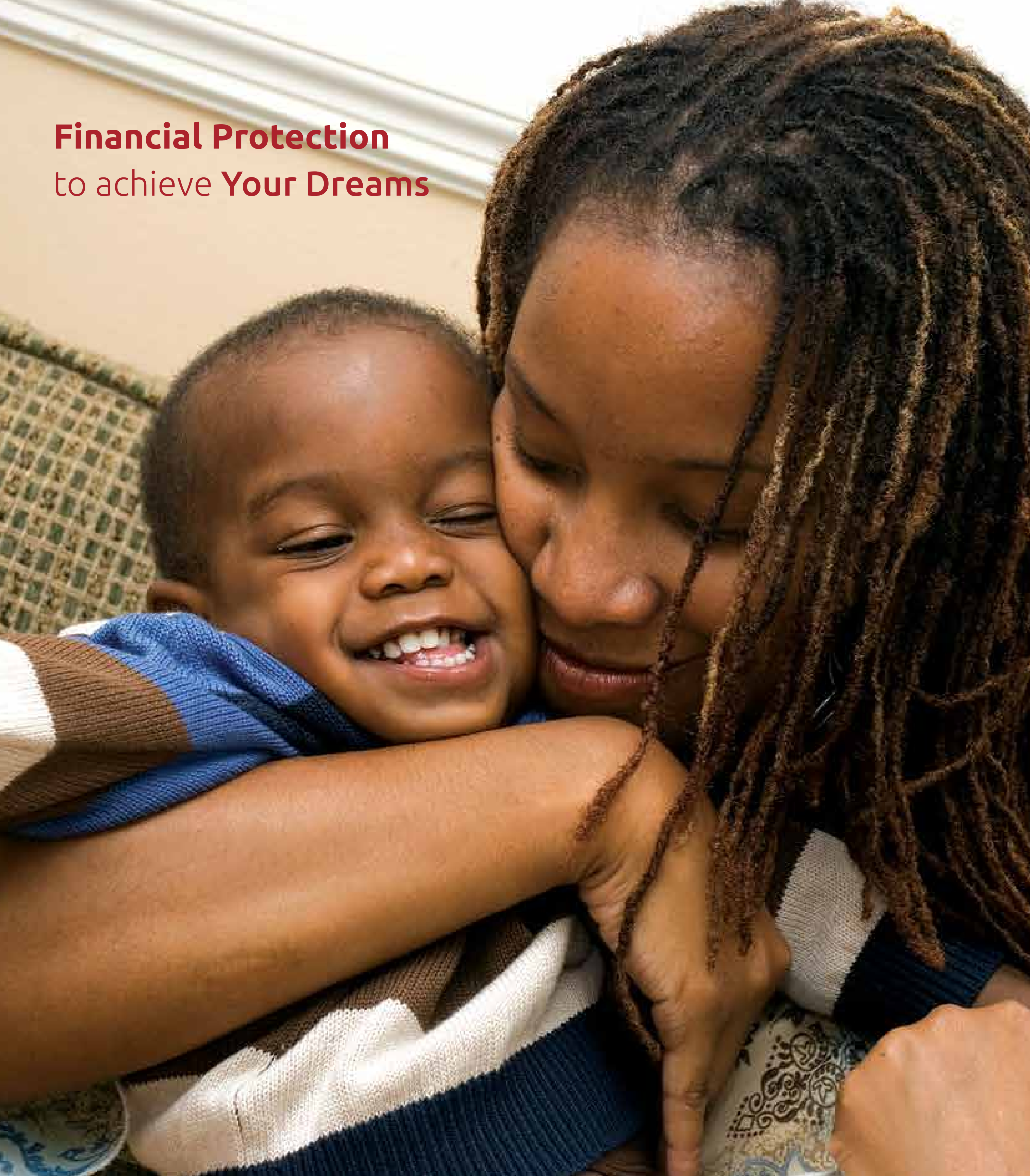
Financial Protection
to achieve **Your Dreams**



CIC INSURANCE GROUP LIMITED

ANNUAL REPORTS & ACCOUNTS 2016

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 including General Insurance, Life Assurance, Medical Insurance and Asset Management services. It is a pioneer and leader in Micro-insurance. The Group's focus on innovation and excellence in service delivery has differentiated it in the market and earned it National and International recognition.

1

OUR PURPOSE (MISSION)

Enable people achieve financial security

2

OUR VISION

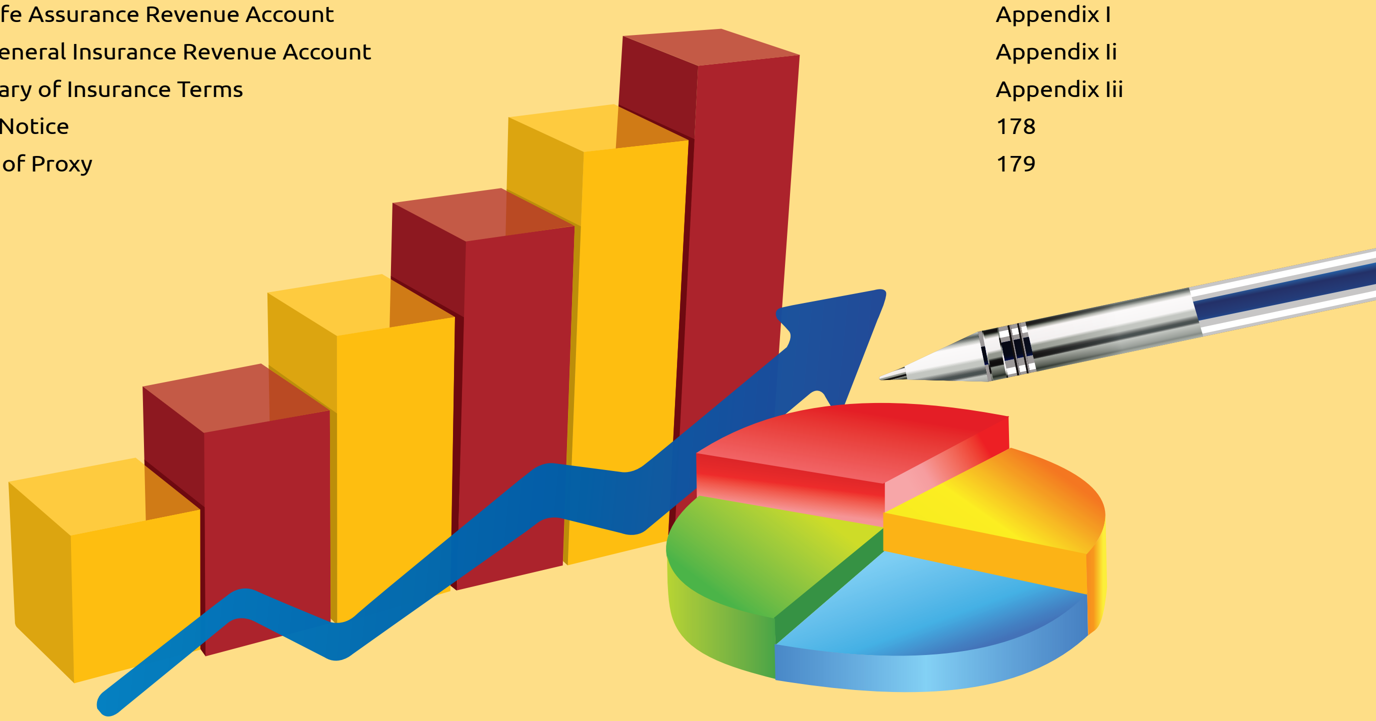
To be a world class provider of insurance and other financial services

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



CORPORATE INFORMATION

DIRECTORS

J. Magomere	- Group Chairman
P. Kipkirui	- Group Vice Chairman (Appointed 13 May 2016)
T. Gitogo	- Group Chief Executive Officer
H. Githae	
G. Owuor	
M. Wambia	
J. Mutuku	
V. Leseya	
R. Githaiga	
M. Mungai	
P. Lopokoiyit	
J. Njue	- Appointed 13 May 2016
P. Kagane	- Retired 13 May 2016

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
M. Mugo	- Principal Officer - 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
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)
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

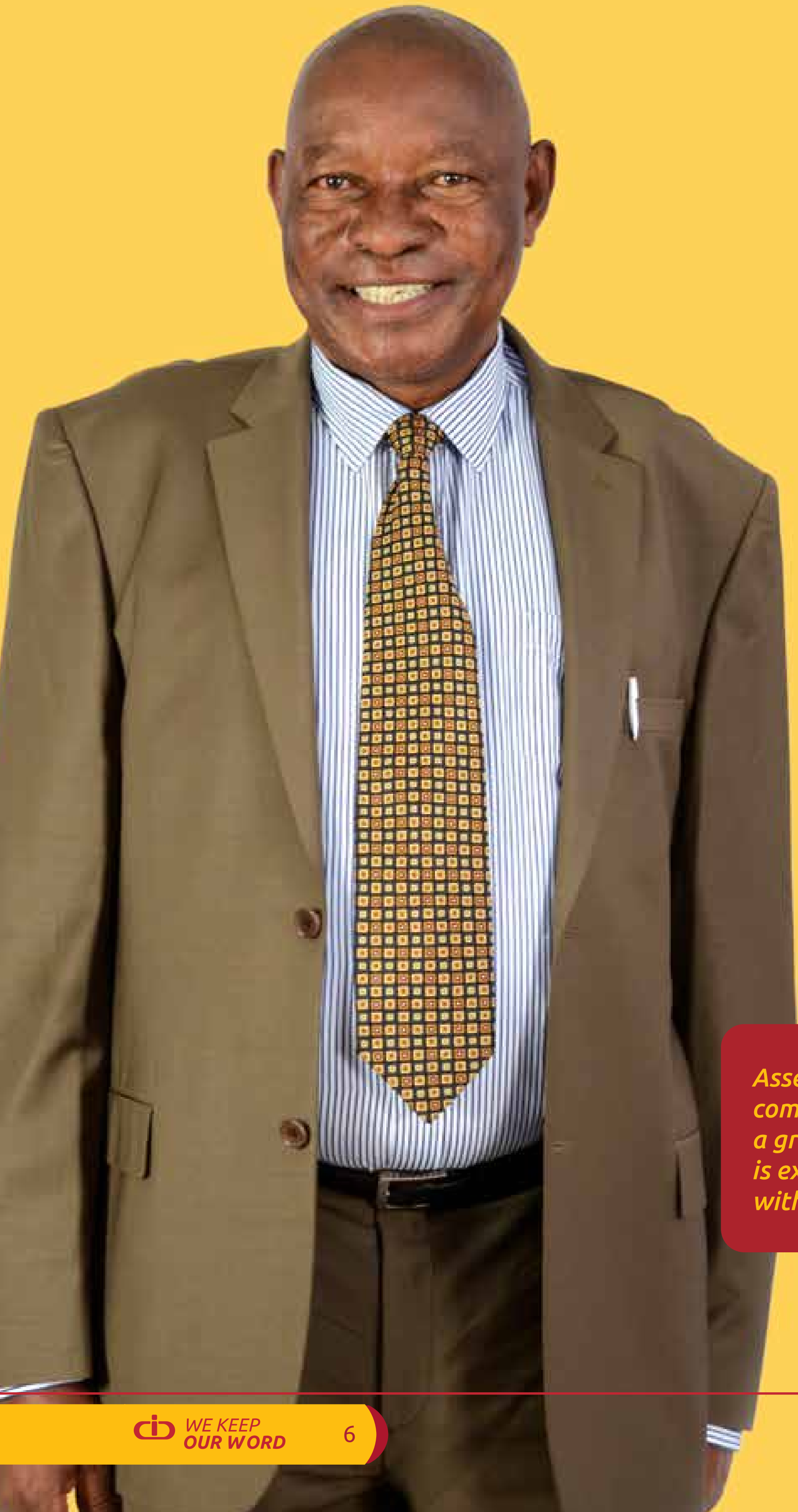
PRINCIPAL BANKERS

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



On Behalf of the Board of CIC Insurance Group I am pleased to present to you the Annual Report and Financial Statements of the Group for the year ended 31st December 2016.

2016 was a challenging year for both the country and CIC Group. Even in the midst of challenges we are facing 2017 with confidence and determination, to make a difference not only to our shareholders, but also our customers and the country at large.

ECONOMIC AND BUSINESS ENVIRONMENT

Despite a difficult and highly competitive business environment, we are glad to note that Kenya's economy grew by 5.8% compared to 5.5% in 2015. The slow growth resulted from poor output in agriculture, with tea and coffee being among the hardest hit products. Returns on the NSE 20 share indices also declined by 21% as at December 2016.

There was slow uptake of loans following the capping of interest rates. There was political instability in South Sudan which significantly contributed to hyperinflation situation there. In Uganda, low uptake of insurance affected the company's performance. Malawi was adversely affected by suspension of donor funding. Inevitably, these and other factors affected the performance of CIC Group.

> *Asset base was Kshs 26.9 B compared to Kshs 24.9 B in 2015 a growth of 8%. Our asset base is expected to continue growing with increasing profitability.*

Mr. Japheth A. Magomere, OGW
GROUP CHAIRMAN

CIC GROUP FINANCIAL PERFORMANCE

2016 was a challenging year for many organizations, especially those in the financial services industry. The Insurance industry was characterised by increased competition, fraud and price undercutting which impacted performance of Insurance Industry firms. Despite the cited challenges CIC managed to register a strong topline growth of 8% in gross written premium from KShs 11.4 billion in 2015 to KShs 12.3 billion in 2016. The rise was attributed to the continuation of our business strategy, which saw us continue to register quality business. This notwithstanding, profit after tax dropped from KShs 1.1 billion in 2015 to KShs 188 million in 2016 due to a number of reasons and especially the following:

- Reserves in CIC Life increased by KShs 704 million following a change in reserving methodology as directed by IRA.
- We had additional general insurance provisions for historical debts of KShs 300M.
- A deterioration of claims from school fires amounting to KShs 89 million.
- The hyperinflation environment in South Sudan, resulting in a loss of KShs. 297 M.
- Continued depressed NSE prices resulting in unrealized loss of KShs.143m.
- Lastly, we had bad claims experience in motor private and liability classes.

Asset base was KShs 26.9 B compared to Kshs 24.9B in 2015, a growth of 8%. Our asset base is expected to continue growing with increasing profitability. We will pursue a strategy that safeguards our profitability to build financial strength.

As a result of the financial performance and notwithstanding the lower profits, the board recommends paying a dividend of 10.5%, which is the same rate as last year.

> ***We are glad to note that Kenya's economy grew by 5.8% compared to 5.5% in 2015***

GIVING BACK TO THE SOCIETY

CIC through its foundation had the opportunity to impact society. In 2016, we offered high school education scholarships to bright but needy children, drawn from public primary school from vulnerable backgrounds across the country. This included children from orphanage homes. We have started this initiative on a small scale and we plan on growing it with time. The Board of Trustees is working on a mechanism of carefully selecting these children from all the regions. The foundation recognizes education as a key element in changing society for the better in a sustainable manner.

FUTURE OUTLOOK

As we look to the future, we are determined to grow our business, and have taken steps to ensure that we not only grow in the present, but also prosper in the future. In February 2017, the Board and Management had a review strategy session and agreed on various initiatives, which once implemented will see your company performing well sustainably.

As we look forward to the beckoning years, we will invest in technology to ease business processes, and offer convenience to the customer. Excellent customer service is about consistency and predictability – every customer must have similar and pleasantly memorable experiences when they patronise our services, whether or not they know someone in CIC, and irrespective of which office they visit. In particular, we will continue to have a special relationship with our co-operatives, clients and shareholders.

To all our partners, you are our key supporters and the heartbeat of this company. Your support is paramount to this organization's success.

We stand by our promise, to keep our word and live by our values of dynamism, integrity, performance and cooperation. With this, we know that in the event of experiencing tough market conditions, the CIC flag shall forever fly high.

Japheth Magomere,
Chairman CIC Group

BOARD OF DIRECTORS

1. Gordon Owour
   Director

2. Gail Odongo
   Group Company Secretary

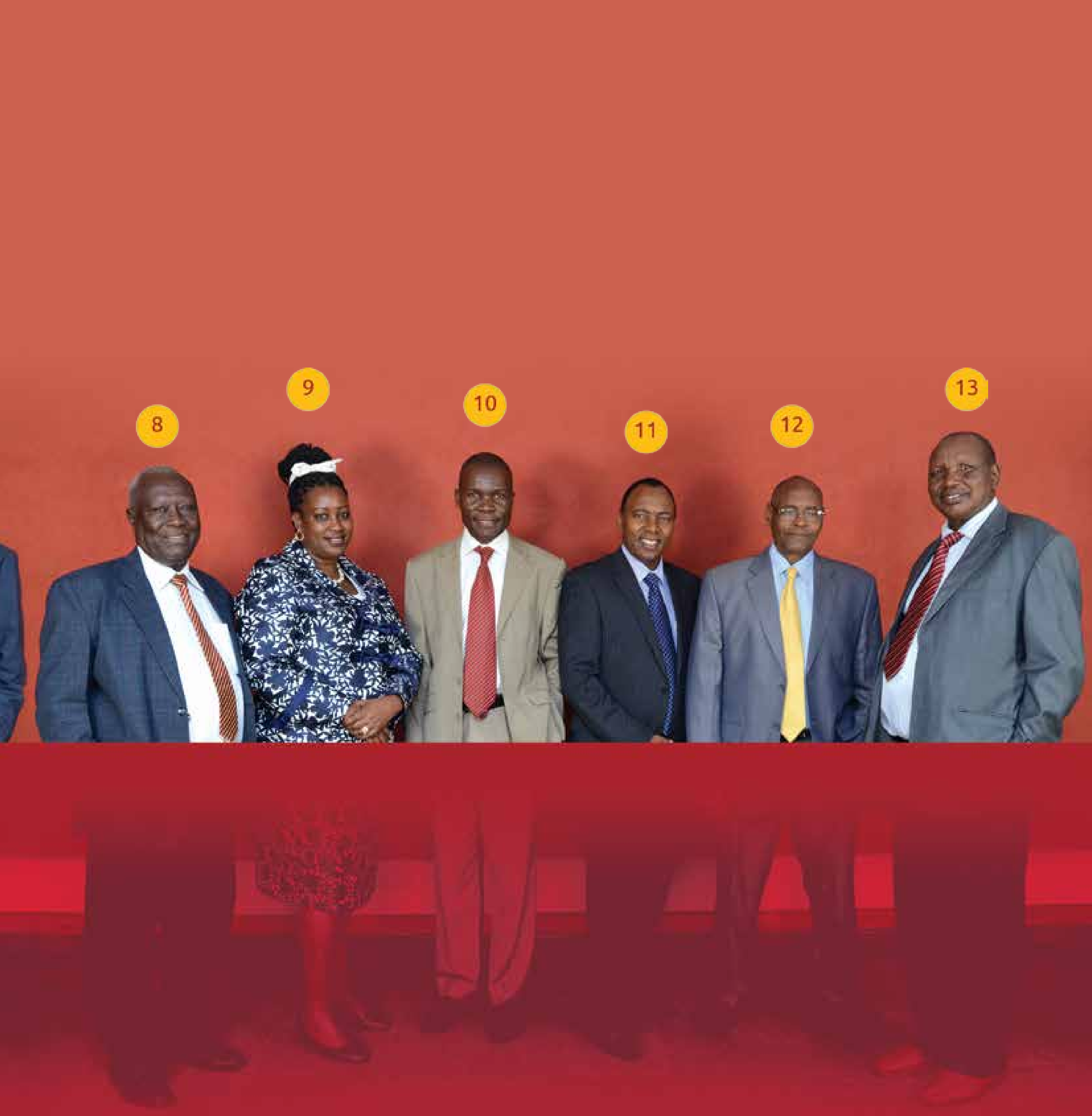
3. Rosemary Majala Githaiga
   Director

4. Japheth A. Magomere, OGW
   Group Chairman

5. James Njue Njiru
   Director

6. Mary Mungai
   Director

7. Philip Lopokoiyit
   Director



8. Jonah Mutuku
Director

9. Veronicah Leseya
Director

10. Michael Wambia
Director

11. Tom Gitogo
Group CEO

12. Harrison Githae
Director

13. Peter Nyigei
Group Vice Chairman

BOARD OF DIRECTORS

Japheth A. Magomere, OGW - Group Chairman

Mr. Japheth Anavila Magomere aged 65, 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. Honourable Secretary of Maisha Bora Sacco. A Council member of East African Farmers Federation since 2008, 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

Mr. Peter Kipkirui Nyigei aged 64, 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 County. The Director has undergone General Insurance Business training and is a member of the Institute of Directors of Kenya.

Tom Gitogo

Mr. Tom Gitogo aged 48, 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 has served as the Deputy Chairman of the Association of Kenya Insurers (AKI) and the Chairman of its Life Insurance Council. Tom also sits in the Life Insurance Committee of the African Insurance Organization (AIO) 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 is also a government appointed Board member, serving in the Policy Holders Compensation Fund, as well as a Board member of ICMIF (International Cooperative and Mutual Insurance Federation).

BOARD OF DIRECTORS

Michael Ondinya Wambia

Mr. Michael Ondinya Wambia aged 49, 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 Kenya.

Jonah Makau Mutuku

Mr. Jonah Makau Mutuku aged 69, 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 Majala Githaiga

Mrs. Rosemary Majala Githaiga aged 53, joined the Board in 2010. She has over 25 years' experience as a lawyer and was the former Group Company Secretary of the Co-operative Bank of Kenya Limited. She is a graduate of Nairobi University, LLB (Hons), 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 she also serves as a director on the boards of the Co-operative Bank of South Sudan and CIC Africa Insurance (S.S) Limited.

BOARD OF DIRECTORS

Gordon Ondiek Owuor

Mr. Gordon Ondiek Owuor aged 60, 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-Kenya. He previously worked with the East African Fresh Water Fisheries Research Organization and currently works at Chemelil Sugar 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

Mr. Philip Lopokoiyit aged 50, joined CIC Insurance Group Limited in November 2015 as an independent director and Chairman of the Audit committee. The Director has extensive experience in financial management and has served in senior management over the last 16 years as head of finance in various BAT Business units where he was the 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 of 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 also attended various international and local trainings regarding matters of governance and leadership.

Veronicah Soila Leseya

Mrs. Veronicah Soila Leseya - Owende aged 43, 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).

BOARD OF DIRECTORS

Harrison Githae Hunyu

Mr. Harrison Githae Hunyu aged 70, is the Director representing Central Region based societies and is currently the Chairman of Mutheka FCS Limited. He previously served as a director of Coffee Exports Limited. He has worked as a Parliamentary Reporter (Hansard), District Officer, District Commissioner and Under-Secretary in various Central 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

Mrs. Mary Mungai aged 58, 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 34 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. The Director is a member of the Institute of Directors of Kenya.

James Njue Njiru

Mr. James Njue Njiru aged 49, 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.

Gail Odongo

Ms. Odongo aged 44, 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.

FROM THE GROUP CEO'S DESK

On behalf of the Management Team of CIC Insurance Group and its subsidiaries, it is my pleasure to present our annual report and financial statements covering the year ended 31 December 2016.

OVERVIEW

Kenya's insurance sector is widely recognized as the biggest and most advanced in East and Central Africa. A recent report by the Oxford Business Group painted a rosy picture of the growth and development prospects of Kenya's insurance industry.

According to the report, insurance penetration and accessibility have been improving steadily in Kenya in recent years. This is attributed to a growing middle class and more Kenyans having disposable income resulting in new demand for insurance. In addition, Kenya is going through rapid urbanization with a number of giant infrastructure projects going up, new energy schemes coming into play and a general sense of growing investment across several sectors.

Amidst this enthusiasm, insurance industry players faced a daunting economic environment in 2016, whose first half benefitted from some gains in economic activity towards the end of the previous year. The economy generally slowed with Kenya National Bureau of Statistics (KNBS) pointing out that the last quarter of 2016 decelerated largely following a slowdown in agriculture, forestry and fishing supply sectors. This slow down also cut into manufacturing, trade and services with the banking sector taking a big hit following

At the core of our strategy is customer experience - we would like all our customers irrespective of the size and product bought and irrespective of which of our many offices they visit to have a refreshing, consistent and predictable experience.

Mr. Tom Gitogo
GROUP CEO

the enactment of the law capping interest rates. This slowdown has continued to some extent in the first few months of 2017.

INDUSTRY DEVELOPMENTS

The local industry continued to attract international interest, as reflected in the additional entrenchment of foreign players in the market with some of them further enhancing their brands signifying their long haul participation. This shows the clear confidence that the foreign investors have in the potential of Kenya and by extension the East and Central African region.

Nairobi is largely seen as a spring board for most financial services corporations' into the region that has been billed as an emerging market of more than 200 million people. The kenyan players in the insurance sector have over the years taken noticeable steps to strengthen it, create higher product understanding and build confidence among the general public.

Last year for instance, the umbrella Association of Kenya Insurers (AKI) on behalf of the industry players, continued to carry out public education programs to empower consumers on the importance of various insurance covers. Research has established that Kenyans remain conservative towards uptake of traditional products and a concerted awareness effort together with a marked degree of innovation is necessary.

As CIC, we ramped up our role in the growth and development of micro-insurance by participating in the International Cooperative and Mutual Insurance Federation (ICMIF) 5-5-5 worldwide initiative. The initiative seeks to bring 5million households into the insurance net in 5 countries in the next 5 years. The 5 countries are India, Philippines, Sri Lanka, Kenya and Columbia. We have developed micro insurance products cutting across life, medical and property insurance for this market and we are excited about the prospects in this sector.

The 5-5-5 Kenya project will help CIC identify the gaps in product design, pricing distribution and interventions needed to scale up these products to the rural and marginalized communities. Kenya already has the third highest micro insurance coverage ratio in Africa and we believe there is scope for further development. The ICMIF 5-5-5 Kenya project will enable CIC realize its untapped potential in the Co-operative and Mutual Micro insurance space.

We will achieve this through a balanced social and economic model that ensures profitability while offering a fair price to the customers. We will also leverage on technology to ease accessibility and reduce distribution costs. It is the same model that we will replicate in our regional offices such as Malawi, Uganda and South Sudan. Malawi and Uganda have a developing cooperative sector giving CIC a distinct starting place in these countries, given our success with co-operatives in our home country.

Our range of micro insurance products creates social value and impact people's lives positively. This continues to be possible through strategic partnerships that CIC has been able to create with hospitals, micro-finance institutions and other partners. The products since inception have been more focused on people living in urban areas, but with the coming of the county governments, we plan to take micro insurance to the people in the heart of the land.

CORPORATE DEVELOPMENTS

Our theme for 2016 was 'to give flight to profitable growth through professionalism and customer focus' - setting the context within which we implemented every corporate initiative during the year.

Being the largest insurer of schools in Kenya, we maintained focus on strengthening our partnership with the education institutions and engaging with them to deliver suitable products that respond to their needs.

This follows the government's new school fees guidelines which stated that the government will disburse Ksh 600 for every boarding and day school student for their insurance needs. This is expected to aid schools in meeting the insurance premiums as this expense has been the biggest impediment to schools getting covers.

At the same time, we cemented our national footprint by extending our network to Kitale. We also revamped and modernized our Mombasa office which remains a strategic point of contact with our customers in the greater coastal region.

Technology continues to play a critical role in the evolution of our business and in 2016 we made considerable progress on this journey. We invested in a robust Pension management system that we believe will greatly enhance our product development and client service capabilities. Appropriate systems enhance fraud detection and prevention, a core part of our service delivery and business management process.

The highlight of the year was our pioneering self-service online portal for our intermediaries, customers and freight forwarding agents following the enactment of the law requiring all marine insurance covers to be placed locally. Although the pick up of marine insurance premiums has not been as remarkable as expected, we still believe the potential for marine is enormous and CIC will be at the forefront

GROUP CEO'S REPORT
(Continued)

of this line of insurance.

And in line with our focus on building a great team, CIC group brought on board 20 management trainees that we have been taking through a rigorous training program .They are exposed to various facets of the organization on a rotational basis. The management trainees will be under this program for 2 years before being absorbed into the group. We are committed to attracting, developing and retaining the best and the brightest talent.

GROUP PERFORMANCE FOR THE PERIOD ENDING 31ST DECEMBER 2016

The Group turnover in 2016 was KShs.12.3 billion, a growth of 8% over KShs.11.4 billion in 2015. There was improved quality of business in most of the lines of business. The Group's asset base has grown from KShs.24.9 billion in 2015 to KShs.26.8 billion, a growth of 8%. The Group's profit after tax however was KShs.188 million compared to KShs.1.1 billion in 2015. The reasons for this were

(i). The prevailing market conditions at the Nairobi Securities Exchange (NSE), resulting in unrealized losses on our shares portfolio.

(ii). The adoption of hyperinflation accounting in South Sudan which resulted in a further loss of KShs.297.5 million.

(iii). In addition, motor and liability lines in general business had adverse claims experience.

(iv). Additional provisions of Ksh 326 million for slow moving debtors.

(v). A reserving policy change in life business resulted in a significant increase of KShs.704 million in actuarial reserves.

The fundamentals of our business strategy remain strong and agile to withstand any economic shocks going forward and consequently, we expect profitability to increase markedly in 2017 onwards.

REGIONAL RESULTS

Our operations in South Sudan continue to grow though the political and economic situation in the country remains precarious. The economic environment there has been declared hyper inflationary following the unprecedented devaluation of the South Sudanese pound. We believe that these challenges will be addressed in the short to medium term and will therefore keep our operations there open. Uganda business continues to grow satisfactorily and our expectation is that our operations there will break even during 2017.

The Malawi economy is currently struggling particularly following the intermittent funding from the donors. We expect our business to break even in another 2 years or so.

OUTLOOK

We have embarked on a 5 year Strategic Plan that will cover the period from 2017 – 2021. It is an ambitious plan that will see CIC become the leader in most of the business activities that we already undertake and at least number two or three in the activities we are currently building capacity in, such as pensions.

At the core of our strategy is customer experience - we would like all our customers irrespective of the size and product bought and irrespective of which of our many offices they visit to have a refreshing, consistent and predictable experience. To achieve this, we intend to continue with our innovation "DNA" and to listen to all our stakeholders for feedback. We will always strive to "keep our word"!

Finally, I would like to thank our business partners, the co-operative movement, our intermediaries and all our clients for their unwavering support during the year. Special thanks to the Board of directors for their visionary leadership and support. I would also like to thank the management and staff for their hard work, support and dedication during the year.

Tom Gitogo
Group Chief Executive Officer

BOARD OF MANAGEMENT

Tom Gitogo

Tom aged 48, 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 has served as the Deputy Chairman of the Association of Kenya Insurers (AKI) and the Chairman of its Life Insurance Council. Tom also sits in the Life Insurance Committee of the African Insurance Organization (AIO) 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 is also a government appointed Board member, serving in the Policy Holders Compensation Fund, as well as a Board member of ICMIF (International Cooperative and Mutual Insurance Federation).

Elijah Wachira

Elijah aged 49, 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 39, 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 44, 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 6 years.

George Wafula

George aged 43, 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 47, is the Managing Director, CIC Africa (U) 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 the Kenya, Uganda, and Tanzania markets.

Robert Murigih

Murigih aged 59, 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.

BOARD OF MANAGEMENT

Japheth Omare

Japheth aged 41, 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.

Michael Mugo

Michael aged 46, is the Principal Officer of CIC Africa South Sudan. He was appointed in November 2013. 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.

Gail Odongo

Ms. Odongo aged 44, 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 47, is currently the Group General Manager - 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.

BOARD OF MANAGEMENT

Joseph Kamiri

Joseph aged 50, 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 50, 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 49, 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 48, 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 49, 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 39, 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 39, 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.

BOARD OF MANAGEMENT

Henry Malmqvist

Henry aged 37, 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 54, joined CIC Insurance Group in 2007 as the Operations and Training Manager for CIC Life Assurance Company Limited. Currently he is the General Manager Operations CIC Life Assurance and has over 27 years work experience within the Insurance industry. He holds a Bachelor of Administration Degree, Executive MBA from USIU, Advanced Management Programme from IESE and Strathmore Business School, Associate of the Insurance Institute (ACII) in UK.

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

BOARD OF MANAGEMENT

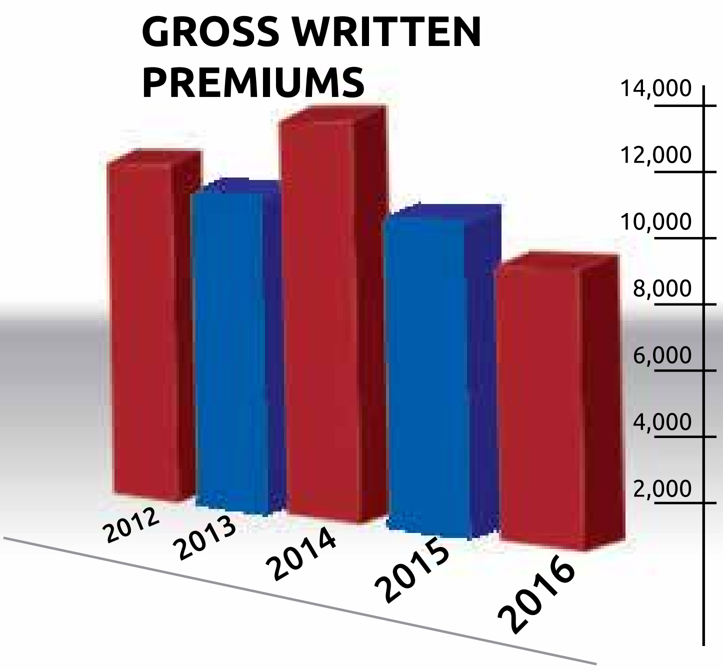
Salome Wambui

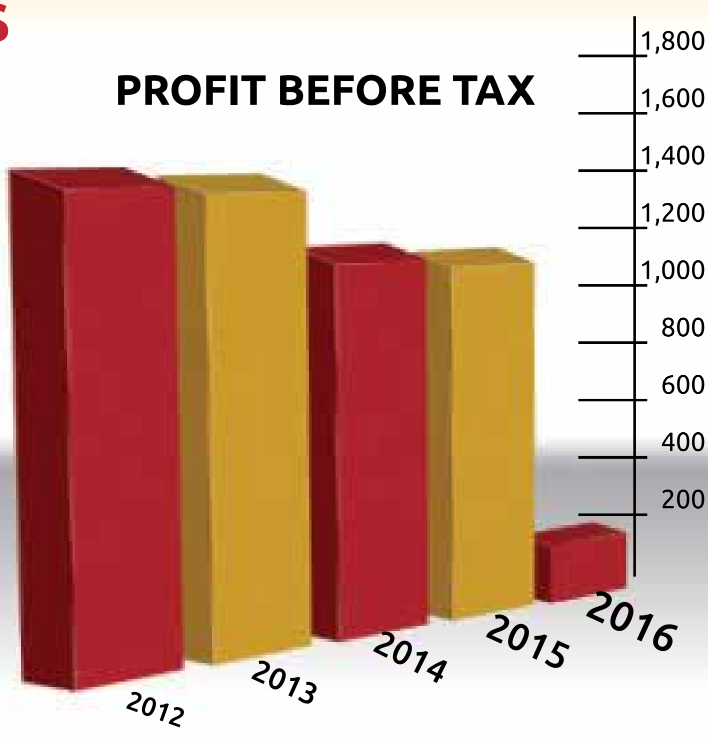
Salome aged 30, joined CIC Insurance Group in 2014 as a Senior Actuarial Analyst and is currently the Actuarial Manager, General Business. She holds a BSc (Hons) in Actuarial Science, Masters in Economics (Econometrics) and is a Fellow of the Institute and Faculty of Actuaries (IFoA) in the UK. Salome 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).

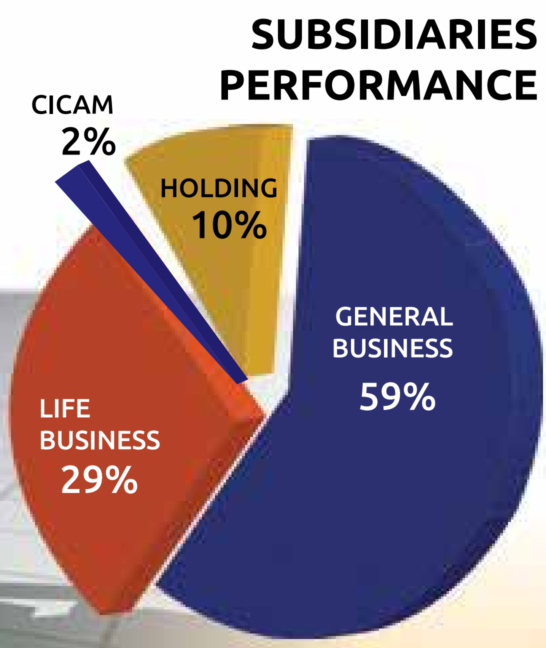
Oliver Mungo

Oliver aged 26, joined CIC Group in June 2013 and is currently 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).

FINANCIAL HIGHLIGHTS







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 2016.

Gross Written Premium

Gross written premium grew by 8% to Kshs 12.4 Billion compared to industry growth of 12%. This drove growth in our market share to 6.5%. 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 declined by 11% to close at Kshs 6.5B, this majorly driven by improved quality of business, however like the industry we were impacted by claims from the Motor, 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 and interest rate capping on the banks had a major impact on our investment income for 2016, our income declined by 17% compared to 2015. We experienced decline in interest from treasury bonds by 18% and decline in bank deposit interest by 40%, however we got fairly good returns from our treasury bills with a growth of 250%.

Gross Written Premium
Kshs 12.4 Billion

Mr. George Wafula
GROUP CFO

FINANCIAL REVIEW
CHIEF FINANCE OFFICER

Other Gains

Our other gains declined by 21%. This was mainly comprised of fair value gains on property which declined by Kshs 169M due to the current slow growth in the property market in 2016 compared to previous year. In addition the impact of the stock market performance affected us negatively by Kshs 143M and fair value loss on the chase bond Kshs13M.

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 297M.

Operating Expenses

Our operating expenses grew by 26% to Kshs 3.9B; this was driven by our aggressive provisioning of doubtful debts by 325m and one off expenses in the year. The company has come up with cost containment initiatives that will control expenses for 2017.

Profit and Other Comprehensive Income

Profit before tax declined by 91% to Kshs 114M, we had a tax credit of Kshs 73M that increased our profit after tax to Ksh188M. Foreign exchange translation loss of Ksh256M especially from our South Sudan Subsidiary and surplus on revaluation of our buildings of Ksh 38M impacted on our other comprehensive income. The comprehensive income overall declined by 35% to Ksh 229M. Our total comprehensive income for the year declined by 105% to a loss of Ksh 41M.

CASH GENERATED FROM OPERATIONS

Despite the challenging year faced, we managed to generate cash from operations of Ksh 271M. Cash and cash equivalents declined slightly by 4% to Ksh 4.4B.

Dividend. The directors recommend the payment of a first and final dividend of Kshs 274,635,699 which represents 10.5% of paid up capital. During 2016, 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.

Our Business Model

CIC Insurance Group is a leading Cooperative Insurer in Africa, providing insurance and related financial services in Kenya, Uganda and Malawi.

Our business model is the framework through which we deliver our strategy and shareholder value. It aims to innovate, drive efficiencies and identify opportunities for growth and to provide high quality, reliable services and a safe working environment for our people and the communities we serve. The model requires that we grow our business in a sustainable and efficient manner while keeping in mind the social goal of touching as many individual lives as possible. Our business model is divided into three components, namely, the governance model, operating model and the service delivery model.

Governance model: This allows the executive leadership to provide oversight and strategic insights to the strategic planning, development and implementation and to participate in the operational decision making process to ensure compliance and adherence to legal and regulatory requirements. It also allows executive leadership to take responsibility for the operational aspects of the business.

BUSINESS REVIEW

Operating Model: 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).

Service delivery model: 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

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. The group offers a wide range of products including General insurance, Life assurance, Medical insurance and Asset management services. We undertake the risk for retail, Co-operative societies and corporate entities. In order to prudently manage our risk appetite, we have a team of actuaries who assist in solid and accurate pricing models. The pricing estimates the financial impact of every component of the insurance contract that the company is entering into.

Ezekiel Owuor, MD CIC Life (right) at the launch of CIC Bima Credo

Claims Settlement

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 endeavour 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.
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.

Products distribution channels

The group has footprint across the country through the branch networks, brokers & independent agents and tied financial advisors. We endeavour 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

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 buildings in Upper hill which generates rental income and parcels of land at Kisaju, Kiambu and Kajiado.

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. All company branches are interconnected and all services are offered at each branch. In the year 2016, the group commissioned a Marine Portal in order to ease the underwriting of the Marine products. The Group also commissioned a new medical system called E-oxygen in order to efficiently underwrite the growing medical business. The group has also acquired a pension system to administer the pension business in order to drive profitable growth.
The group has also heavily invested in a Life insurance distribution portal and mobile App. To enhance efficiency and timely reports, the group will implement an ERP system within this year which will integrate processes and reports with other business systems.

Employees

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 was ranked 3rd position among the large companies with over 500 employees in the 2016 Best Company to work for Survey conducted by Deloitte and Touche. The group has heavily invested in employee training, development and coaching.

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CIC GROUP

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 defense with direct managerial and operational responsibility for identifying, managing and responding to risks. The Risk Management Department works as the second line of defense 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 behaviors and standards defined in the Group Code of Ethical Conduct. The Code covers a wide range of expected behavior 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

CIC Bima Credo

Nunua CREDO
Pata BIMA

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CIC GROUP

CORPORATE SOCIAL RESPONSIBILITY

Introduction

CIC Foundation is the arm mandated to carry out corporate social responsibility (CSR) activities on behalf of CIC Group. In 2016, the foundation implemented initiatives that aimed at building communities. All activities were guided by five pillars in our CSR framework. The five pillars are environmental sustainability, talent development and empowerment, building future customers, sports, public risk and awareness.

Guided by the framework, and our brand personality trait of nurturing, CIC foundation addressed specific challenges faced in society touching various areas covering the company's footprint. To achieve the desired impact, the foundation worked with like-minded institutions in view of its overall goal: empowering communities and transforming lives. The following initiatives were carried out in 2016:

1. a) Education for needy and bright students

The government of Kenya has made strides to ensure that every Kenyan child gains access to education. The decision to offer free primary education has seen an increase in Kenya Certificate of Primary Education (KCPE) candidature rise from slightly over 800,000 thousand in 2013 to over 900,000 in 2016. As the numbers increase, the challenge of accessing high school education remains. Parents continue to grapple with the challenge of raising school fees. The inability to access education is further influenced by poverty, a factor present in our society.

CIC Foundation recognizes these factors and has made efforts to make access to education a reality for the underprivileged. The Foundation has so far offered 43 high school education scholarships to students from vulnerable backgrounds, drawn from regions across the country. This initiative is in line with our talent development and empowerment pillar which focusses on youth and women.

Beneficiaries of the education scholarship program attending the CIC Foundation launch at CIC Head office

b) Education support for CIC Life Education policy holders

In further driving the education agenda, CIC Foundation gave partial sponsorship to qualified policy holders. 12 life education policy holders received a contribution to their savings through the sponsorship, keeping their dream of providing education to their children alive.

As a Foundation we understand the desire to see children reach high heights in life. This initiative aimed to encourage parents to continue the saving culture. We also aimed to inspire children to never stop dreaming and achieve success.

CIC Life education beneficiaries receiving sponsorship check from CIC Foundation Chairman Jonah Mutuku (extreme right). With them is the Commissioner of Cooperatives Philip Gichuki (second right)

2. Youth Mentorship

Beyond financial support, CIC Foundation, through its staff provided mentorship sessions to motivate and inspire the students in high school to achieve their personal potential. Through this mentorship program, CIC Foundation aims to contribute towards shaping the country’s future by empowering the youth through education. Ultimately the Foundation seeks to nurture responsible citizens and provide a well-balanced workforce in society.

Mentorship has proven to be an effective model that contributes toward raising responsible citizens. CIC Foundation views mentorship as an avenue to develop and empower the youth.

In 2016, CIC Foundation partnered with KCDF (Kenya Community Development Foundation) in a mentorship program referred to as Mentenda, meaning Men Taking Action. The program involved CIC staff members serving as mentors to students at Kangemi Boys High School. The program offered an opportunity for the youth to engage and learn from their mentors on various aspects of life including navigating teenage years and figuring out their careers.

A mentor talks to the youth during a session at Kangemi High School

4. Road safety program for school children

Road safety remains a sensitive area in our country. According to government authorities, pedestrians form the highest percentage of victims affected by road carnage. Children are considered as the most vulnerable road users. Unlike adults, children are sometimes driven by impulse, thus judgment errors while on the road. Over the last three years, CIC partnered with Usalama Initiative to run a road safety program targeting primary school-going children in Nairobi. In 2016 the foundation expanded the program, covering 18 public primary schools in the country, including Nairobi, Mombasa, and Kisumu County.

CIC staff assisting St Catherine's Primary School pupils in Nairobi cross the road safely

The program equips school children and teachers with knowledge on safe road use, through training sessions facilitated in the schools. In doing so, we have helped close to 10,000 children navigate public roads to get to and from their learning institutions safely. It has been made possible with the help of Usalama Initiative traffic marshals stationed at designated pedestrian crossing points along busy roads near the schools. In carrying out this program, we believe that the CIC Foundation has instilled a sense of safe road use by both the motorists and pedestrians. CIC staff have all along been actively involved in advocating for road safety, driving the

5. Supporting co-operative movement initiatives

In 2016, the CIC Foundation engaged with a number of cooperative movement leaders, facilitating training that empowered them with knowledge on pertinent areas that determine organizational and personal growth. These training sessions covered corporate governance, risk management, and leadership.

As part of the drive to build our youngsters' capacity and capability, CIC Foundation partnered with Cooperative University to onboard over 200 youths into entrepreneurship, encouraging them to embrace the cooperative model for business. The youth were drawn from universities, community based organizations, and youth based Saccos.

Participating youth had an opportunity to learn about building successful enterprises, the cooperative model and it's suitability in aiding their success. The need to empower cooperative members was supported by the fact that CIC is a National Cooperative Organization (NACOS) and is therefore mandated to contribute towards the growth and development of the cooperative movement.

Nairobi based youth were all smiles at the education training on cooperatives and entrepreneurship

6. Supporting Community Policing

Safety and security are key to a country realizing growth which is driven by stability. CIC Foundation sought to enhance security and tranquility in communities, engaging stakeholders in different areas in order to achieve this. The Foundation engaged with the Kenya Police by being involved in its community policing programs. Five community sensitization workshops were held in Kayole, Mlolongo, Kasarani and Rongai areas attracting over 400 participants from various walks of life. These forums addressed security concerns in each respective area aimed at improving the environment for the local businesses, transport Sacco members, the youth, special groups and security agents.

Participants forged closer ties with the Kenya Police, using the opportunity to jointly discuss existing challenges and propose appropriate solutions. By bringing all stakeholders together, community members were able to agree on common practical mechanisms to implement, promote safety and security. Security agents also renewed their commitment to help community members experience the much needed tranquility.

A section of community members listen keenly during a sensitization workshop in Rongai

OUR FIVE PILLARS

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

GENERAL OVERVIEW

Our vision is to be a world class provider of insurance and other financial services.

We have put in place the requisite strategy that is customer centric, shareholders focused, employee engaging and industry tailored to ensure business sustainability. The strategy is anchored on fundamental pillars and core values of the company which espouse Integrity, Dynamism, performance and Co-operation. The strategy of the Company is inclined towards Regional Expansion, Product Development and Innovation, Market Intelligence, robust and effective sales force and an effective service delivery and distribution channel.

1. Introduction

The diagram below provides an overview of the Company's corporate governance structure.

The Company's corporate governance framework incorporates principles enunciated under the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015.

2. Board role and Skills

The Board Charter sets out the responsibilities of the Board. The role and responsibilities of the Board include:

a. Reviewing and approving the strategic direction of the Group including:
   - Approving the operational and financial targets
   - Monitoring management's performance and progress against the strategy and financial objectives.

b. Deciding any significant changes to the organisational structure or business activities including material investments and divestments above managements delegations;

c. Deciding the appointment and replacement of the Group Chief Executive Officer;

d. Deciding the remuneration arrangements for the Group Chief Executive Officer and other Senior Management Officers;

e. Overseeing the Group's risk profile and risk management strategy including setting the risk appetite and risk management framework;

f. Determining the Group's capital and funding requirements;

g. Setting the Group's corporate values and standards.

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

Except for matters expressly reserved to the Board under the Charter, the day-to- day management of the Group and its operations is delegated to management.

The Group Chairman, Mr. Japheth Magomere, is responsible for leading the Board and ensuring that it is operating to the appropriate governance standards. The Group Chairman sets out the Board agenda for board meetings and ensures adequate time is made available at each Board meeting for discussion on all agenda items

Board and Committee Composition

The Board of Directors consisted of twelve members of whom eleven are non-executive (detailed information on each of the Company's Director is set out in the Directors' Report section of the 2016 Annual Financial Statements). The Board members are Mr. Japheth Magomere (Group Chairman), Mr. Peter Nyigei (Group Vice Chairman), Tom Gitogo (Group Chief Executive Officer), Mrs. Mary Mungai (Ministry of Cooperative Development), Mr. Michael Wambia, Mr. James Njue, Mrs. Veronicah Leseya (independent), Mr. Harrison Githae, Mrs. Rosemary Githaiga, Mr. Gordon Owour , Mr. Jonah Mutuku, Mr. Philip Lopokoiyit (Independent).

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 Governance and Human Resource Committee considers and recommend 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.

The key terms and conditions applicable to Director appointments are set out in a letter of appointment. The appointment letter deals with the Director's role and responsibilities, time commitments, induction, performance, remuneration, disclosure of outside interests, independence and confidentiality.

The Board regularly reviews the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the Group's strategy. The Board uses a skills matrix to assist with these reviews.

The Board and Committee membership details are set out below.

BOARD OF DIRECTORS

DIRECTOR	BOARD	AUDIT & RISK	COMMITTEES FINANCE & INVESTMENTS	GOVERNANCE & HR
Japheth Magomere	Chairman Non-Executive			Member
Peter Nyigei	Vice Chairman Non-Executive	Member		
Tom Gitogo	Executive Group CEO		Member	Member
Gordon Owuor	Non-Executive			Member
Michael Wambia	Non-Executive			Chairperson*
Jonah Mutuku	Non-Executive			Member
Rosemary Githaiga	Non-Executive		Chairperson	
James Njiru*	Non-Executive	Member		
Mary Mungai	Non-Executive			
Veronicah Leseya	Non-Executive Independent			
Philip Lopokoiyit	Non-Executive Independent		Chairperson	
Harrison Githae	Non-Executive			Member
Rev. Peterson Kagane*	Non-Executive		Member	

*Michael Wambia was appointed to the Human Resource & Governance Committee on 4th May 2016.

*Rev. Peterson Kagane retired from the Board on 13th May 2016 and Mr. James Njiru was appointed in his place by the shareholders on 13th May 2016.

Review of Board Performance

The Board has in place a formal process for reviewing its performance, and the performance of individual Directors, every year.

During the 2016 financial year, the Board engaged an external consultant to conduct the Board performance assessment. Each Director completed a detailed questionnaire designed to obtain feedback on the Board's performance in the following areas:

- Board Structure and Composition
- Board Practices
- Board Meetings
- Accountability and Risk Management
- Information and Communication

The questionnaire also included a series of questions for a Director to assess their own performance and the performance of each other director to identify development opportunities.

Director Induction and Education

Newly appointed Directors receive appropriate induction and training, specifically tailored to the Company's needs. Appointees are provided with the Company's Board Manual and business information.

On an ongoing basis, Directors participate in Board Training on facilitated by industry and professional bodies. In addition, board meetings regularly include agenda on recent industry developments on legislation, governance and corporate matters and significant accounting matters.

The Board and the Company Secretary

The Board is assisted by the Group Company Secretary who, under the direction of the Chairman, is responsible for facilitating good information flows within the Board and its Committees and between Senior Management and Non-Executive Directors as well as the induction of New Directors and the ongoing professional development of all Directors.

The Group Company Secretary is also responsible for monitoring compliance with the Board's procedures and for advising the Board, through the Chairman, on all governance matters. All Directors have access to the advice and services of the Group Company Secretary, whose appointment and removal is a matter for the Board.

Board Meetings

The Board meets regularly at least four times a year to, amongst other things, agree on the company's objectives and strategies to realize the objectives, review performance against agreed targets and consider and approve the annual and interim financial statements. The Board in fulfilling its mandate is guided by the Board Manual.

In the year 2016, the Board of Directors convened Seven (7) official Board Meetings.

Board Committees

The Board in discharging its responsibilities by three Board Committees described below. The Committee Memberships are structured to spread responsibility and make best use of the range of skills across the Board.

The Board receives 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 Committee's main purpose is to assist the Board in discharging its duties regarding the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial statements and reporting in compliance with all applicable legal requirements and accounting standards. The scope of this committee includes risk management, as well as compliance with the regulatory requirements. The Committee is guided in its functions by a comprehensive Audit Committee Charter and the Internal Audit Department Charter. These are designed to provide a comprehensive framework for the audit function within the company.

Audit and Risk Committee Members:

- Philip Lopokoiyit - Committee Chairperson
- Judith Olouch
- James Njue
- Peter Nyigei

Finance and Investment Committee

The Committee's purpose is to assist the Board in fulfilling its overall responsibilities with respect to the financial, investment and strategic planning affairs of the company.

The duties of the committee include receiving and considering the Company's annual budget, reviewing the purchasing and tender regulations, disposal of major assets and considering recommendations on capital expenditure. It also reviews proposals involving capital developments, financing and investment proposals.

Finance and Investment Committee Members

- Rosemary Githaiga - Committee Chairperson
- Edwin Otieno
- John Mbitu
- Cornelius Ashira
- Tom Gitogo

Governance and Human Resource Committee

The Committee's purpose is to provide focus on governance of the Group thereby enhancing its overall performance. The Committee assesses the Board's and Management's performance and makes recommendations regarding Board and management effectiveness. It provides direction regarding on-going Board development and leads the process of recommending criteria for consideration when appointing new members to the Board. The Committee has four main functions which are promoting good Corporate Governance practices in the Group, setting and overseeing the human resources and remuneration policy for the board and management, safeguarding policyholder's interests and securing an ethical business environment within the group. This Committee was initially the Executive Committee.

Governance and Human Resource Committee Members

- Michael Wambia - Committee Chairperson
- Japheth Magomere
- Harrison Githae
- Gordon Owour
- Jonah Mutuku
- Tom Gitogo

Attendance at the Meetings

Table 1 below is a summary of the attendance record of the directors at the full and the Board Committee meetings. A record of attendance is kept by the Group Company Secretary. The record of attendance at meetings is also noted in the minutes of the meetings.

Directors	Board Meeting		Governance and Human Resource		Committees Finance and Investment		Audit and Risk	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Japheth Magomere	7	7	6	6	4	4		
Peter Nyigei (Vice Chairman)	7	7					5	5
Harrison Hunyu	7	7	6	6				
Gordon Owuor	7	7	6	6				
Michael Wambia	7	7	6	4			5	5
Jonah Mutuku	7	7	6	6				
Mary Mungai	7	7						
Rosemary Githaiga	7	4			4	3		
Veronicah Leseya	7	7						
Tom Gitogo	7	7	6	6	4	4	5	5
Philip Lopokoiyit	7	6					5	5
Rev Peterson Kagane*	7	5	4	2	4	2		
James Njiru*	7	2					5	1

Notes: (a) Number of meetings convened during year when the director was a member

(b) Number of Meetings attended by the Director during the year

*Rev. Peterson Kagane retired from the Board on 13th May 2016 and Mr. James Njiru was appointed in his place by the shareholders on 13th May 2016.

Internal Controls

The Board has collective responsibility for the Company's system of internal controls including reviewing the effectiveness of the same. The company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover processes to obtain authority for major transactions and ensuring compliance with laws and regulations particularly those that have significant financial implications.

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 company is committed to ensuring that shareholders are provided with full and timely information about its performance. This is usually done through distribution of the company's annual reports and release of notices in the press of the annual results. The Co-operative Insurance Society Limited delegates are briefed at the regional level regularly.

Shareholding

1. CONSOLIDATED TOP TEN SHAREHOLDERS SCHEDULE AS AT 31 DECEMBER 2016

	2015		2016	
NAME OF SHAREHOLDER	SHARES	%	SHARES	%
Co-operative Insurance Society Ltd.	1,943,441,304	74.30	1,943,441,304	74.30
Gideon Maina Muriuki	123,037,304	4.70	123,037,304	4.70
Standard Chartered Nominees Non Resident A/C9011	24,422,040	0.93	24,422,040	0.93
Patrick Njogu Kariuki	19,492,829	0.55	20,276,329	0.76
Welton Weda	15,556,800	0.59	15,556,800	0.59
NIC Custodial Services A/C 077	15,481,560	0.59	15,481,560	0.59
Nelson Chege Kuria	13,909,800	0.53	13,909,800	0.53
Kenya Reinsurance Corporation	10,800,000	0.41	10,800,000	0.41
Peter Mutarura Mwaura	10,983,536	0.38	9,897,936	0.38
Weda & Emily Achieng Chweya Welton	8,880,000	0.34	8,880,000	0.34
TOTAL	**2,186,005,173**	**83.37**	**2,185,703,073**	**83.57**

2. TOP TEN INDIVIDUAL SHAREHOLDERS AS AT 31 DECEMBER 2016

	2016	
NAME OF SHAREHOLDER	SHARES	%
Gideon Maina Muriuki	123,037,304	4.70
Patrick Njogu Kariuki	20,276,329	0.78
Welton Weda	15,556,800	0.59
Nelson Chege Kuria	13,909,800	0.53
Peter Mutarura Mwaura	9,897,936	0.38
Weda & Emily Achieng Chweya Welton	8,880,000	0.34
Stanley Charles Muchiri	6,453,312	0.25
Amarjeet Baloobha Patel; Baloobhai Patel	6,000,000	0.23
Nancy Wangari Ndungu	5,520,000	0.21
Joyce Wanjiku Muriuki	5,108,640	0.20
TOTAL	**214,640,121**	**8.21**
TOTAL CIC SHARES ISSUED	**2,615,538,528**	**100.00**

3. TOP-TEN CIS SHAREHOLDERS SCHEDULE AS AT 31 DECEMBER 2016

SHAREHOLDER'S NAME	2015 SHARES	%	2016 SHARES	%
The Co-operative Bank of Kenya Ltd	694,056,720	35.71	694,056,720	35.71
Co-operative Bank Savings and Credit Society Ltd	187,155,264	9.63	187,155,264	9.63
K-Unity Savings and Credit Co-operative Society Limited	62,537,776	3.21	62,537,776	3.22
Nawiri Savings and Credit Co-operative Society Limited	34,604,352	1.78	36,132,130	1.81
Harambee Co-operative Savings and Credit Society Ltd	35,234,280	1.81	35,234,280	1.81
FEP Co-operative Savings and Credit Society Ltd	30,720,000	1.58	30,720,000	1.58
Kipsigis Teachers Savings & Credit Society Ltd	29,764,248	1.53	29,764,248	1.53
Stima Co-operative Savings and Credit Society Ltd	26,162,384	1.35	26,162,384	1.35
Boresha Savings and Credit Co-operative Society Limited	26,134,224	1.34	26,134,224	1.34
H & M Savings and Credit Co-operative Society Ltd.	24,732,000	1.27	24,732,000	1.27
TOTAL	**1,151,101,248**	**59.21**	**1,152,629,026**	**59.25**

4. DIRECTORS SHAREHOLDING SCHEDULE AS AT 31 DECEMBER 2016.

NAME	2015 NO. OF SHARES	%	2016 NO. OF SHARES	%
Mary Mungai	0	0	0	0
Philip Lopokoiyit	0	0	0	0
Veronicah Leseya	0	0	0	0
Peter K. Nyigei	12,000	0.00	12,000	0.00
Jonah M. Mutuku	24,000	0.00	24,000	0.00
Michael O. Wambia	36,000	0.00	36,000	0.00
James Njiru	48,000	0.00	48,000	0.00
Harrison Githae	252,000	0.01	252,000	0.01
Gordon Owuor	264,000	0.01	264,000	0.01
Japheth Magomere	672,000	0.03	672,000	0.03
Rosemary Githaiga	2,589,600	0.09	2,589,600	0.09
Tom Gitogo	1,500,000	0.06	3,000,000	0.11
TOTAL	**5,349,600**	**0.2**	**6,897,600**	**0.25**

5. SHAREHOLDER CATEGORIES AS AT 31 DECEMBER, 2016

SHAREHOLDER CATEGORY	SHARES HELD	%
Foreign Investors	32,963,480	1.26
Local Individual Investors	566,876,620	21.67
Local Institutional Investors	2,015,698,428	77.07
TOTAL	**2,615,538,528**	**100.00**

6. CATEGORIZED SHAREHOLDERS DISTRIBUTION SCHEDULE AS AT 31 DECEMBER 2016

SHAREHOLDING RANGE	NO. OF SHAREHOLDERS	NO. OF SHARES	%
1-500	4,019	914,771	0.03
501-5000	6,478	13,381,279	0.51
5001-10,000	1,633	12,181,622	0.47
10,001-100,000	4,651	130,468,728	4.99
100,001 - 1,000,000	577	145,355,966	5.56
1,000,001 - above	63	2,313,236,162	88.44
TOTAL	**14,659**	**2,615,538,528**	**100.00**

DIRECTORS REMUNERATION REPORT

CIC Insurance Group Limited's vision is to be a world class provider of Insurance and other financial services. This vision can only be realized by high calibre people equipped with the requisite expertise, skill and focus driving the company's strategy. As the board is the custodian and ultimate driver of this strategy, it is imperative to attract and retain the right people on the board

The Company has in place a remuneration Policy whose objectives are to ensure that:

a) A transparent process is in place to determine the appropriate level of remuneration for Directors;

b) The Company is able to attract and retain appropriately qualified and experienced directors; and

c) The Directors are remunerated fairly, having regard to their responsibilities and the objects of the company.

The Policy adequately defines the remuneration and privileges accorded to the Non-Executive Directors of the Company. The remuneration and privileges are competitive and comparable to peer companies.
During the financial year ended 31 December 2016, the Board was composed of the following Directors:

- 1 Executive Director: Tom Gitogo
- 8 Non- Executive Directors: Japheth Magomere (Chairman), Peter Nyigei (Vice Chairman), Michael Wambia, Gordon Owour, Harrison Githae, Jonah Mutuku , Rosemary Githaiga and James Njue.
- 3 Non-Executive Independent Directors: Mrs. Veronicah Leseya, Mrs. Mary Mungai and Mr. Philip Lopokoiyit.

The remuneration of the executive director is as per negotiated employment contract.

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

DIRECTORS EMOLUMENTS

During the financial period ended 31 December 2016, the consolidated Directors fees were Kshs. 62,621,000.

NON-EXECUTIVE DIRECTORS REMUNERATION POLICY

The Company offers a variety of financial benefits and privileges which are constantly reviewed to ensure that they are relevant and sustainable. The financial benefits and privileges are as follows:

i. Directors Fee

Members of the Board of Directors receive a monthly retainer, a sitting allowance for each board and committee meeting and an honoraria (this is paid once yearly).

ii. Incentive pay

Directors are not entitled to any performance based remuneration.

iii. Additional fee

CIC directors shall not receive any additional fees for their board and committee memberships, or any other commitment related to their role as a director of CIC which is over and above their base fee.

iv. Insurance Cover

The Company provides medical insurance (both inpatient and outpatient) and professional Indemnity insurance for the directors in line with the best practice in the market.

v. Other expenses

Directors shall be entitled to be paid all travelling, accommodation and other out of pocket expenses properly incurred by them in attending and returning from meetings of the Board, its Committees, general meetings or attending to the business of CIC provided that such expenses have been incurred in accordance with company policy.

vi. Review

The policy shall be reviewed by the Governance and Human Resource Committee every two years, unless otherwise requested by the Board.

By Order of the Board

Gail Odongo
Group Company Secretary

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors submit their report together with the audited financial statements for the year ended 31 December 2016. In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015 this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. 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.

GROUP RESULTS

	2016	2015
	KShs'000	KShs'000
Profit before taxation	114,388	1,339,086
Taxation credit/(charge)	73,797	(202,482)
Profit for the year	**188,185**	**1,136,604**

2. DIVIDENDS

The directors recommend the payment of a first and final dividend of KShs 274,635,699. (2015: KShs 274,635,699) which represents 10.5% of paid up capital (2015: 10.5%)

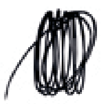
3. DIRECTORS

The current directors are as shown on page 1.

4. AUDITORS

The company's auditors, Ernst & Young LLP, have expressed their willingness to continue in office in accordance with the Kenyan Companies Act, 2015.

BY ORDER OF THE BOARD



Secretary

10th March 2017

Nairobi, Kenya

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2016

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 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 maintains proper accounting records that are sufficient to show and explain the transactions of the group and disclose, with reasonable accuracy, the financial position of the group. The directors are also responsible for safeguarding the assets of the group, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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 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 10th March 2017 and signed on its behalf by:

Director

....
Director

10th March 2017

Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
Upper Hill
Off Ragati Road
P.O. Box 44286 - 00100
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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 60 to 176, which comprise the consolidated and separate statements of financial position as at 31 December 2016, consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and 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 2016 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 Consolidated and Separate Financial Statements section of our report. We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. 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.

Key Audit Matter	How the matter was addressed in the audit
Going concern of the subsidiaries and associate The Group has invested in subsidiaries, namely, CIC Africa (Uganda) Limited based in Uganda and CIC Africa Insurance (SS) Limited based in South Sudan and an associate CIC Africa Co-operatives Insurance Limited in Malawi. CIC Africa (Uganda) Limited reported a loss of KShs 160 million for the year ended 31 December 2016, with accumulated losses of KShs 261 million. In addition, the company was in a net liability position of KShs 60 million. Therefore the company is technically insolvent. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the subsidiary's ability to continue as a going concern. The subsidiary continues to rely on the parent for financial support to settle its obligations.	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 and the associate on the Group. We reviewed letters of undertaking provided by the Group to the subsidiaries and the associate confirming that they will continue supporting them by settling their obligations as and when they fall due. We confirmed that the parent company has the ability to continue supporting the subsidiaries and the associate.
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. In addition, CIC Africa Co-operatives Insurance Limited reported a loss of KShs 45 million as at 31 December 2016 and the associate was in a net liability position of KShs 19 million which indicates the existence of a material uncertainty that may cast significant doubt about its ability to continue as a going concern. Both these entities continues 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 and associate are material to the Group's financial position and performance. Management has made disclosures on the going concern of the subsidiaries in note 57 of the financial statements.	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
Reporting in hyperinflationary Economies During the year, South Sudan economy was designated as hyperinflationary by International Practice Task Force (IPTF). As a result, entities operating in South Sudan and preparing financial statements under International Financial Reporting Standards (IFRSs) are required to prepare the financial statements in line with International Accounting Standard (IAS) 21 *The Effect of Changes in Foreign Currency Rates and IAS 29 Financial Reporting in Hyperinflationary Economy*. CIC Africa Insurance (SS) Limited has prepared financial statements in accordance with IAS 29 and has recognised a monetary loss of KShs 297 million in the books of account as disclosed in note 9. The Group has translated the results and financial position of CIC Africa Insurance (SS) Limited into the Group's presentation currency that is in a non-hyperinflationary economy in terms of International Accounting Standards -21: The Effects of Changes in Foreign Exchange Rates. As a result, the comparative financial information in the Group's consolidated financial statements has not been restated for subsequent changes in price level or subsequent changes in exchange rates.	We considered this to be a key audit matter as the monetary loss of KShs 297 million is significant to the Group's financial performance for the year. We reviewed the general price index used as an input in accounting under hyperinflation economy as per IAS 29 for reasonableness and assessed the accuracy of the restated financial statements by review of the workings prepared by management We assessed whether the financial statements disclosures are complete and appropriately reflect the impact of hyperinflation reporting on CIC Africa Insurance (SS) Limited.
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 Company 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 company 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 appropriateness of the financial statement disclosures on the contingent liability.

Key Audit Matter	How the matter was addressed in the audit
Impairment of receivables arising out of direct insurance arrangements As at 31 December 2016, the group's gross receivables arising out of direct insurance arrangements amounted to KShs 1.49 billion of which KShs 726 million has been impaired as disclosed in note 27 (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. We tested the ageing of the receivables arising out of direct insurance arrangements balances used in the impairment assessment. We evaluated the adequacy of the provisions for doubtful receivables, including the appropriateness of 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.
Valuation of Investment property As at 31 December 2016, the carrying amount of the Group's investment property was KShs 6 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 performed the following audit procedures in response to this matter: • Evaluated the objectivity and independence of the external valuer. • Assessed whether 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. • Assessed whether the valuation methodologies and assumptions adopted in determining the fair values of the investment property were in accordance with IFRS. • Evaluated whether the determined fair values were in line with the market values for similar property in similar locations. • Assessed the adequacy of the Group's disclosures in respect of the assumptions used in valuation.

Key Audit Matter	How the matter was addressed in the audit
Valuation of investments in Chase Bank Limited As at 31 December 2016, the Group held in its books of account a Chase Bank Limited corporate bond amounting to KShs 157 million which is 25 % 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 2016. 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 17 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 appropriateness of 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 appropriateness of the financial statement disclosures concerning those key valuation assumptions and inputs.

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Key Audit Matter	How the matter was addressed in the audit
Valuation of Actuarial value of Policy holders Liabilities Included in the liabilities of the Group is an amount of KShs 3.56 billion being the actuarial value of policyholders' benefits related to CIC Life Assurance Limited which deals with life assurance business. These liabilities are long-term in nature and 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 Insurance Regulatory Authority (IRA). During the year, IRA issued new guidelines requiring the valuation of liabilities to be carried out on the basis of Gross Premium instead of Net Premium as was the case previously. Management complied with these guidelines and recognised an additional liability of KShs 704 million during the year. The disclosures on the movement of the actuarial liability are included in note 46 of these financial statements. We have considered this issue as a key audit matter since estimation of the actuarial value of policyholders' benefit is complex and subjective in nature since it involves use of judgements and assumptions on the discount rate, mortality, inflation bonuses, withdrawal rates and initial and subsequent expenses subject to the minimum basis prescribed in the valuation guidelines.	We involved our internal actuarial consultants in performing the following procedures: • Understanding, evaluating and testing the design and implementation of key controls over the actuarial valuation process, • Reviewing the methodology and inputs used as well as assumptions made in determining the value of the policyholders' benefits We evaluated whether the valuation was carried out in accordance with the valuation guidelines as issued by the Insurance Regulatory Authority (IRA) of Kenya. We assessed the adequacy of the Group's disclosures in respect of the assumptions used in valuation.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, and Statement of Directors' Responsibilities, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

The directors are responsible for overseeing the group's and the 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 Group's and 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's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 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 the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal requirements

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

(i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
(ii) In our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
(iii) The company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Avani S Gilani – P/No. P.787

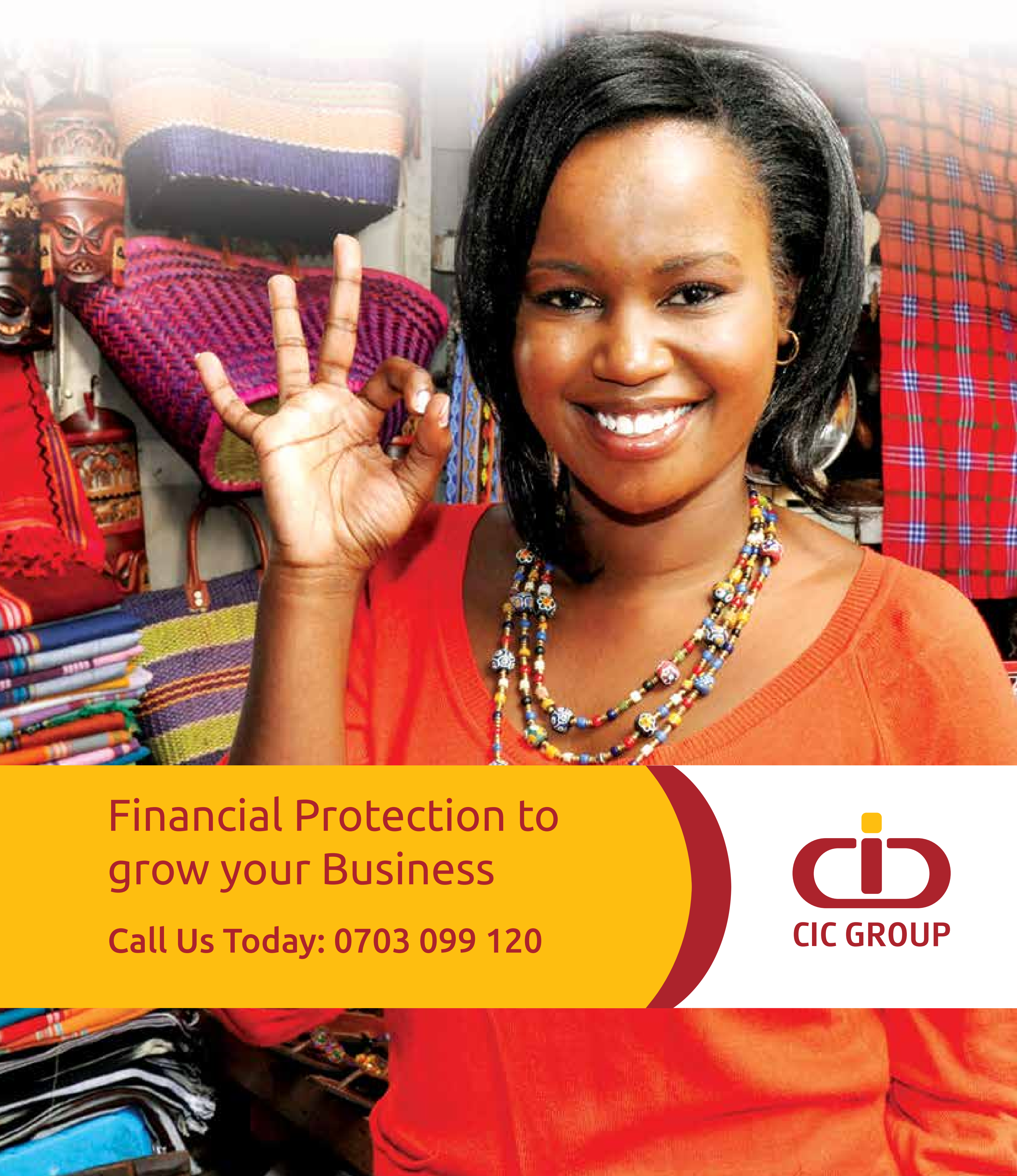
Ernst & Young

Nairobi, Kenya

28th April 2017

**In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, the Group's financial statements and this report have been prepared in accordance with Sections 147 to 163 of the repealed Companies Act, as if that repeal had not taken effect.*

CIC Biashara Salama



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CIC GROUP

CONSOLIDATED AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

		Group		Company	
		2016	2015	2016	2015
	Notes	KShs'000	KShs'000	KShs'000	KShs'000
Gross written premiums	3 (a)	12,366,319	11,439,541	-	-
Gross earned premiums	3(b)	11,814,012	12,638,444	-	-
Less: Reinsurance premiums ceded	3(c)	(1,782,711)	(1,909,518)	-	-
Net earned premiums		**10,031,301**	**10,728,926**	**-**	**-**
Fees and commission income	4(a)	649,682	650,516	-	-
Investment income	5	1,301,671	1,537,813	325,093	523,435
Other gains/ (losses)	6	509,385	722,932	444,120	300,000
Foreign exchange gain		525,321	186,365	-	-
Dividend income		-	-	262,000	240,000
		2,986,059	**3,097,626**	**1,031,213**	**1,063,435**
		13,017,360	13,826,552	1,031,213	1,063,435
Commissions expense	4 (b)	(1,538,723)	(1,379,772)	-	-
Claims and policyholders benefits payable*					
Gross benefits and claims paid	7	(7,457,921)	-	-	-
Gross change in insurance contract liabilities	7	(726,611)	-	-	-
Claims ceded to reinsurers	7	1,715,059	-	-	-
Net benefits and claims	7	(6,469,473)	(7,283,698)	-	-
Operating and other expenses	8	(3,956,009)	(3,173,833)	(207,154)	(77,802)
Loss on net monetary position	9	(297,479)	-	-	-
		(12,261,684)	**(11,837,303)**	**(207,154)**	**(77,802)**
Finance cost	10	(650,000)	(650,000)	(650,000)	(650,000)
Share of profit/(loss) of associates	18	8,712	(163)	-	-
Profit before taxation		114,388	1,339,086	174,059	335,633
Taxation credit/(charge)	11	73,797	(202,482)	120,714	19,555
Profit for the year		**188,185**	**1,136,604**	**294,773**	**355,188**

CONSOLIDATED AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

		Group		Company	
		2016	2015	2016	2015
	Notes	KShs'000	KShs'000	KShs'000	KShs'000
OTHER COMPREHENSIVE INCOME					
Other comprehensive income not to be reclassified to profit or loss in subsequent years					
Surplus on revaluation of buildings	13	38,824	80,075	-	-
*Other comprehensive income to be reclassi-*fied to profit or loss in subsequent years					
Fair value loss on available-for -sale investments (government securities)	22	(9,706)	(154,524)	186	(3,400)
Fair value (loss)/gain on available-for -sale equity investments	23	(2,262)	2,131	-	-
Forex currency translation loss	38	(256,413)	(282,179)	-	-
Other comprehensive income for the year		(229,557)	(354,497)	186	(3,400)
Total comprehensive income for the year		(41,372)	782,107	294,959	351,788
Earnings per share (KShs)	12	0.07	0.43	0.11	0.14

** Claims and policyholders benefits payable was previously disclosed in the Statement of comprehensive income as one line item "Claims and policyholders benefits expenses" and the breakdown was shown in the note, in the current year we changed the disclosure to show the breakdown on the face of the Statement of comprehensive income to make this consistent with how premiums are disclosed.*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 KShs'000	2015 KShs'000
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		118,060	1,046,146
NON - CONTROLLING INTERESTS		70,125	90,458
		188,185	**1,136,604**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		(44,977)	749,705
NON CONTROLLING INTEREST		3,605	32,402
		(41,372)	**782,107**
EARNINGS PER SHARE (KShs) – BASIC AND DILUTED	12	0.07	0.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 KShs'000	2015 KShs'000
ASSETS			
Property and equipment	13	1,271,171	1,344,707
Investment properties	14	6,051,288	5,420,742
Intangible assets	15 (a)	68,246	93,461
Deferred taxation	16 (a)	487,775	239,143
Corporate bonds at fair value through profit or loss	17	614,124	611,573
Investment in associate	18	182,610	129,166
Government securities classified as held to maturity	20	930,739	891,888
Loans receivable - Mortgage loans	21 (a)	475,267	482,440
- Other loans	21 (b)	502,471	504,479
Government securities classified as available for sale	22	3,981,758	2,321,713
Equity investments classified as available for sale	23	16,863	19,125
Equity investments at fair value through profit or loss	24	910,652	1,056,654
Deposits and commercial paper	25(a)	1,667,942	2,195,407
Deferred acquisition costs	26	473,033	416,220
Receivables arising out of direct insurance arrangements	27 (a)	1,421,193	1,372,319
Receivables arising out of reinsurance arrangements	27 (b)	944,172	622,989
Reinsurers share of liabilities and reserves	28	2,040,889	1,365,388
Taxation recoverable	11(b)	148,808	-
Other receivables	29	244,264	371,888
Due from related parties	30	103,300	93,889
Deposits with financial institutions	31 (a)	3,780,495	4,842,340
Cash and bank balances	51	611,463	524,704
Total assets		**26,928,523**	**24,920,235**
EQUITY AND LIABILITIES			
Share capital	32	2,615,578	2,615,578
Share premium	33	162,179	162,179
Funds awaiting allotment	34	-	512
Statutory reserve	35	1,034,836	1,039,810
Contingency reserve	36	2,150	
Revaluation surplus	37	109,368	138,877
Foreign currency translation reserve	38	(378,372)	(195,091)
Fair value reserve	39	(217,888)	(205,921)
Retained earnings	40	4,012,652	4,110,156
Equity attributable the owners of the parent		**7,340,503**	**7,666,100**
Non-controlling interest	41	138,960	164,383
Total equity		**7,479,463**	**7,830,483**
LIABILITIES			
Deferred taxation	23 (a)	548,073	527,469
Borrowings	42	5,086,021	5,068,037
Other payables	43 (a)	650,474	782,974
Tax payable	11 (b)	-	97,579
Dividend payable	44	34,607	34,607
Payables arising from reinsurance arrangements and insurance bodies	27 (c)	116,575	25,631
Deposits and administration contracts	45	1,279,674	756,097
Actuarial value of policyholder liabilities	46	3,563,995	2,962,122
Unit linked contracts	47	458,536	403,049
Provisions for unearned premiums reserve and unexpired risks	4	3,959,542	3,407,235
Insurance contracts liabilities	49	3,751,563	3,024,952
Total liabilities		**19,449,060**	**17,089,752**
Total equity and liabilities		**26,928,523**	**24,920,235**

The financial statements were approved by the Board of Directors on 10th March 2017 and signed on its behalf by:

Group Chairman

Director

Group Chief Executive Officer

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 KShs'000	2015 KShs'000
ASSETS			
Property and equipment	13(b)	65,380	61,856
Investment properties	14(b)	2,600,000	2,200,000
Intangible assets	15(b)	20,247	-
Deferred taxation asset	16 (b)	248,906	108,192
Investment in associate	18	183,132	138,400
Investment in subsidiaries	19	3,364,754	3,392,179
Loans receivables - Mortgage loans	21 (a)	86,283	96,415
- Other loans	21 (b)	44,176	51,479
Government securities classified as available for sale	22 (b)	33,089	32,903
Taxation recoverable	11 (e)	2,000	2,000
Deposits and commercial paper	25 (b)	92,392	972,888
Other receivables	29 (b)	324	32,187
Due from related parties	30	799,858	603,010
Deposits with financial institutions	31 (b)	2,031,930	1,790,170
Cash and Bank balances	51	4,833	-
Total assets		**9,577,304**	**9,481,679**
EQUITY AND LIABILITIES			
Equity			
Share capital	32	2,615,578	2,615,578
Share premium	33	162,179	162,179
Fair value reserve	40	(6,911)	(7,097)
Retained earnings	41	1,363,903	1,343,766
Total equity		**4,134,749**	**4,114,426**
LIABILITIES			
Bank overdraft	51	-	6,773
Deferred taxation liability	16(b)	101,837	81,837
Due to related parties	30	196,427	141,387
Borrowings	42	5,086,021	5,068,037
Other payables	43 (b)	23,663	34,612
Dividend payable	44	34,607	34,607
Total liabilities		**5,442,555**	**5,367,253**
Total equity and liabilities		**9,577,304**	**9,481,679**

The financial statements were approved by the Board of Directors on 10th March 2017 and signed on its behalf by:

Group Chairman	Director	Group Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share Capital	Share Premium	Statutory Fund	Revaluation surplus	Contingency reserve	Funds awaiting Allotment	Foreign Currency Translation Reserve	Fair value reserve	Retained earnings KShs'000	Due to equity holders of the parent	Non-controlling interests	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share Capital	Share Premium	Statutory Fund	Revaluation surplus	Funds awaiting Allotment	Foreign Currency Translation Reserve	Fair value reserve	Retained earnings KShs'000	Due to equity holders of the parent	Non-controlling interests	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2016	2,615,578	162,179	970,671	87,834	-	-	(53,528)	3,424,706	7,207,440	(11,770)	7,195,670
Transfer to retained earnings	-	-	(115,000)	-	-	-	-	115,000	-	-	-
Investment in share capital	-	-	-	-	-	-	-	-	-	143,751	143,751
Funds awaiting allotment	-	-	-	-	512	-	-	-	512	-	512
Tax on transfer to retained earnings	-	-	-	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Dividends declared – 2014	-	-	-	-	-	-	-	(261,557)	(261,557)	-	(261,557)
Profit for the year	-	-	184,139	-	-	-	-	862,007	1,046,146	90,458	1,1636,604
Other comprehensive income for the year	-	-	-	51,043	-	(195,091)	(152,393)	-	(296,441)	(58,056)	(354,497)
Total comprehensive income for the year	-	-	184,139	51,043	-	(195,091)	(152,393)	862,007	749,705	32,402	782,107
At 31 December 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

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share Capital	Share premium	Fair value reserve	Retained Earnings	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2015	2,615,578	162,179	(3,697)	1,250,135	4,024,195
Dividends declared – 2015	-	-	-	(261,557)	(261,557)
Profit for the year	-	-	-	355,188	355,188
Other comprehensive income for the year	-	-	(3,400)	-	(3,400)
Total comprehensive income for the year	**-**	**-**	(3,400)	355,188	351,788
At 31 December 2015	2,615,578	162,179	(7,097)	1,343,766	4,114,426
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	294,773	294,959
At 31 December 2016	2,615,578	162,179	(6,911)	1,363,903	4,134,749

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 KShs'000	2015 KShs'000
Cash generated from/(used in) operations	51	890,592	(907,202)
Taxation paid	11(b)	(435,118)	(186,201)
Net cash generated from/(used in) operating activities		455,474	(1,093,403)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	1,070,787	1,316,611
Dividend income	5	25,515	13,949
Purchase of property and equipment	13	(113,350)	(175,296)
Purchase of investment property	14	(4,420)	(28,930)
Purchase of intangible assets	15	(41,776)	(38,449)
Purchase of corporate bonds	16	(20,000)	(359,274)
Proceeds from maturity of corporate bonds	16	5,974	-
Proceeds from sale of property and equipment		20,149	6,714
Dilution of share in associate	18	-	1,920
Investment in associate (Malawi)	18	(44,732	(13,695)
Purchase of government securities held to maturity	20	(58,774)	(183,055)
Mortgage loans advanced	21(a)	(100,168)	(164,688)
Mortgage loan repaid	21(a)	107,341	128,474
Other staff loans advanced	21(b)	(107,811)	(169,020)
Other staff loan repaid	21(b)	109,819	90,276
Purchase of government securities available for sale	22	(2,098,751)	(800,226)
Proceeds from disposal of government securities available for sale	22	299,000	-
Proceeds from maturity of government securities available for sale	22	130,000	118,000
Proceeds from sale of equity investments available for sale	23	-	673
Purchase of equity investment at fair value through profit or loss	24	(12,355)	(822,925)
Proceeds from sale of equity investments at fair value through profit or loss	24	15,183	16,373
Decrease in deposits with non-financial institutions	25	-	70,177
Additions in deposits with non-financial institutions	25	(602,971)	-
Proceeds from maturities in deposits with non-financial institutions	25	1,172,341	-
Decrease in deposits with financial institutions (excluding cash and cash equivalents)	31	786,645	4,595,418
Net cash generated from investing activities		537,646	3,603,027
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares on non-controlling interest		-	143,751
Funds awaiting allotment		(512)	512
Increase in borrowings	42	-	15,771
Interest paid	42	(650,000)	-
Dividends and withholding tax paid	44	(274,636)	(261,612)
Net cash used in financing activities		**(925,148)**	**(101,578)**
INCREASE IN CASH AND CASH EQUIVALENTS		**67,972**	**2,408,046**
Effect of foreign exchange translations		**(256,413)**	**(282,179)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**4,567,893**	**2,442,026**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	51	**4,379,452**	**4,567,893**

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 KShs'000	2015 KShs'000
Profit before taxation		174,059	335,633
Adjustments for:			
Depreciation on property and equipment	13	14,810	11,263
Fair value gains on revaluation on investment property	14	(400,000)	(300,000)
Amortisation of intangible assets	15	5,073	-
Amortisation of bond expenses	42	17,984	-
Write off of Transco-op expenses	9	44,096	-
Interest income	5	(325,093)	(523,435)
Interest expense	42	650,000	-
Dividend income		(262,000)	(240,000)
Decrease/(increase) in other receivables	29	31,863	6,745
(Increase)/decrease in related party balances	30	(185,904)	(715,389)
(Decrease)/increase in other payables	43	(10,949)	18,708
Cash used in operations		**(246,061)**	**(1,406,475)**
Taxation paid		**-**	
Net cash used in operating activities		**(246,061)**	**(1,406,475)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	13	(18,334)	(73,119)
Diluted share in associate	18	-	1,920
Purchase of intangible assets	15	(25,320)	-
Investment in associate	18	(44,732)	-
Mortgage loans advanced	21(a)	(4,824	(24,786)
Mortgage loan repaid	21(a)	14,956	33,960
Other staff loans advanced	21(b)	(7,417)	(48,246)
Other staff loans repaid	21(b)	14,720	21,817
Investment in subsidiaries	19	27,425	(581,179)
Increase in deposits with non-financial institutions	25	-	92,276
Additions to deposits with non-financial institutions	25	(52,000)	-
Proceeds from maturities in deposits with non-financial institutions	25	957,858	-
Decrease/(increase) in deposits with financial institutions (excluding cash and cash equivalents)	31	(2,504)	3,249,635
Interest received		299,731	523,435
Dividend received		262,000	240,000
Net cash generated from operations		**1,421,559**	**3,435,713**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in borrowings	42	-	15,771
Interest paid	42	(650,000)	-
Dividends paid	44	(274,636)	(261,612)
Net cash used in financing activities		**(924,636)**	**(245,841)**
INCREASE IN CASH AND CASH EQUIVALENTS		**250,862**	**1,783,397**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**1,783,397**	**-**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**51**	**2,034,259**	**1,783,397**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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.

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 2016. Control is achieved when the Group is exposed, or has rights, to variable returns

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 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 and CIC Africa (Uganda) Limited, details of which are disclosed in note 18, made up to 31 December 2016.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

(iii) Associates

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations and goodwill (continued)

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 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.

(d) New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. A list of the standards and amendments is as below:

- IFRS 14 Regulatory Deferral Accounts
- IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 and IAS 41 Agriculture: Bearer Plants
- IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements 2012-2014 Cycle
    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
    - IAS 19 Employee Benefits
    - IFRS 7 Financial Instruments: Disclosures
    - IAS 34 Interim Financial Reporting
- IAS 1 Disclosure Initiative
- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual financial statements of the Company.

Standards issued but not yet effective

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

The Group does not expect the following new standards and amendments to have a significant impact on the entity when they become effective.

Effective for annual periods beginning on or after 1 January 2017:

- IAS 7 Statement of Cash Flows
- IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses
- IFRS 12 Statement of Cash Flows

Effective for annual periods beginning on or after 1 January 2018:

- IAS 40 Transfers of Investment Property
- IFRIC 22 Interpretation 22 Foreign Currency Transactions and Advance Consideration
- IAS 28 Investments in Associates and Joint Ventures
- IFRS 2 Classification and Measurement of Share-based Payment Transactions

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account 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 plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective(continued)

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. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to 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. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

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 the 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 2016, 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 statement of financial position 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 expects to continue measuring at fair value all financial assets currently held at fair value. Loans and receivables and held to maturity investments are held to collect contractual cash flows and are expected

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective(continued)

to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

The Group plans to defer the application of IFRS 9 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

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 upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably 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 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before 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 the 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 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. During 2016, 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. The Company intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

(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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition (continued)

Reinsurance premiums (continued)

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.

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. Commission income is recognised in profit and loss in the period in which they are 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, claims and expenses 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Benefits, claims and expenses recognition (continued)

Gross benefits and claims (continued)

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) 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.

(h) 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.

(i) 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 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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Reinsurance contracts held (continued)

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.

(j) 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.

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.

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 or 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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Taxation (continued)

Deferred income tax (continued)

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.

(k) 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 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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

Motor vehicles 4 years

Computers 4 years

Furniture, fittings and equipment 8 years

In 2015 and earlier, depreciation was computed on a reducing balance basis. There was a change in accounting estimate such that, in 2016, depreciation is calculated on the straight line basis. The effect of this change in the current period is the depreciation computed on a straight line basis of KShs 211 million charged to the profit or loss. The amount of the effect in future periods is not disclosed because estimating it is impracticable.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 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 determining the profit or loss for the year to which they relate.

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

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

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

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

(o) 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).

In 2015 and earlier, amortisation was computed on a reducing balance basis. There was a change in accounting estimate such that, in 2016, amotisation is calculated on the straight line basis. The effect of this change in the current period is the amortisation computed on a straight line basis of KShs 66 million charged to the profit or loss. The amount of the effect in future periods is not disclosed because estimating it is impracticable.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Intangible assets (continued)

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.

(p) 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.

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.

(q) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits

Defined contributions provident fund

The company 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.

Past service costs are recognised immediately in profit or loss, unless the changes to the provident fund are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

Statutory pension scheme

The company 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.

Bonus

An accrual is recognised for the amount expected to be paid under short-term cash bonus if the company 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 company 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 company 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 company's decision to terminate an employee's employment, the company 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits (continued)

Termination Benefits (continued)

- 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.

(s) 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 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 and Uganda.

(t) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Impairment of non-financial assets (continued)

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.

(u) 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 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.

(v) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Financial and insurance liabilities (continued)

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 DAC (deferred acquisition cost) – by using an existing liability adequacy test as laid out under the Kenyan Insurance Act. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant 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.

(w) Fair value measurement

The Group measures financial instruments such as available-for-sale at fair value at each reporting date.

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

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

The principal or the most advantageous market must be accessible 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:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Fair value measurement (continued)

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the 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 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.

(x) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Financial assets (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets (continued)

classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss for the year as net realised gains/losses on financial assets.

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

Impairment of financial assets

The 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. 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.

Financial assets carried at amortised cost- loans and receivables

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Financial assets (continued)

Financial assets carried at amortised cost- loans and receivables (continued)

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.

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.

Impairment of financial assets

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

De-recognition of financial asset (continued)

(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.

Financial liabilities

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:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

Financial liabilities (continued)

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.

The group holds funds for various retirement schemes where it guarantees the pension holders a minimum rate of return of 5%. See note 45 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.

(y) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) 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.

(aa) 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.

(ab) 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.

(ac) 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 2016: 30% (2015:30%) is incurred.

(ad) 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 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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
FOR THE YEAR ENDED 31 DECEMBER 2016

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S AND COMPANY'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 23.

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
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate. Lapse and surrender rates are based on the company's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

Estimates and assumptions (continued)

Valuation of non-life insurance contract liabilities (continued)

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.

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 has since paid the principal tax of KShs 24 million and is planning to apply for a waiver for the interest and penalties of KShs 10 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
FOR THE YEAR ENDED 31 DECEMBER 2016

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 inter-segment 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
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SEGMENT INFORMATION

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

	2016 KShs'000	2015 KShs'000
(a) Gross written premiums		
General insurance business		
Motor	4,584,403	4,345,206
Medical	1,383,683	1,123,005
Fire	760,005	673,703
Personal accident	238,165	201,417
Theft	449,493	432,423
Liability	243,447	127,628
Marine	130,511	121,305
Engineering	217,651	402,623
Miscellaneous accident	261,333	181,352
Others	298,961	389,334
Sub - total	8,567,652	7,997,996
Life assurance business		
Ordinary life	975,653	866,412
Group life	2,823,014	2,575,133
Sub - total	3,798,667	3,441,545
Total gross written premiums	12,366,319	11,439,541
(b) Gross earned premiums		
General insurance business		
Motor	4,501,448	4,309,829
Medical	994,304	2,363,007
Fire	741,112	678,197
Personal accident	205,516	222,510
Theft	436,346	433,915
Liability	215,193	157,520
Marine	136,818	123,866
Engineering	195,268	423,175
Miscellaneous accident	183,841	194,364
Others	336,523	290,516
Reinsurance share of increase in UPR (note 48)	68,976	-
Sub - total	8,015,345	9,196,899
Life assurance business		
Ordinary life	975,653	866,412
Group life	2,823,014	2,575,133
Sub - total	3,798,667	3,441,545
Total gross earned premiums	11,814,012	12,638,444

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SEGMENT INFORMATION (continued)

(b) Gross earned premiums (continued)

Reconciliation between Gross Written Premiums and Gross Earned Premiums

	2016 KShs '000	2015 KShs '000
Gross written premiums	12,366,319	11,439,541
Movement in Unearned Premium Reserve (Note 48)	(552,307)	1,198,903
Gross earned premiums	11,814,012	12,638,444

(c) Reinsurance premiums

	2016 KShs '000	2015 KShs '000
General insurance business		
Motor	59,586	59,915
Medical	29,333	185,024
Fire	333,815	319,365
Engineering	128,840	353,583
Personal accident	32,630	51,335
Theft	28,577	30,467
Miscellaneous accident	134,058	120,931
Marine	38,981	19,176
Liability	162,322	75,957
Others	28,707	21,362
Reinsurance share of increase in UPR (note 48)	68,976	-
Sub - total	1,045,825	1,237,115
Life assurance business		
Group life	731,879	656,736
Ordinary life	5,007	15,667
Sub - total	736,886	672,403
Total reinsurance premiums	1,782,711	1,909,518

(d) Investment income:

	2016 KShs '000	2015 KShs '000
General insurance business		
Interest from government securities held to maturity	152,460	140,070
Accrued Interest on corporate bonds	268	2,789
Amortisation/discount on government securities held to maturity	(15,351)	(1,673)
Bank deposit interest	229,964	295,163
Interest on staff loan receivables	19,501	15,787
Dividend income	16,707	9,138
Interest from deposits and commercial papers	13,288	-
Rental income from investment properties	141,864	125,802
Accrued interest on government securities classified as available for sale	30,809	27,459
Sub - total	589,510	614,535

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SEGMENT INFORMATION (continued)

(d) Investment income (continued)

	2016 KShs'000	2015 KShs'000
Life assurance business		
Interest from government securities held to maturity	50,313	25,260
Amortisation/discount on government securities held to maturity	(4,572)	1,504
Interest on corporate bonds	29,377	14,195
Accrued Interest on corporate bond	1,492	1,410
Bank deposit interest	16,528	105,228
Interest on staff loan receivables	20,744	17,641
Dividend income	8,232	4,706
Rental income from investment properties	39,230	23,055
Accrued interest on government securities classified as available for sale	151,377	135,496
Sub - total	312,721	328,495
Other business		
Interest from government securities held to maturity	15,865	4,487
Corporate bond interest receivable	5,742	5,845
Interest on deposits and commercial papers	25,362	31,934
Interest receivable on fixed deposits	312,126	487,014
Interest on staff loan receivables	12,550	24,417
Dividend income	575	105
Fair value on equity investment at fair value through profit or loss	27,220	40,981
Sub - total	399,440	594,783
Total investment income	1,301,671	1,537,813

(e) Claims and policy holders' benefits expenses

	2016	2015
General insurance business:		
- Gross	5,823,863	6,411,400
- Reinsurer's share	(1,279,658)	(1,019,212)
Sub - total	4,544,205	5,392,188
Life insurance business:		
- Gross	1,908,728	2,383,522
- Reinsurer's share	(435,401)	(243,669)
- Actuarial adjustment of policyholders liability	451,941	(248,343)
Sub - total	1,925,268	1,891,510
Total claims and policy holders' benefits expenses	6,469,473	7,283,698

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SEGMENT INFORMATION (continued)

Other disclosures:	General Insurance business KShs'000	Life Assurance Business KShs'000	Other business KShs'000	Total 2016 KShs'000
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	6,593,407	26,928,523
Less:				
: Related party balances	60,089	196,427	(153,216)	103,300
: Investment in subsidiaries	(1,700,000)	(800,000)	(864,751)	(3,364,751)
Reportable segment total assets - Net	10,342,369	7,749,263	5,575,440	23,667,072
Reportable segment total liabilities	7,993,870	6,422,126	5,033,064	19,449,060
Less: related party balances	(360,275)	(49,744)	410,019	-
Net	7,633,595	6,372,382	5,443,083	19,449,060
Interest income	433,002	269,831	411,619	1,114,452
Interest expense	-	-	650,000	650,000
Income tax charge/(credit)	(283)	(30,265)	103,779	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
31 December 2015				
Reportable segment profits after tax	656,076	184,139	296,389	1,136,604
Reportable segment total assets	10,798,053	7,458,397	6,663,785	24,920,235
Less:				
: Related party balances	(15,106)	(158,090)	79,307	(93,889)
: Investment in subsidiaries	(1,700,000)	(800,000)	(892,179)	(3,392,179)
Reportable segment total assets - Net	9,082,947	6,500,307	5,850,913	21,434,167
Reportable segment total liabilities	6,614,363	5,524,346	4,951,043	17,089,752
Less: related party balances	(332,883)	(5,299)	338,182	-
Net	6,281,480	5,519,047	5,289,225	17,089,752
Interest income	481,268	273,970	30,262	785,500
Interest expense	-	-	665,771	665,771
Income tax charge/(credit)	160,683	52,649	(10,850)	202,482
Fees and commission income	317,379	190,941	142,196	650,516
Depreciation of property and equipment	62,058	33,662	27,366	123,086
Amortisation of intangible assets	11,485	13,521	345	25,351
Property and equipment additions	106,487	9,735	59,074	175,296
Intangible assets additions	15,664	5,570	17,215	38,449

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

4. (a) Fees and commissions income

	2016 KShs'000	2015 KShs'000
General insurance business		
Engineering	43,187	108,914
Fire	114,691	112,675
Liability	43,727	20,383
Medical	-	37,005
Others	41,773	40,628
Sub total	243,378	319,605
Life assurance business		
Group life	182,970	164,184
Ordinary Life	10,825	26,757
Sub total	193,795	190,941
Other business		
Fund management fees	179,883	110,507
Administration fee	25,901	27,874
Wealth management fee	5,974	1,025
Other income	751	564
Sub total	212,509	139,970
Total	649,682	650,516

4. (b) Commissions expense

	2016 KShs'000	2015 KShs'000
General Insurance business		
Engineering	47,802	43,531
Fire	174,959	165,397
Liability	40,702	39,924
Medical	91,474	85,674
Motor	418,327	429,988
Others	288,384	177,796
Sub total	1,061,648	942,310
Life assurance business		
Group life	255,312	331,013
Ordinary Life	221,763	106,449
Sub total	477,075	437,462
Total	1,538,723	1,379,772

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. INVESTMENT INCOME

GROUP

	2016 KShs'000	2015 KShs'000
Interest from government securities held to maturity	230,500	280,053
Bank deposit interest	567,623	942,564
Corporate bond interest accrued and received	35,119	5,845
Corporate bond interest accrued but not yet received (note 16)	1,760	4,215
Interest on staff loan receivables	53,328	57,845
Dividend income	25,515	13,949
Rental income from investment properties	181,094	148,858
Interest income from deposits and commercial papers (note 25)	41,905	31,934
Discount on government securities classified as held to maturity (note 19)	(19,923)	(169)
Accrued interest income on government securities classified as available for sale	184,750	52,719
	1,301,671	1,537,813
Investment income earned on financial assets, analysed by category of asset is as follows:		
Held to maturity investments	778,200	1,264,442
Fair value through profit or loss Investments	36,879	-
Available for sale investments	184,750	52,719
Dividend income	25,515	13,949
Loans and receivables	95,233	57,845
Investment income earned on non-financial assets	181,094	148,858
Total investment income	1,301,671	1,537,813

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

	2016 KShs'000	2015 KShs'000
Interest from government securities	2,565	4,487
Interest on deposits and commercial paper (note 25 (b))	25,361	36,051
Interest on call and term deposits	297,167	482,897
	325,093	523,435

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

6. OTHER GAINS/(LOSSES)

GROUP

	2016 KShs'000	2015 KShs'000
Fair value gain on investment properties (note 14 (a))	626,126	795,812
Fair value loss on quoted equity investments at fair value through profit or loss (note 24)	(143,174)	(109,850)
Fair value loss on corporate bonds (note 16)	(13,235)	-
Interest on deposits and commercial paper (note 25)	-	22,394
Miscellaneous income*	39,668	14,576
	509,385	722,932

COMPANY

Fair value gains on investment properties (note 14 (b))	400,000	300,000
Miscellaneous income (sales of branded merchandise)	44,120	-
	444,120	300,000

*Miscellaneous income includes gain on disposal of property and equipment, 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

	2016 KShs '000	2015 KShs '000
Claims and policyholders benefits payable:		
Gross benefits and claims paid	(7,457,921)	(8,206,350)
Gross change in insurance contract liabilities	(726,611)	(340,229)
Claims ceded to reinsurers	1,715,059	1,262,881
Net benefits and claims	(6,469,473)	(7,283,698)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

8. OPERATING AND OTHER EXPENSES

(a) GROUP

	2016 KShs'000	2015 KShs'000
The following items have been charged in arriving at profit before taxation:		
Staff costs (note 8 (b))	1,430,032	1,124,994
Auditors' remuneration	10,320	9,500
Directors' fees	21,995	18,922
Directors' etmoluments	40,626	25,278
Depreciation of property and equipment (note 13 (a))	211,068	123,086
Amortisation of intangible assets (note 15 (a))	66,991	25,351
Impairment charge for doubtful premium receivables (note 27)	332,731	187,911
Premium tax	92,157	84,929
Staff welfare	388,035	341,541
Utilities	221,202	203,874
Software licence costs	92,327	58,511
Printing and stationery	159,733	142,993
Business advertising and promotion	424,979	289,820
Professional fees	182,205	170,260
Statutory returns	43,259	78,836
Premium collection cost	1,938	33,020
Professional subscriptions	52,005	23,763
Write off of Transcoop expenses	44,096	-
Pension capitalisation	30,000	-
Provision for imperial bank deposits (note 31)	-	31,601
Loss on disposal of property and equipment	-	169
Loss on scrapping of property and equipment	-	37,718
Loss on scrapping of intangible assets	-	14,385
Amortisation of bond expenses (note 42)	17,984	15,771
Settlement of VAT assessment	24,031	-
Membership fee access cards	25,206	19,241
Other expenses*	43,089	112,359
	3,956,009	3,173,833

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

(b) STAFF COSTS

	2016 KShs'000	2015 KShs'000
Staff costs include the following:		
- Salaries	1,333,890	1,010,443
- Defined contribution expense	68,178	54,778
- Termination benefits expense	3,919	30,353
- Leave pay	24,045	29,420
	1,430,032	1,124,994

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

8. OPERATING AND OTHER EXPENSES (continued)

(c) COMPANY

	2016 KShs'000	2015 KShs'000
Office rent	-	6,373
Branding costs	107,759	28,822
Staff welfare	181	1,540
Printing and stationery	-	882
Business advertising	-	788
Delegates allowances	-	1,833
Depreciation of property and equipment (note 13 (b))	14,810	11,262
Amortisation of intangible assets (note 15 (b))	5,073	-
Audit fee	1,500	1,200
AGM expenses	353	529
Professional fees	11,334	6,948
Amortisation of bond expenses	17,984	15,771
Written off Trans-coop expenses	44,096	-
Others	4,064	1,854
	207,154	77,802

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 South Sudanese 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:

	Index	Conversion Factor
31 December 2016	2068.36	5.8
31 December 2015	356.78	1.7
Average CPI 2016	1212.57	

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 comprehensive income items and the adjustment of index linked assets and liabilities.

	2016 KShs'000	2015 KShs'000
Loss on net monetary position	(297,479)	-

10. FINANCE COST – GROUP AND COMPANY

Interest expense on borrowings (note 42)	650,000	650,000

11. TAXATION

GROUP

(a) Statement of profit or loss		
Current tax charge on taxable income at 30% (2015:30%)	145,755	308,239
Prior year under/(over) provision	8,476	(8,137)
Deferred tax credit (note 23)	(228,028)	(97,620)
	(73,797)	202,482

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

11. TAXATION (continued)

	2016 KShs'000	2015 KShs'000
(b) Statement of financial position		
At 1 January	97,579	(46,322)
Current tax charge for the year	145,755	308,239
Prior year under/(over) provision	8,476	(8,137)
Tax charge on transfer to retained earnings	34,500	30,000
Paid during the year	(435,118)	(186,201)
At 31 December	(148,808)	97,579
(c) Reconciliation of taxation expense to expected tax based on accounting profit		
Profit before taxation	114,388	1,339,085
Tax calculated at a tax rate of 30% (2015:30%)	98,472	401,726
Prior year under/(over) provision	8,476	(8,137)
Tax effect of expenses not deductible for tax*	(251,980)	(314,494)
Tax effect of income not subject to tax**	51,235	86,987
Tax effect on capital gains	20,000	81,837
Prior year tax under-provision in deferred tax	-	(45,437)
Taxation charge for the year	(73,797)	202,482

*These expenses are valuation fees, fringe benefit tax, excess pension contributions, loss on valuation of shares etc.

**These incomes are dividend income, fair value gains on investment property and interest on infrastructure bond.

COMPANY

	2016 KShs'000	2015 KShs'000
(d) Statement of profit or loss and other comprehensive income		
Deferred tax credit (note 23(b))	(120,714)	(19,555)
(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	174,059	335,633
Tax calculated at a tax rate of 30%	52,217	100,690
Tax effect of income not subject to tax*	-	5,355
Tax effect of expenses not deductible for tax**	(192,931)	(162,000)
Tax effect on capital gains	20,000	81,837
Prior year tax under-provision in deferred tax	-	(45,437)
Taxation charge for the year	(120,714)	(19,555)

These incomes are dividend income and fair value gains on investment property

These expenses are donations and bond amortisation costs

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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	
	2016	2015	2016	2015
Profit attributable to ordinary shareholders' (KShs'000)	188,185	1,136,604	294,773	355,188
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)	0.07	0.43	0.11	0.14

There were no dilutive shares during the year (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

13. (a) PROPERTY AND EQUIPMENT – GROUP

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
Disposals	-	(16,228)	(91)	(15,658)	(31,977)
Revaluation gain	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	21,075	17,464	57,060	115,469	211,068
Eliminated 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
NET 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 2016

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

2015	Buildings KShs'000	Motor vehicles KShs'000	Computers KShs'000	Furniture fittings & equipment KShs'000	Total KShs'000
COST OR VALUATION					
At 1 January	500,000	72,494	213,641	835,470	1,621,605
Additions	94,871	20,066	12,575	47,784	175,296
Elimination on scrapping	-	-	(69,017)	(74,914)	(143,931)
Gross gain on revaluation	80,075	-	-	-	80,075
Elimination of depreciation charge on revaluation	(15,504)	-	-	-	(15,504)
Disposals	-	(24,090)	-	-	(24,090)
At 31 December	659,442	68,470	157,199	808,340	1,693,451
ACCUMULATED DEPRECIATION					
At 1 January	-	42,578	131,293	190,713	364,584
Charge for the year	15,504	9,685	21,441	76,456	123,086
Elimination on scrapping	-	-	(60,134)	(46,081)	(106,215)
Eliminated on disposals	-	(17,207)	-	-	(17,207)
Elimination on revaluation	(15,504)	-	-	-	(15,504)
At 31 December	-	35,056	92,600	221,088	348,744
NET CARRYING AMOUNT					
At 31 December	659,442	33,414	64,599	587,252	1,344,707

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

An independent valuation of the buildings in Kenya was carried out at 31 December 2016 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 2016 by registered valuers, Kenval Realtors Limited on open market value basis. The fair value of property and equipment are assessed every year.

No borrowing costs have been capitalised in the additions to property and equipment. None of the above assets was pledged as collateral for liabilities.

(b) PROPERTY AND EQUIPMENT – COMPANY

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	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

2015	Motor vehicles KShs'000	Computers KShs'000	Furniture fittings & Equipment KShs'000	Total KShs'000
COST OR VALUATION				
At 1 January 2015	-	-	-	-
Additions	16,907	79	56,133	73,119
At 31 December 2015	16,907	79	56,133	73,119
ACCUMULATED DEPRECIATION				
At 1 January 2015	-	-	-	-
Charge for the year	4,227	19	7,017	11,263
At 31 December 2015	4,227	19	7,017	11,263
CARRYING AMOUNT				
At 31 December 2015	12,680	60	49,116	61,856

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 2015	1,400,000	1,900,000	1,296,000	4,596,000
Additions	28,930	-	-	28,930
Fair value gains (note 6)	331,812	300,000	164,000	795,812
At 31 December 2015	1,760,742	2,200,000	1,460,000	5,420,742
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

(b) COMPANY

	2016 KShs'000	2015 KShs'000
KAMITI LAND		
At 1 January	2,200,000	1,900,000
Fair value gains (note 6)	400,000	300,000
At 31 December	2,600,000	2,200,000

All investment properties except for CIC Plaza in South Sudan, were re-valued by Crystal Valuers Limited, registered valuers at 31 December 2016 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 2016 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;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
FOR THE YEAR ENDED 31 DECEMBER 2016

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	181,094,000
	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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

15. INTANGIBLE ASSETS

(a) GROUP

	2016 KShs'000	2015 KShs'000
COST		
At 1 January	177,553	265,134
Additions	41,776	38,449
Elimination on scrapping	-	(126,030)
At 31 December	219,329	177,553
ACCUMULATED AMORTISATION		
At 1 January	84,092	170,387
Charge for the year	66,991	25,351
Elimination on scrapping	-	(111,646)
At 31 December	151,083	84,092
CARRYING AMOUNT		
At 31 December	68,246	93,461

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.

(b) COMPANY

	2016 KShs'000	2015 KShs'000
COST		
At 1 January	-	-
Additions	25,320	-
At 31 December	25,320	-
ACCUMULATED AMORTISATION		
At 1 January	-	-
Charge for the year	5,073	-
At 31 December	5,073	-
CARRYING AMOUNT		
At 31 December	20,247	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

16. DEFERRED TAXATION

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2015: 30%).

(a) GROUP

2015	**At 1 January KShs'000**	**Recognized in Profit or loss KShs'000**	**At 31 December KShs'000**
Arising from:			
Accelerated depreciation for tax purposes	4,314	7,027	11,341
Provision and accruals	18,941	104,161	123,102
Unutilised tax losses	6,800	97,900	104,700
Deferred tax on capital gains	-	(81,837)	(81,837)
Deferred tax on life fund surplus	(416,001)	(29,631)	(445,632)
	(385,946)	97,620	(288,326)
Deferred tax liability	(416,001)	(111,468)	(527,469)
Deferred tax asset	30,055	209,088	239,143
2016			
Arising from:			
Accelerated depreciation for tax purposes	11,341	3,511	14,852
Provision and accruals	123,102	104,407	227,509
Unutilised tax losses	104,700	140,714	245,414
Deferred tax on capital gains	(81,837)	(20,000)	(101,837)
Deferred tax on life fund surplus	(445,632)	(604)	(446,236)
	(288,326)	228,028	(60,298)
Deferred tax asset	239,143	248,632	487,775
Deferred tax liability	(527,469)	(20,604)	(548,073)

(b) COMPANY

2015			
Arising from:			
Unutilised tax losses	6,800	101,392	108,192
Deferred tax on capital gains	-	(81,837)	(81,837)
	6,800	19,555	26,355
Deferred tax asset	6,800	101,392	108,192
Deferred tax liability	-	(81,837)	(81,837)
2016			
Arising from:			
Unutilised tax losses	108,192	140,714	248,906
Deferred tax on capital gains	(81,837)	(20,000)	(101,837)
	26,355	120,714	147,069
Deferred tax asset	108,192	140,714	248,906
Deferred tax liability	(81,837)	(20,000)	(101,837)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

17. 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.

	2016 KShs'000	2015 KShs'000
Kenya Electricity Generating Group Limited	14,955	19,956
UAP Insurance Kenya	32,966	32,961
CIC Insurance Group Limited	16,290	16,279
Real People Kenya	22,323	22,307
Centum Investment Company Limited	79,490	78,566
Chase Bank Limited	157,765	172,325
Housing Finance Company Limited	74,193	74,036
Family Bank Limited	20,504	20,370
Jamii Bora Bank Limited	52,514	52,448
ABC Bank Limited	121,969	122,325
Consolidated Bank Limited	21,155	-
	614,124	611,573
The movement in the corporate bonds is as follows:		
At 1 January	611,573	252,299
Additions	20,000	366,839
Maturities	(5,974)	(11,780)
Accrued interest on corporate bonds	1,760	4,215
*Fair value loss on chase Bank Limited Bond	(13,235)	-
At 31 December	614,124	611,573

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

18. INVESTMENT IN ASSOCIATE

The investment in Takaful Insurance of Africa Limited represents 22% (2015 – 22%) of the issued ordinary share capital while the investment in CIC Africa Co-operatives insurance Limited represents 49% (2015 – 49%) of the issued ordinary share capital. The associates are limited liability companies incorporated and domiciled in Kenya and Malawi respectively. Their principal activity is transaction of general insurance and life business and their financial year end is 31 December. The companies are not listed on any stock exchange.

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
At 1 January	129,166	117,554	138,400	140,320
Dilution of shares in Takaful Insurance of Africa Limited	-	(1,920)	-	(1,920)
Share of profit/(loss) after taxation for both Takaful and CIC Africa Co-operatives	8,712	(163)	-	-
Investment in CIC Africa Co-operatives Insurance Limited	44,732	13,695	44,732	-
At 31 December	182,610	129,166	183,132	138,400

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

	2016 KShs'000	2015 KShs'000
Total assets	1,497,469	1,497,370
Total liabilities	974,861	926,029
Equity	522,608	571,341
Cash and cash equivalents	167,605	292,544
Net earned premiums	658,590	609,475
Investment and other income	196,126	137,605
Net claims and policy holder benefits payable	(153,412)	(272,363)
Operating and commissions expense	(606,059)	(441,235)
Profit for the year	95,245	33,482
Group's share of profit /(loss) of associate	8,712	(163)
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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

19. INVESTMENT IN SUBSIDIARIES

COMPANY	2016 KShs'000	2015 KShs'000
CIC Asset Management Limited: 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 USD 5 each at cost	319,962	319,962
CIC Africa (Uganda) Limited 473,000 (2015: 528,000) ordinary shares of USD 5 each at cost	233,792	261,217
	3,364,754	3,392,179

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 insurance business.	69%
CIC Africa (Uganda) Limited	233,792	Uganda	Underwriting general and life insurance business.	100%

20. GOVERNMENT SECURITIES CLASSIFIED AS HELD TO MATURITY

(a) GROUP

	2016 KShs '000	2015 KShs '000
At 1 January	891,888	709,002
Additions	58,774	183,055
Discount (note 5)	(19,923)	(169)
At 31 December	930,739	891,888
Maturity analysis		
Within 1 year	141,063	-
In 1-5 years	221,480	177,099
In over 5 years	568,196	714,789
	930,739	891,888

Treasury bonds amounting to KShs 931 million (2015: KShs 892 million) are held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Kenyan Insurance Act.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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. No collective or specific impairment losses are recognised on the loans and receivables.

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

	2016 KShs '000	2015 KShs '000
(i) GROUP		
At 1 January	482,440	446,226
Loans advanced	100,168	164,688
Loan repayments	(107,341)	(128,474)
At 31 December	475,267	482,440
Maturity profile:		
Within 1 year	4,555	379
In 1-5 years	45,799	11,113
In over 5 years	424,913	470,948
	475,267	482,440
(ii) COMPANY		
At 1 January	96,415	105,589
Loans advanced	4,824	24,786
Loan repayments	(14,956)	(33,960)
At 31 December	86,283	96,415
Maturity profile:		
Within 1 year	17,477	5,074
In 1-5 years	68,806	91,341
In over 5 years	86,283	96,415

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

21. LOANS RECEIVABLES (continued)

(b) OTHER LOANS

	2016 KShs '000	2015 KShs '000
(i) GROUP		
Staff loans	371,310	414,612
Policy loans	131,161	89,867
	502,471	504,479
Movement:		
At 1 January	504,479	425,735
Loans advanced	107,811	169,020
Loan repayments	(109,819)	(90,276)
At 31 December	502,471	504,479
Maturity profile:		
Within 1 year	19,976	1,881
In 1-5 years	282,107	184,538
In over 5 years	200,388	318,060
	502,471	504,479
(ii) COMPANY		
At 1 January	51,479	25,050
Loans advanced	7,417	48,246
Loan repayments	(14,720)	(21,817)
At 31 December	44,176	51,479
Maturity profile:		
Within 1 year	2,146	-
In 1-5 years	13,025	-
In over 5 years	29,005	51,479
At 31 December	44,176	51,479

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

22. GOVERNMENT SECURITIES CLASSIFIED AS AVAILABLE FOR SALE

23. EQUITY INVESTMENTS CLASSIFIED AS AVAILABLE FOR SALE

GROUP

Unquoted investment:		
Shares held in Co-op Holding Co-operative Society Limited	16,863	19,125
The movement in available-for-sale investments is as follows:		
At 1 January	19,125	17,667
Refund of shares invested	-	(673)
Fair value (loss)/gain	(2,262)	2,131
At 31 December	16,863	19,125

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 on 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 9.50 which approximates the fair value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 KShs'000	2015 KShs'000
At 1 January	1,056,654	359,952
Additions	12,355	822,925
Disposal	(15,183)	(16,373)
Fair value loss (note 6)	(143,174)	(109,850)
At 31 December	910,652	1,056,654

At year end, these are valued at the weighted average price at the Nairobi Securities Exchange Limited 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

	2016 KShs'000	2015 KShs'000
DEPOSITS		
Nawiri Co-operative Society Limited	21,804	23,607
CIC Sacco Society Limited	15,898	23,604
Investment in collective investment scheme (CIC Unit Trust)	1,231,266	1,503,560
KCB Bank Limited	293,612	-
COMMERCIAL PAPERS:		
Nakumatt Holdings Limited	96,858	83,278
TPS Serena Limited	-	52,243
Athi River Mining Limited	-	509,115
Platinum Credit Limited	8,504	-
	1,667,942	2,195,407
Maturity analysis		
Maturing within three months	1,319,469	1,690,766
Maturing after 3 months	348,473	504,641
Total deposits and commercial papers	1,667,942	2,195,407
Movement:		
At 1 January	2,195,407	2,265,584
Additions	602,971	154,590
Maturities	(1,172,341)	(279,095)
Interest on deposits and commercial papers (note 5)	41,905	54,328
At 31 December	1,667,942	2,195,407

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

25. DEPOSITS AND COMMERCIAL PAPERS (continued)

(b) COMPANY

	2016 KShs'000	2015 KShs'000
DEPOSITS		
Investment in collective investment scheme (CIC Unit Trust)	30,459	577,737
COMMERCIAL PAPERS:		
Athi River Mining	-	342,908
TPS Serena Limited	-	52,243
Nakumatt holdings Limited	61,933	-
	92,392	972,888
Maturity analysis		
Maturing within three months	92,392	577,737
Maturing after 3 months	-	395,151
Total deposits and commercial papers	92,392	972,888
Movement:		
At 1 January	972,888	1,065,164
Additions	52,000	52,243
Maturities	(957,858)	(180,570)
Interest on deposits and commercial papers (note 5)	25,362	36,051
At 31 December	92,392	972,888

26. DEFERRED ACQUISITION COSTS

	2016	2015
At 1 January	416,220	404,050
New acquisition costs	70,377	11,286
Amortization charge	(13,564)	884
At 31 December	473,033	416,220

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

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.

	2016 KShs'000	2015 KShs'000
1 January	1,372,319	1,464,532
Gross written premiums	12,366,319	11,439,541
Provision for doubtful premiums*	(726,917)	(394,186)
Payments received	(11,590,528)	(11,137,568)
31 December	1,421,193	1,372,319
Classified as:		
Agents	538,675	394,507
Brokers	299,177	323,548
Direct	583,341	654,264
Total	1,421,193	1,372,319

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

	2016 KShs'000	2015 KShs'000
At 1 January	394,186	268,394
Charge for the year (note 8)	332,731	125,792
At 31 December	726,917	394,186

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

27. (b) RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

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

	2016 KShs'000	2015 KShs'000
1 January	622,989	203,563
Increase in reinsurance receivables	321,183	419,426
31 December	944,172	622,989

(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.

	2016 KShs'000	2015 KShs'000
1 January	25,631	68,326
Increase/(Decrease) in reinsurance payables	90,944	(42,695)
31 December	116,575	25,631

28. REINSURERS' SHARE OF LIABILITIES AND RESERVES

Reinsurers' share of:		
- General insurance contract liabilities	1,051,120	479,097
- Life assurance contract liabilities	51,173	40,658
Total (note 49)	1,102,293	519,755
- Reinsurers share of actuarial value of policyholder reserve (note 46)	435,401	273,462
- Unearned premium and unexpired risks (note 48)	503,195	572,171
Total	2,040,889	1,365,388

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

29. OTHER RECEIVABLES

(a) GROUP	2016 KShs'000	2015 KShs'000
Staff advances	24,335	24,672
Other receivables	53,235	93,224
Receivable from custodian	17,746	-
Rent receivable	8,334	45,516
Medical fund administration scheme	3,382	15,474
Motor vehicle benefits recoverable	63,329	83,976
Available for sale bond interest receivable	59,622	55,196
Prepayments	14,281	53,830
	244,264	371,888

(b) COMPANY

Other receivables	-	13,225
Prepayment	-	18,659
Interest receivable on government securities classified as available for sale	324	303
	324	32,187

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 shareholders, and partly due to common directorships. There were no provisions made or amounts written off on related party balances during the year (2015: nil). The amounts due from related parties are non- interest bearing and the balances are not secured.

GROUP	2016 KShs'000	2015 KShs'000
Due from related company:		
Co-operative Insurance Society Limited	16,718	16,557
CIC Foundation	11,630	-
CIC Africa Co-operatives Insurance Limited	45,579	53,657
Transcoop Insurance Limited	-	23,675
CIC Unit Trusts	29,373	-
	103,300	93,889

(a) Transaction with related parties during the year

The following transactions were carried out with related parties during the year:

Net earned premium	132,696	132,696
Net claims incurred	67,000	90,214
Interest earned on loans to related party	43,519	-
Interest earned on bank deposits	461,864	47,391

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

30. RELATED PARTIES (continued)

(b) **Key management personnel remuneration**

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

	2016 KShs'000	2015 KShs'000
Short-term employment benefits:		
Directors		
Directors 'emoluments – fees	35,681	31,048
Others (Travel and accommodation)	38,291	22,234
Key management staff:		
Salaries	114,672	95,579
Leave allowance	1,940	1,757
Car allowance	12,603	14,050
NSSF	467	50
Pension Contribution	7,992	9,080
	211,646	173,798
COMPANY		
Due from related company:		
Co-operative Insurance Society Limited	16,718	16,557
CIC Asset Management Limited	56,392	51,115
CIC General Insurance Limited	360,275	316,180
Transcoop Insurance Limited	-	24,930
CIC Africa (Uganda) Limited	299,538	98,031
CIC Africa Co-operatives Insurance Limited	45,579	53,657
CIC Africa Insurance (SS) Limited	9,726	42,540
CIC Foundation	11,630	-
	799,858	603,010
Due to related company:		
CIC Life Assurance Limited	196,427	141,387

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

(a) Transaction with related parties during the year

	2016 KShs'000	2015 KShs'000
The following transactions were carried out with related parties during the year:		
Interest earned on call and term deposits	237,748	409,775
Interest earned on loans to related party	43,519	-
Interest earned on collective investment scheme	2,326	69,865

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

30. RELATED PARTIES (continued)

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

The Company did not advance loans to its directors in the year ended 31 December 2016 and 31 December 2015.

(c) Key management personnel remuneration

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

	2016 KShs'000	2015 KShs'000
Directors 'emoluments – fees	18,000	18,310

31. DEPOSITS WITH FINANCIAL INSTITUTIONS

(a) GROUP

	2016	2015
The Co-operative Bank of Kenya Limited	3,006,666	3,036,614
Housing Finance Company of Kenya Limited	282,139	435,900
Bank of Africa Limited	-	27,908
Consolidated Bank of Kenya Limited	-	124,799
KCB Bank Limited	108,189	117,506
Development Bank of Kenya Limited	15,325	204,728
National Bank of Kenya Limited	-	111,217
Chase Bank Limited	-	286,516
ABC Bank Kenya Limited	-	79,108
Transnational Bank Limited	29,112	94,305
Family Bank Limited	-	181,669
Jamii Bora Bank Limited	-	29,176
Commercial Bank of Africa Limited	15,173	53,609
Barclays Bank of Uganda Limited	151,589	59,285
Imperial Bank of Kenya Limited	31,601	31,601
Diamond Trust Bank	50,558	-
Spire Bank Limited	81,003	-
Kenya Women Finance Trust Limited	8,031	-
National Industrial and Credit Bank Limited	2,504	-
Sidian Bank Limited	30,206	-
	3,812,096	4,873,941
Provision for impairment for Imperial Bank of Kenya Limited deposit	(31,601)	(31,601)
Net deposits	3,780,495	4,842,340
Maturity analysis:		
Maturing within three months	3,767,989	4,043,189
Maturing after 3 months	12,506	799,151
	3,780,495	4,842,340

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

31. DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

In the previous year, 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. This deposit has been fully provided for in the books of account.

(b) COMPANY

	2016 KShs'000	2015 KShs'000
The Co-operative Bank of Kenya Limited	1,942,114	1,790,170
Housing Finance Group	87,312	-
National Industrial And Credit Bank Limited	2,504	-
	2,031,930	1,790,170
Maturity analysis:		
Maturing within 3 months	2,029,426	1,790,170
Maturing after 3 months	2,504	-
	2,031,930	1,790,170

32. SHARE CAPITAL

	2016 Number of shares KShs'000	2016 Share capital KShs'000	2015 Number of shares KShs'000	2015 Share capital KShs'000
Authorised ordinary shares of KShs 1 each (2015: 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

	2016 KShs'000	2015 KShs'000
At 1 January and at 31 December	162,179	162,179

34. FUNDS AWAITING ALLOTMENT

As at 31 December 2015, the funds awaiting allotment represented payment for shares which had not been allocated in CIC Africa Grop Limited. As at 31 December 2016, the amount had been refunded after the directors resolved to wind up the company which had been incorporated in Mauritius.

35. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

36. 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.

37. REVALUATION SURPLUS

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

38. 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.

39. FAIR VALUE RESERVE

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

40. 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, 2015.

41. NON-CONTROLLING INTEREST

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

	2016	2015
Proportion of ownership held by NCI	31%	31%
Proportion of voting rights held by NCI	31%	31%
Accumulated balances of NCI (KShs '000)	138,958	164,383
Profit/(loss) accumulated to NCI (KShs '000)	70,125	90,458
Dividends paid to NCI in the year (KShs '000)	-	-
Total revenue	593,863	391,089
Profit for the year	226,210	291,799
Other comprehensive income	(270,303)	(218,090)
Total comprehensive income	(44,093)	73,709
Total assets	543,740	547,682
Total liabilities	67,947	48,229

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

42. BORROWINGS- CORPORATE BOND

	2016 KShs'000	2015 KShs'000
At start of year	5,068,037	5,052,266
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)	17,984	15,771
At end of year	5,086,021	5,068,037

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.

43. OTHER PAYABLES

	2016 KShs'000	2015 KShs'000
(a) GROUP		
Sundry payables	258,276	160,828
Payroll creditors	52,502	18,284
Advance premiums	192,851	515,725
Leave pay provision	27,633	18,597
Rent deposits	30,113	30,730
Commissions payable	55,073	31,408
Finance lease obligation	34,026	7,402
	650,474	782,974
(b) COMPANY		
Sundry payables	16,536	19,788
Lease rentals payable	4,807	4,799
Provision for auditors remuneration	1,375	650
Withholding tax payable	945	9,375
	23,663	34,612

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

44. DIVIDENDS

In respect of the current year, the directors propose a first and final dividend of KShs 274,635,699 (2015: KShs 274,635,699) which represents 10.5% (2015 – 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.

	2016 KShs'000	2015 KShs'000
At 1 January	34,607	34,662
Declared during the year	274,636	261,557
Paid during the year	(271,144)	(252,179)
Withholding tax paid	(3,492)	(9,433)
At 31 December	34,607	34,607

45. 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 fair value through profit or loss and is included in the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the asset and liability in the statement of financial position and are not recognised as gross premium and investments income in the statement of profit or loss 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.

	2016 KShs'000	2015 KShs'000
Analysis of movement in deposit administration contract liabilities:		
Pension contributions	565,718	807,047
Investment income	55,108	4,153
Total income for the year	620,826	811,200
Policy benefits (net)	(81,187)	(47,328)
Administrative expenses	(16,062)	(7,775)
Total outflow	(97,249)	(55,103)
Net movement for the year	523,577	756,097
Balance at beginning of the year	756,097	-
Balance at end of year	1,279,674	756,097

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

46. 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 (2015: KShs 2,962,122). A transfer of KShs. 115,000,000 (2015: 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 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	601,8739
As at 31 December 2016	1,495,952	1,632,642	3,128,594	435,401	3,563,995
As at 1 January 2015	909,303	2,027,700	2,937,003	-	2,937,003-
Actuarial adjustments	435,681	(684,024)	(248,343)	273,462	25,11
As at 31 December 2015	1,344,984	1,343,676	2,688,660	273,462	2,962,122

47. UNIT LINKED CONTRACTS

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

	2016 KShs'000	2015 KShs'000
At 1 January	403,049	345,601
Contributions received	74,887	57,448
Surrenders	(19,400)	
At 31 December	458,536	403,049

48. PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS

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

	Gross KShs '000	Reinsurance KShs '000	Net KShs '000
2016			
At 1 January	3,407,235	(572,171)	2,835,064
Increase in the year (net)	552,307	68,976	621,283
At 31 December	3,959,542	(503,195)	3,456,347
2015			
At 1 January	4,396,959	(362,992)	4,033,967
Decrease in the year (net)	(989,724)	(209,179)	(1,198,803)
At 31 December	3,407,235	(572,171)	2,835,064

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

49. 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 2015 and 2016 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

49. INSURANCE CONTRACTS LIABILITIES (continued)

2015

Accident Year	2011 KShs'000'	2012 KShs'000'	2013 KShs'000'	2014 KShs'000'	2015 KShs'000'	Total KShs'000'
Estimated ultimate claims cost at end of accident year	1,877,304	3,034,989	3,886,436	4,410,961	4,538,520	17,748,210
one year later	2,161,065	3,409,469	4,311,453	4,738,575	-	14,620,562
two years later	2,179,203	3,425,598	4,347,712	-	-	9,952,513
three years later	2,182,833	3,448,840	-	-	-	5,631,673
four years later	2,188,034	-	-	-	-	2,188,034
Current estimate of cumulative claims	2,188,034	3,448,840	4,347,712	4,738,575	4,538,520	19,261,681
Less: cumulative payments to date	(2,116,803)	(3,293,032)	(4,053,949)	(4,300,390)	(3,041,972)	(16,806,146)
	71,231	155,808	293,763	438,185	1,496,548	2,455,535
Liability incurred but not reported claims	-	-	-	-	-	569,417
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	3,024,952

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

49. INSURANCE CONTRACTS LIABILITIES (continued)

GROUP	2016 KShs'000	2015 KShs'000
Claims reported and claims handling expenses:		
At 1 January		
- General insurance	2,209,174	1,994,158
- Life assurance	296,023	396,655
	2,505,197	2,390,813
Claims incurred in the year (note 49)	6,469,473	7,532,041
Payments for claims and claims handling expenses (note 49)	(6,325,400)	(7,417,657)
At 31 December	2,649,270	2,505,197
Comprising:		
- General insurance	2,438,392	2,209,174
- Life assurance	210,878	296,023
At 31 December	2,649,270	2,505,197
Comprising:		
At 31 December:		
Gross amounts	3,751,563	3,024,952
Reinsurers share (note 28)	(1,102,293)	(519,755)
	2,649,270	2,505,197

Movement in insurance contract liabilities is shown in note 49.

50. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

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
FOR THE YEAR ENDED 31 DECEMBER 2016

50. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

2015

	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
Notified claims	2,022,572	(180,581)	1,841,991
Incurred but not reported	662,151	(113,329)	548,822
At 1 January	2,684,723	(293,910)	2,390,813
Payments for claims and claims handling expenses in the year	(8,454,693)	1,037,036	(7,417,657)
Claims incurred in the year	8,794,922	(1,262,881)	7,532,041
At 31 December	3,024,952	(519,755)	2,505,197
Notified claims	2,455,535	(400,289)	2,055,246
Incurred but not reported	569,417	(119,466)	449,951
At 31 December	3,024,952	(519,755)	2,505,197

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

51. NOTES TO THE STATEMENT OF CASH FLOWS

GROUP

Reconciliation of profit before taxation to cash generated from operations:

	Notes	2016 KShs'000	2015 KShs'000
Profit before taxation		114,388	1,339,086
Adjustments for:			
Interest income	5	(1,112,692)	(1,316,611)
Interest expense	10	650,000	-
Dividend income	5	(25,515)	(13,949)
Discount on government securities held to maturity	5	19,923	169
Depreciation on property and equipment	13	211,068	123,086
Amortisation of intangible assets	15	66,991	25,351
Loss on scrapping of property and equipment	13	-	37,716
Loss on scrapping of Intangible assets	15	-	14,384
Fair value gains on revaluation on investment property	14	(626,126)	(795,812)
Share of (profit)/loss of associate	17	(8,712)	163
(Gain)/loss on disposal of property and equipment		(5,507)	169
Fair value loss on corporate bond	16	13,235	-
Accrued interest on corporate bond	16	(1,760)	-
Fair value loss on equity investment at fair value through profit or loss	24	143,174	109,850
Increase/(decrease) in provision for unearned premium	48	552,307	(989,724)
Increase in insurance contracts liabilities	49	726,611	340,229
Write off of Transco-op expenses		44,096	-
Amortisation of bond expenses	42	17,984	-
Working capital changes;			
(Increase)/Decrease in receivables arising out of direct insurance arrangements		(48,874)	92,213
Increase in receivables arising out of reinsurance arrangements		(321,183)	(419,426)
Increase in reinsurance share of liabilities and reserves		(675,501)	(726,174)
Decrease in other receivables		127,624	74,152
(Decrease)/increase in other payables		(132,500)	236,789
Increase in actuarial value of policyholders liabilities		601,873	76,846
Increase/(decrease) in payables arising from reinsurance arrangement and other insurance bodies		90,944	(38,195)
Increase in deposits administration contracts		523,577	756,097
Increase in unit linked contracts		55,487	-
Increase in deferred acquisition costs	26	(56,813)	(12,170)
(Increase)/decrease in related party balances		(53,507)	178,559
Cash generated from/(used in) operations		890,592	(907,202)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

51. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

	NOTES	2016	2015
Cash and cash equivalents comprises of:		KShs'000	KShs'000
GROUP			
Bank and cash balances		611,463	524,704
Deposits with banks maturing within 3 months	31	3,767,989	4,043,189
		4,379,452	4,567,893
COMPANY			
Bank and cash balances		4,833	(6,773)
Deposits with banks maturing within 3 months	31	2,029,426	1,790,170
		2,034,259	1,783,397

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	2016 %	2015 %
Government securities	Fixed	11	12
Corporate bonds	Fixed	11	12
Mortgage loans	Fixed	6	6
Policy loans	Fixed	8	8
Deposits with financial institutions	Fixed	9	11
Other deposits and commercial papers	Variable	9	10
Cash and cash equivalents	Fixed	9	11

53. CONTINGENCIES 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
FOR THE YEAR ENDED 31 DECEMBER 2016

53. CONTINGENCIES AND COMMITMENTS (continued)

b. Commitments, operating leases and bank guarantees

Commitments

During the year the group entered into a service agreement with KCB Bank Kenya Limited to take over the staff loans held by the company both existing and new loans this includes the mortgage and car loans. The group is to open an account and hold a lien deposit which is equal to the amount of dispatched, the Lien deposit would earn an interest of 2.5% per annum. KCB Bank Kenya Limited is then to administer the Scheme at administration fee of 3.5% per annum on reducing balance basis. To be recovered from monthly repayments of loans interest which is issued at 6% on reducing balance.

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

	2016 KShs'000	2015 KShs'000
Committed but not contracted for	404,423	220,961

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:

	2016 KShs '000	2015 KShs '000
Within one year	90,915	82,121
After one year but not more than two years	187,741	110,491
After two year but not more than five years	89,329	150,983
Total operating lease rentals receivable	367,985	343,595

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:

	2016 KShs'000	2015 KShs'000
Within one year	62,106	96,374
After one year but not more than two years	187,547	434,390
After two year but not more than five years	28,819	109,270
	278,472	640,034

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

53. CONTIGENCIES AND COMMITMENTS (continued)

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

Bank Guarantees

	2016 KShs '000	2015 KShs '000
Bank guarantees	131,870	85,954

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

54. RISK MANAGEMENT FRAMEWORK (continued)

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 Company has met all of these requirements throughout the financial year.

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

The 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

54. RISK MANAGEMENT FRAMEWORK (continued)

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

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.

	2016 KShs'000	2015 KShs'000
Share capital	2,615,578	2,615,578
Share premium	162,179	162,179
Funds awaiting allotment	-	512
Statutory reserve	1,034,836	1,039,810
Revaluation surplus	109,368	138,877
Contingency reserve	2,150	-
Translation reserve	(378,372)	(195,091)
Fair value reserve	(217,888)	(205,921)
Retained earnings	4,012,652	4,110,156
Equity attributable the owners of the parent	7,340,503	7,666,100
Non-controlling interest	138,960	164,383
Total equity	7,479,463	7,830,483

The Group had external borrowings at 31 December 2016 of KShs 5,086,021 (2015 - 5,068,037), and had capital gearing ratio of 201% in 2016 (2015 - 194%).

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

54. RISK MANAGEMENT FRAMEWORK (continued)

d. Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the 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 principle 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
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

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 Company is exposed to are as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (CONTINUED)

55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

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

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For contracts with DPF, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party. For contracts without DPF, the Company charges for death and disability risks on a yearly basis. Under these contracts the 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 2016

			Gross		Reinsurance*	
	Insurance contract liabilities With DPF	Investment contract liabilities	Insurance contract liabilities	Total Insurance and investment contract liabilities	insurance liabilities	Net liabilities
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	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 49)	698,004	-	2,865,991	3,563,995	435,401	3,128,594
Unit linked (note 47)	-	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.*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

31 December 2015

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF	Investment contract liabilities	insurance liabilities	Total Insurance contract and investment liabilities	insurance liabilities	Net liabilities
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Group life	-	-	155,494	155,494	45,794	109,700
Group credit	-	-	1,469,660	1,469,660	227,668	1,241,992
Endowment	722,168	-	-	722,168	-	722,168
Term assurance	-	-	218,581	218,581	-	218,581
Annuities	-	-	396,219	396,219	-	396,219
Total insurance liabilities (Note 49)	722,168	-	2,239,954	2,962,122	273,462	2,688,660
Unit linked (note 47)	-	403,049	-	403,049	-	403,049
Total	722,168	403,049	2,239,954	3,365,171	273,462	3,091,709

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

Key Assumptions (continued)

• **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.

• **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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

Key Assumptions (continued)

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:

Insurance contracts	Mortality and Morbidity rates 2016	Mortality and Morbidity rates 2015	Lapse and surrender rates 2016 YR1 LAPSE	Lapse and surrender rates 2016 YR2 LAPSE	Lapse and surrender rates 2016 YR3 LAPSE	Lapse and surrender rates 2015	Discount rates 2016	Discount rates 2015
Annuities*	KE 2007 – 2010 Tables for Assured Lives	KE 2001 – 2003 Tables for Assured Lives	15%	10%	5%	0%	10%	6.5%
Life insurance*	KE 2007 – 2010 Tables for Assured Lives	KE 2001 – 2003 Tables for Assured Lives	15%	10%	5%	0%	10%	4%

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.*

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 Dec 2016 KShs '000	% change	31 Dec 2015 KShs '000	% change
Main basis	2,990,408	-	3,083,791	-
Expenses plus 10%	3,005,359	0.50%	3,337,226	5.54%
Mortality and other claims experience plus 10%	2,990,646	0.01%	3,121,066	2.68%
Interest rate less 1%	3,068,010	2.60%	3,136,872	0.71%
Expense inflation plus 1%	2,997,870	0.25%	3,212,013	2.80%
Withdrawals plus 10%	2,989,605	-0.03%	3,083,415	-0.01%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.1 Insurance risk (continued)

*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 Company. 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.

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 2016 and 2015.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.1 Insurance risk (continued)

2. Non-life insurance contracts (continued)

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

	31 December 2016			31 December 2015		
	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	95,061	(14,086)	80,795	105,918	(62,463)	43,455
Fire	95,826	(43,376)	52,450	139,104	(30,616)	108,488
Liability	758,592	(133,544)	625,048	286,724	(98,605)	188,119
Marine	56,235	(22,476)	33,789	10,764	(72,425)	(61,661)
Motor	2,092,530	(635,628)	1,456,902	1,529,682	(43,422)	1, 486,260
Medical	91,849	(77,884)	13,965	348,407	-	348,407
Others	299,419	(124,126)	175,293	269,994	(171,566)	98,428
Total	3,489,512	(1,051,120)	2,438,392	2,688,271	(479, 097)	2,209,174

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 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.2 Financial risks

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
FOR THE YEAR ENDED 31 DECEMBER 2016

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 Company'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:

	2016 KShs	2015 KShs
Corporate bonds at fair value through profit or loss	614,124	611,573
Government securities classified as held to maturity	930,739	891,888
Loans receivable	977,738	986,919
Government securities classified as available for sale	3,981,758	2,321,713
Deposits and commercial paper	1,667,942	2,195,407
Receivables arising out of direct insurance arrangements	1,421,193	1,372,319
Receivables arising out of reinsurance arrangements	944,172	622,989
Other receivables	244,264	371,888
Due from related parties	103,300	93,889
Deposits with financial institutions	3,780,495	4,842,340
Cash and bank balances	611,463	524,704
Total	15,277,188	14,835,629

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Past due but not impaired KShs'000	Impaired KShs'000
At 31 December 2015		
Receivables arising out of reinsurance arrangements	71,542	4,853
Receivables arising out of direct insurance arrangements	155,140	-
Loans and receivable	56,050	
Fixed deposits	-	31,601
	282,732	36,454
At 31 December 2016		
Receivables arising out of reinsurance arrangements	129,705	-
Receivables arising out of direct insurance arrangements	148,093	23,891
Loans and receivable	39,854	-
	317,652	23,891

Short-term business

Age analysis of financial assets past due but not impaired

31 December 2016	< 30 days KShs '000	31 to 60 days KShs '000	61 to 90 days KShs '000	Total past–due but not impaired KShs '000
Loans and receivables	-	-	336,798	336,798
Reinsurance assets	1,630,093	419,167	279,445	2,328,705
Insurance receivables	532,965	294,037	398,274	1,225,276
Total	2,163,058	713,204	1,014,517	3,890,779

31 December 2015	< 30 days KShs '000	31 to 60 days KShs '000	61 to 90 days KShs '000	Total past–due but not impaired KShs '000
Loans and receivables	-	-	364,811	364,811
Reinsurance assets	1,202,034	208,352	192,325	1,602,712
Insurance receivables	402,687	281,587	528,885	1,213,159
Total	1,604,721	489,939	1,086,021	3,180,682

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.2 Financial risks (continued)

55.2

a. Credit risk (continued)

Short term business

Impaired financial assets

At 31 December 2016, there are impaired insurance assets of KShs 726 million (2015: KShs 394 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:

	2016 KShs '000	2015 KShs '000
At 1 January	394,186	268,394
Charge for the year	332,731	125,792
At 31 December	726,917	394,186

Collateral

The loans receivables have collateral held on them of KShs 977 million (2015: KShs 986 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 2016.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.2 Financial risks (continued)

a. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016				31 December 2015			
	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	-	-	971,860	971,860	-	-	1,007,928	1,007,928
Corporate bonds	-	-	364,520	364,520	-	-	243,499	243,499
Government securities available for sale	-	94,834	1,601,652	1,696,486	-	62,070	781,441	843,511
Equity investments:								
- At fair value through profit or loss	-	-	359,134	359,134	-	-	440,770	440,770
- Available for sale	-	-	16,863	16,863	-	-	19,125	19,125
Loans receivable	27,165	32,961	656,418	716,544	29,423	35,703	711,016	776,142
Receivables arising out of reinsurance arrangements	336,841	185,835	291,584	814,260	20,955	25,367	505,125	551,447
Receivables arising out of direct insurance arrangements	532,965	294,037	398,274	1,225,276	461,001	194,106	558,053	1,213,160
Deferred acquisition costs	212,524	110,643	149,866	473,033	47,795	55,805	312,620	416,220
Deposit with Financial Institutions	1,032,828	-	-	1,032,828	2,459,928	-	-	2,459,928
Due from related party	70,099	-	-	70,099	17,825	-	-	17,825
Cash and bank balances	381,260	-	-	381,260	348,439	-	-	348,439
Total financial assets	2,593,682	718,310	4,810,171	8,122,163	3,385,366	373,051	4,579,577	8,337,994
Financial liabilities:								
Insurance contract liabilities	3,489,512	-	-	3,489,512	2,688,271	-	-	2,688,271
Payables arising from reinsurance arrangements	-	65,464	39,869	105,333	-	19,476	-	19,476
Due to related party	425,125	-	-	425,125	392,802	-	-	392,802
Other payables	168,929	-	-	168,929	91,861	-	-	91,861
Total financial liabilities	4,083,566	65,464	39,869	4,188,899	3,172,934	19,476	-	3,192,410
Net liquidity gap	(1,489,884)	652,846	4,770,302	3,933,264	212,432	353,575	4,579,577	5,145,584

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.2 Financial risks (continued)

b. Liquidity risk (continued)

a. Long term insurance business

	31 December 2016				31 December 2015			
	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Government securities held to maturity	-	-	748,046	748,046	-	-	1,246,747	1,246,747
Government securities available for sale	-	51,092	3,856,437	3,907,529	-	-	4,906,168	4,906,168
Equity investments at fair value through profit or loss	343,425	-	-	343,425	378,933	-	-	378,933
Corporate bonds	-	-	581,526	581,526	-	-	716,642	716,642
Loans and receivables	2,120	10,557	765,172	777,849	3,122	9,589	727,002	739,713
Receivables arising out of insurance and reinsurance arrangement	277,798	-	-	277,798	226,682	-	-	226,682
Due from related party	196,427	-	-	196,427	158,090	-	-	158,090
Deposits with financial institutions	583,786		-	583,761	935,364		-	935,364
Cash and bank balances	181,322	-	-	181,322	96,941	-	-	96,941
Total financial assets	1,584,878	61,649	5,951,181	7,597,708	1,799,132	9,589	7,596,559	9,405,280
Insurance contract liabilities	262,051	-	-	262,051	336,681	-		336,681
Payables arising from reinsurance arrangements	3,785	-	-	3,785	2,774	-		2,774
Deposits administration contracts	-	-	3,395,356	3,395,356	-	-	974,495	974,495
Unit linked contract	-	-	1,216,633	1,216,633	-	-	2,560,437	2,560,437
Due to related party	49,744	-	-	49,744	5,299	-	-	5,299
Other payables	358,389	-	-	358,389	606,045	-	-	606,045
Total financial liabilities	- 673,969	-	4,611,989	5,186,470	950,799	-	3,534,932	4,485,731
Net liquidity gap	910,909	61,649	1,339,192	2,311,750	848,333	9,589	4,061,627	4,919,549

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.2 **Financial risks (continued)**

b. Liquidity Risk (continued)

Other Business	31 December 2016				31 December 2015			
	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Government securities held to maturity	-	-	99,401	99,401	-	-	95,626	95,626
Government securities available for sale	-	-	80,766	80,766	-	-	32,903	32,903
Equity investments at fair value through profit or loss	208,093	-	-	208,093	16,090	-	-	16,090
Corporate bonds	-	53,575	-	53,575	-	54,823		54,823
Loans and receivables from insurance and reinsurance contracts	-	249,026	-	249,026	-	198,211	-	198,211
Deposits with financial institutions		2,195,580	-	2,195,180		2,001,965	-	2,001,965
Cash and bank balances	48,933	-	-	48,933	79,323	-	-	79,323
Total financial assets	257,026	2,498,181	180,167	2,935,374	95,413	2,254,999	128,529	2,478,941
Insurance contract liabilities	-	-	-	-	-	-	-	-
Payables arising from reinsurance arrangements	7,456	-	-	7,456	3,381	-	-	3,381
Deposits administration contracts	-	-	-	-	-	-	-	-
Unit linked contract	-	-	-	-	-	-	-	-
Other payables	145,131	-	-	145,131	85,066	-	-	85,066
Total financial liabilities	152,587	-	-	152,587	88,447	-	-	88,447
Net liquidity gap	104,439	2,498,181	180,167	2,782,787	6,966	2,254,999	128,529	2,390,494

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.2 Financial risks (continued)

a. 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) and Uganda Shillings (UGSH).

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
FOR THE YEAR ENDED 31 DECEMBER 2016

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	KSHS 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	-	-	487,775	487,775
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	26,015,004	26,928,523
EQUITY AND LIABILITIES				
Share capital	463,712	233,790	1,918,076	2,615,578
Share premium	-	-	162,179	162,179
Funds awaiting allotment	-	-	-	-
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)	3,994,254	4,012,651
Non-controlling interest	-	-	138,960	138,960
Total equity	475,793	(60,443)	7,064,112	7,479,462
LIABILITIES				
Deferred taxation	-	-	548,074	548,074
Borrowings	-	-	5.086,021	5,086,021
Other payables	42,527	48,920	580,998	672,445
Tax payable	-	-	-	
Dividend payable	-	-	12,636	12,636
Due to related party	9,725	299,538	(309,263)	-
Payables arising out of reinsurance arrangements 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
Provisions for unearned premiums reserve and unexpired risks	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	18,950,892	19,449,061
Total equity and liabilities	543,740	369,779	26,015,004	26,928,523

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

55. INSURANCE AND FINANCIAL RISK (continued)

55.2 Financial risks (continued)

c. Market Risk (continued)

i. Currency risk (continued)

2015	SSP KShs'000	UGSH KShs'000	OTHER KShs'000	TOTAL KShs'000
ASSETS				
Property and equipment	117,822	24,510	1,202,375	1,344,707
Investment properties	165,742	-	5,255,000	5,420,742
Intangible assets	179	17,215	76,067	93,461
Corporate bonds	-	-	611,573	611,573
Investment in associate	-	13,695	115,471	129,166
Government securities classified as held to maturity	-	95,626	796,262	891,888
Loans receivable -Mortgage loans	9,251	2,019	471,170	482,440
-Other loans	-	16,998	487,481	504,479
Government securities classified as available for sale	-	-	2,321,713	2,321,713
Equity investments classified as available for sale	-	-	19,125	19,125
Deferred taxation	-	-	239,143	239,143
Equity investments at fair value through profit or loss	220,861	-	835,793	1,056,654
Deposits and commercial paper	-	-	2,195,407	2,195,407
Deferred acquisition costs	730	965	414,525	416,220
Receivables arising out of direct insurance arrangements	1,171	2,848	1,368,300	1,372,319
Receivables arising out of reinsurance arrangements	-	-	622,989	622,989
Reinsurers share of liabilities and reserves	-	-	1,365,388	1,365,388
Taxation recoverable	-	8,428		8,428
Other receivables	20	-	371,868	371,888
Due from related parties	-	-	93,889	93,889
Deposits with financial institutions	-	59,285	4,783,055	4,842,340
Cash and bank balances	31,906	54,184	438,614	524,704
Total assets	547,682	295,773	24,076,780	24,920,235
EQUITY AND LIABILITIES				
Share capital	463,712	261,218	1,890,648	2,615,578
Share premium	-	-	162,179	162,179
Funds awaiting allotment	-	512	-	512
Statutory reserve	-	-	1,039,810	1,039,810
Revaluation surplus	93,653	-	45,224	138,877
Foreign currency translation reserve	(311,743)	(1,248)	117,900	(195,091)
Contingency reserve	-	-		
Fair value reserve	-	-	(205,921)	(205,921)
Retained earnings	253,831	(126,034)	3,982,359	4,110,156
Non-controlling interest	-	-	164,383	164,383
Total equity	499,453	134,448	7,196,582	7,830,483
LIABILITIES				
Deferred taxation	-	-	527,469	527,469
Borrowings	-	-	5,086,037	5,086,037
Other payables	15,559	30,596	736,819	782,974
Tax payable	-	-	97,579	97,579
Due to related party	22,988	118,997	(141,985)	-
Dividend payable	-	-	34,607	34,607
Payables arising from reinsurance arrangements and insurance bodies	1,437	1,944	22,250	25,631
Deposits and administration contracts	-	-	756,097	756,097
Actuarial value of policyholder liabilities	6,400	1,616	2,954,106	2,962,122
Unit linked contracts	-	-	403,049	403,049
Payables arising out of reinsurance arrangements	-	7,700	3,399,535	3,407,235
Insurance contracts liabilities	1,845	472	3,022,635	3,024,952
Total liabilities	48,229	161,325	16,880,198	17,089,752
Total equity and liabilities	547,682	295,773	24,076,780	24,920,235

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 and its assets and liabilities are reported in the local currency. However, it maintains trade with foreign entities and its foreign currency exposure as at 31 December 2016 and 31 December 2015 is:

	2016 KShs '000	2015 KShs
Assets in foreign currency	535,647	545,582
Liabilities in foreign currency	(52,252)	(38,547)
Foreign currency exposure	483,395	507,035

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 2016		31 December 2015	
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%	22,621	22,621	29,179	29,179
SSP	-10%	22,621	22,621	29,179	29,179
UGSH	+10%	(15,847)	(16,008)	(12,603)	(12,603)
UGSH	-10%	(15,847)	(16,008)	(12,603)	(12,603)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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	
	2016 KShs '000	2015 KShs '000
Government securities	11,525	14,002
Corporate bonds	1,755	292
Mortgage loans	2,639	2,892
Deposits with financial institutions	29,812	48,935

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 98% (2015: 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 6,289,650 (2015: KShs 5,502,000).

iv. Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The 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 Company's strategic planning and budgeting process.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

56. FAIR VALUE MEASUREMENT (continued)

31 December 2015	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Recurring Fair value Measurements				
Corporate bonds*		611,573	-	611,573
Equity investments classified:				
- at fair value through profit or loss	1,056,654	-	-	1,056,654
- as available for sale	-	19,125	-	19,125
Government securities classified as available for sale	2,321,713	-	-	2,321,713
Government securities classified as held to maturity	823,166	-	-	823,166
Due from related party	-	107,033	-	107,033
Loans receivables	-	1,125,087	-	1,125,087
Deposits and commercial paper	-	2,195,407	-	2,195,407
Owner occupied property and equipment	-	-	659,442	659,442
Investment properties	-	-	1,945,000	1,945,000
Total assets at fair value	4,201,533	4,058,225	2,604,442	10,864,200
Deposits administration contracts	-	-	756,097	756,097
Unit linked contracts	-	-	3,024,952	3,024,952
Total liabilities at fair value	-	-	3,781,049	3,781,049

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.

* Corporate bonds have been re-classified from level 1 to level 2 since the corporate bond market is not active enough anymore that proper price formation occurs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 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)	16.38	Discount rate used	Increase/(decrease) in discount of 5% would decrease/(increase) fair value by KShs 79 million.
Investment properties	3	Discounted cash flow model (DCF)	13	Discount rate used	Increase/(decrease) in discount by 5% would decrease/(increase) fair value by KShs 303 million
Owner occupied property and equipment	3	Discounted Cash Flow (DCF)	13	Discount rate used	Increase/(decrease) in discount of 5% would decrease/(increase) fair value by KShs 33 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 22 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 63 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 company 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 13.88% and the estimated credit risk spread as 2.5% to arrive at discount rate of 16.38 used to estimate the fair value of the Chase Bank corporate bonds

Reconciliation of fair value measurement under Level 3 hierarchy

Corporate bonds	2016 KShs '000
At 1 January	-
Re-measurement recognised in profit or loss during the period	(13,235)
Purchases	-
Sales	-
Transfer from level 2	171,000
At 31 December	157,765

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

57. GOING CONCERN STATUS OF THE SUBSIDIARY AND ASSOCIATE COMPANIES

CIC Africa (Uganda) Limited
The subsidiary is technically insolvent. It reported a loss of KShs 160 million for the year ended 31 December 2016 (2015 - KShs 105 million). In addition, the subsidiary's accumulated losses stood at KShs. 261 million (2015 - KShs 103 million) as at 31 December 2016 while its total liabilities exceeded total assets by KShs 60 million (2015 – net asset position of KShs 100 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.

CIC Africa Co-operatives Insurance Limited
The associate (49% owned by CIC Insurance Group Limited) is technically insolvent. It reported a loss of KShs 45 million for the year ended 31 December 2016 (2015 - KShs 32 million). In addition, the associate's total liabilities exceeded total assets by KShs 19 million (2015 – KShs 11 million).

The conditions detailed above, in respect of the two subsidiaries and the associate, cast significant doubt on their ability to continue as a going concern. However, the subsidiaries and associate 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 and associate. The undertaking affirms the parent company commitment to continue providing sufficient financial support, if necessary, to enable the subsidiaries and associate 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 associate, 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 associate, and /or liquidate them.

Therefore, the directors are of the opinion that the financial statements of the subsidiaries and associate be prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the subsidiaries and associate 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 . INCORPORATION

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

59. HOLDING COMPANY

The holding entity is Co-operative Insurance Society Limited which is incorporated and domiciled in Kenya.

60. CURRENCY

The financial statements are presented in Kenya shillings thousands (KShs '000') which is also the functional currency of the Company and the Group.

61. 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.

APPENDIX I
CIC LIFE ASSURANCE LIMITED
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Ordinary Life KShs '000	Group Life KShs '000	Total 2016 KShs '000	Total 2015 KShs '000
Gross premium written	975,654	2,811,475	3,787,129	3,441,545
Less: Reinsurance payable	(5,007)	(731,879)	(736,886)	(672,403)
Net premium income	970,647	2,079,596	3,050,243	2,769,142
Policyholders' benefits:				
Life and health claims	(11,068)	(1,191,718)	(1,202,786)	(1,915,831)
Maturities	(210,176)	-	(210,176)	(180,741)
Surrenders	(59,972)	-	(59,972)	(43,281)
Actuarial adjustment of policy holders liability	(158,984)	(288,681)	(447,665)	256,359
Net policyholders' benefits	(440,200)	(1,480,399)	(1,920,599)	(1,883,494)
Commissions paid	(210,938)	(72,342)	(283,280)	(246,521)
Expenses of management	(140,291)	(969,938)	(1,110,229)	(935,308)
Premium tax	(7,126)	-	(7,126)	(6,295)
Total expenses and commissions	(358,355)	(1,042,280)	(1,400,635)	(1,188,124)
Investment income	80,731	336,935	417,666	539,264
Increase in life fund before tax	252,823	(106,148)	146,675	236,788
Tax charge on transfer to shareholders	-	(30,265)	(30,265)	(52,649)
Increase in life fund after tax	252,823	(136,413)	116,410	184,139
Increase in life fund for the year	252,823	(136,413)	116,410	184,139

The revenue account was approved by the board of directors on 10th March 2017 and was signed on its behalf by:

Director

Director

Principal Officer

CIC GENERAL INSURANCE LIMITED
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

APPENDIX II

	C.A.R & Engin-eering	Fire Domestic	Fire Industrial	Liability Insurance	Marine & Transit	Motor Private	Motor Com-mercial	Motor Pool	Medical insurance	Personal Accident	Theft Insurance	Work men's Comp.	Misc. Accident	Micro solutions	Total 2016
	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	Shs.'000	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	30,780x	-	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 10th March 2017 and was signed on its behalf by:

Group Chairman — Director — Group Chief Executive Officer

CIC GENERAL INSURANCE LIMITED
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2015

	C.A.R & Engineering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Commercial Shs.'000	Motor Pool Shs.'000	Medical insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Workmen's Comp. Shs.'000	Misc. Accident Shs.'000	Micro solutions Shs.'000	Total 2015 Shs.'000
Gross premium written	402,623	100,130	573,573	121,305	127,628	1,909,288	2,435,918	-	1,123,005	201,417	432,423	242,231	181,351	70,811	7,921,703
Unearned premium transferred in	42,284	34,225	90,909	65,798	38,002	841,226	1,204,760	-	1,485,481	44,182	99,996	78,980	25,811	-	4,051,654
Unearned premium c/f	(26,941)	(34,107)	(89,346)	(30,194)	(41,764)	(948,873)	(1,140,221)	-	(245,479)	(24,991)	(117,823)	(89,833)	(12,798)	(24,998)	(2,827,368)
Gross earned premium	417,966	100,248	575,136	156,909	123,866	1,801,641	2,500,457	-	2,363,007	220,608	414,596	231,378	194,364	45,813	9,145,989
Reinsurance premium	(350,681)	(4,387)	(312,098)	(75,957)	(19,176)	(26,327)	(33,588)	-	(185,024)	(51,335)	(30,467)	(15,921)	(120,931)	-	(1,225,892)
Net earned premium	67,285	95,861	263,038	80,952	104,690	1,775,314	2,466,869	-	2,177,983	169,273	384,129	215,457	73,433	45,813	7,920,097
Gross claims paid	29,045	23,013	244,123	211,035	9,596	1,527,984	1,378,633	-	2,211,264	60,515	116,175	62,677	50,370	57,408	5,981,838
Outstanding claims c/f	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
Outstanding claims transferred in	(15,791)	(4,848)	(110,615)	(248,243)	(18,280)	(580,619)	(655,271)	(2,092)	(375,378)	(38,924)	(131,887)	(63,352)	(12,753)	(5,962)	(2,264,015)
Gross claims incurred	97,989	35,134	264,783	234,583	2,767	1,741,978	1,511,751	-	2,200,728	57,621	70,681	72,215	60,748	52,799	6,403,777
Recoveries	(31,008)	(324)	(190,865)	(191,556)	(104)	(191,938)	(233,860)	-	(72,978)	(15,192)	(5,845)	(11,884)	(41,717)	(31,941)	(1,019,212)
Net incurred Claims	66,981	34,810	73,918	43,027	2,663	1,550,040	1,277,891	-	2,127,750	42,429	64,836	60,331	19,030	20,858	5,384,565
Commission receivable	(108,914)	(686)	(111,988)	(20,383)	(2,644)	-	-	-	(37,005)	(12,185)	(546)	(3,145)	(19,883)	-	(317,379)
Commissions payable	43,531	18,542	146,855	39,924	14,162	170,240	259,748	-	85,673	7,828	70,058	45,499	20,564	13,502	936,126
Net commission	(65,383)	17,856	34,867	19,541	11,518	170,240	259,748	-	48,668	(4,357)	69,512	42,354	681	13,502	618,747
Management Expenses	29,240	18,291	94,622	41,027	21,777	358,148	521,280	-	441,241	40,034	80,238	42,161	7,392	21,306	1,716,757
Premium Tax	3,997	994	5,694	1,204	1,267	18,952	24,180	-	11,147	1,999	4,292	2,404	1,800	703	78,633
Total	33,237	19,285	100,316	42,231	23,044	377,100	545,460	-	452,388	42,033	84,530	44,565	9,192	22,009	1,795,390
Total claims expenses and commissions	34,835	71,951	209,101	104,799	37,225	2,097,380	2,083,099	-	2,628,806	80,105	218,878	147,250	28,904	56,369	7,798,702
Underwriting profit/ (loss)	32,450	23,910	53,937	(23,847)	67,465	(322,066)	383,770	-	(450,823)	89,168	165,251	68,207	44,529	(10,556)	121,395

The revenue account was approved by the board of directors on 7th March 2016 and was signed on its behalf by:

Group Chairman   Director   Group Chief Executive Officer

GLOSSARY OF INSURANCE TERMS
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, demonstrating 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 compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Incurred but not report (IBNR)	Claims to be made by a policyholder, but not yet reported to the insurance company.
Insurance risk*	Risk, other than financial risk, transferred from the holder of a contract to the issuer.
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 respect of current insurance contracts that exceed the premiums to be earned on those contracts after the reporting date.
Reinsurance	Insurance risk that is ceded to another insurer to compensate for losses, but the ultimate obligation to the policyholder remains with the entity who issued the original insurance contract.
Unit–holder/unit–linked	Investor in a unit–linked product, when the investment risk is borne by the policyholder and not by the insurance company.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE THIRTY NINTH (39TH) ANNUAL GENERAL MEETING OF **CIC INSURANCE GROUP LIMITED** WILL BE HELD AT THE HILTON HOTEL, ON **16TH JUNE 2017** AT **10.00AM** TO TRANSACT THE FOLLOWING BUSINESS:-

AGENDA

Ordinary Business

1. To read the notice convening the meeting and determine if a quorum is present.

2. To receive, consider and if thought fit, adopt the Annual Report and Financial Statements for the year ended 31st December 2016 together with the Director's and Auditor's Report thereon.

3. To declare a first and final dividend of Kshs. 0.105 per share in respect of the year ended 31st December 2016, to be paid on or before 23rd June 2017 to the shareholders appearing on the Register of Members at the close of business on 31st May 2017.

4. Rotation and election of Directors:

    a. Japheth Magomere retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible offers himself for re-election.

    b. Michael Wambia retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible offers himself for re-election.

    c. Jonah Mutuku retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible offers himself for re-election.

    d. Harrison Githae having attained the age of seventy years retires in accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and being eligible offers himself for re-election

5. 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, appointed to continue to serve as members of the said Committee:

    a. Philip Lopokoiyit

    b. James Njue

    c. Judith Oluoch

    d. Mr. Peter Nyigei

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

7. To re-appoint Ernst & Young continue in office as auditors of the company in accordance with section 721(2)and 724 of the Companies Act 2015 and to authorize the directors to fix their remuneration.

8. To transact any other business which may be properly transacted at an Annual General Meeting.

Dated at Nairobi this 22nd day of May 2017

By Order of the Board,

GAIL ODONGO
GROUP COMPANY SECRETARY

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
CIC INSURANCE GROUP LIMITED

(Incorporated in the Republic of Kenya under the Companies Act (Cap. 486)

ANNUAL GENERAL MEETING at 10:00 a.m. on 16th June 2017 at **Hilton Hotel, Nairobi.**

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_________________

of (address) ____

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 **16th June 2017** at **Hilton Hotel, Nairobi** or at any adjournment thereof.

As witness to my/our hands this _________ day of ___________________ 2017

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 email address *shares@co-opbank.co.ke* from the date hereof until **10:00 a.m.** on **14th June 2017** failing which it will be invalid.

2. A proxy form must be in writing and in the case of an individual shall be signed by the shareholder or by his attorney, and in the case of a corporation the proxy must be either under its common seal or signed by its attorney or by an officer of the corporation.

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KENYA

NAIROBI REGION

TOWN OFFICE
Reinsurance Plaza
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townoffice@cic.co.ke

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WESTLANDS BRANCH
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KITENGELA BRANCH
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CENTRAL REGION

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EMBU BRANCH
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MERU BRANCH
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CIC GROUP

CIC INSURANCE GROUP LIMITED

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