CIC GROUP

CIC INSURANCE GROUP PLC

INTEGRATED FINANCIAL REPORT 2018

Keeping Our Word
Protecting Livelihoods

1968 - 2018

OUR HISTORY

1968

CIS started as an insurance agency within the Kenya National Federation of Co-operatives (KNFC).

1978

Incorporated and licensed as Co-operative Insurance Services Ltd (CIS).

1999

Name change from CIS to the Cooperative Insurance of Kenya Ltd (CIC).

2010

Name change to CIC Insurance Group Limited in preparation for the demerger of our Life and General Business operations.

2011

We fully demerge resulting in the formation of :-

- **CIC Life Assurance Limited,**
- **CIC General Insurance Limited**
- **CIC Asset Management Limited.**

2012

CIC Insurance Group listed its shares by introduction at the Nairobi Securities Exchange on Thursday 19th July 2012.

2013

Entry into Southern Sudan and commencement of Regional Expansion.

2014

Opening of CIC Plaza II and Successful Corporate Bond issue (oversubscribed by 111%).
Entry into Malawi and Uganda markets.

2015

Successful implementation of a unified CIC Brand.

2016

Successful launch of a the CIC Foundation.
CIC Group awarded Best Company to Work for Deloitte - 2016.
CIC Life awarded Group Life Company of the Year - AKI

2017

AKI Awards – Overall Winner 2017 Group Life Company of the Year - AKI Group Life Best Practice

2018

AKI Awards – Overall Winner 2018 Group Life Company of the Year - AKI Group Life Best Practice.
Fire Award - Winner Insurance Category 2018

2019

Marked 50 Years of service to the people

OUR PHILOSOPHIES

WHO WE ARE

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

Keeping Our Word
Protecting Livelihoods
1968 - 2018

1

OUR PURPOSE (MISSION)

Enable people achieve Financial security

2

OUR VISION

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

3

OUR VALUES

Integrity
- Be fair and transparent

Dynamism
- Be passionate and innovative

Performance
- Be efficient and results driven

Cooperation
- Live the cooperative spirit

TABLE OF CONTENTS

	Page
Integrated Report (IR)	
About This Report	2
Our Products and Services	2-6
Our Distribution	6
Our Value Creation	7
Our Stakeholders and Partners	7-8
Our Sustainability	8
Our Material Issues	8
Our Operating Environment	9-11
How We Manage Our Risks	12-14
Our Strategic Pillars	15
Corporate Social Responsibility	16-19
Business Review	20-22
Group Chairman's Statement	24-25
Board of Directors	26-30
Group CEO's Statement	32-34
Board of Management	36-43
Chief Finance Officer's Review	44-45
Report of The Independent Governance Auditor	46
Corporate Governance Statement	47-58
Corporate Information	61
Report of The Directors	62-65
Statement of Directors Respinsibilities	66
Directors Remunaration Report	67-68
Report of The Independent Auditor	69-73
Financial Statements	
Consolidated and Company Statement of Profit or Loss and Other Comprehensive Income	75-76
Consolidated Statement of Financial Position	77
Company Statement of Financial Position	78
Consolidated Statement of Changes In Equity	79-80
Company Statement of Changes In Equity	81
Consolidated Statement of Cash Flows	82
Company Statement of Cash Flows	83
Notes to The Financial Statements	84-210
Supplementary Information	
CIC Life Assurance Revenue Account: **Appendix I**	211
CIC General Insurance Revenue Account: **Appendix II**	212-213
Glossary of Insurance Terms: **Appendix III**	214

ABOUT THIS REPORT

Purpose

The purpose of this report is to provide our stakeholders with concise communication about the Group in the context of the internal and external environment, as well as our ability to create value over the short, medium and long term.

Preparation and presentation

CIC Insurance Group 2018 integrated report has been prepared for the period 1 January 2018 to 31 December 2018 and covers the material activities of CIC Insurance Group Plc and its Subsidiary companies.

EY have audited the accompanying consolidated and separate financial statements of CIC Insurance Group Limited (the Company) and its subsidiaries (together, the Group), which comprise the consolidated and separate statements of financial position as at 31 December 2018, 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.

Benefits

Improves the quality of information available to stakeholders

Promotes a more cohesive and efficient approach to corporate reporting.Enhances accountability and stewardship for the broad base of the group's capitals and pillars.

Closes the gaps in most of today's reports which are;

- Short term focus
- Backward looking
- Compliance oriented
- Fragmented approach
- Long, complex, not holistic and;
- Focus on financial information only

OUR PRODUCTS AND SERVICES

Our operating model includes a comprehensive and fully embedded risk management process which assists us in identifying and managing risks and opportunities to deliver the Group's strategy and the other essential elements of our business model. CIC Group is licensed to trade in all insurance product lines except Aviation. CIC Group was awarded the 2018 Group Life Company of the Year Award. In 2018 the Group also received the Winner's trophy for the FIRE Awards, Insurance category.

NON LIFE PRODUCTS:

1. FIRE INDUSTRIAL

This policy covers the risks of fire, lightning and explosion as a result of bursting of gas cylinders. The policy can be enhanced to cover additional perils such as earthquake, malicious damage, floods, riots and strike, bush fire and similar perils.

2. DOMESTIC PACKAGE

This is an attractive comprehensive package for homeowners and occupiers which provides policy holders the benefit of six policies in a single package. It covers buildings, household contents, moveable and personal items, domestic servants, owner's liability and occupier's liability.

3. CONSEQUENTIAL LOSS

The policy covers loss of profits as a result of fire.

4. BURGLARY

This policy covers loss or damage following the actual forcible and violent breaking into or out of the premises or any attempted threat.

5. ALL RISKS

This policy covers loss or damage (except as excluded in the policy) to specified items of personal or delicate nature. It includes items such as watches, cameras, computers, calculators, microscopes, typewriters, medical equipment, video cameras, jewellery, television sets, radios, iPods, iPads and mobile phones.

6. GOODS IN TRANSIT RISKS

This policy covers loss of or damage to goods while in transit either by rail or road.

7. MARINE

This policy provides cover for goods while in transit either by sea or air up to the warehouse.

8. PROFESSIONAL INDEMNITY

This policy covers professionals against third party claims in case of negligence in the course of their professional duties.

9. MOTOR INSURANCE

This policy covers risks ranging from Third Party Risks to comprehensive risks.

It provides cover:

- For loss or damage to the motor vehicle as a result of fire, accident or theft.
- Against legal liabilities to third parties arising from loss or damage to property as well as third party injuries or death.

10. MACHINERY BREAKDOWN

This policy covers all types of machinery plants, mechanical equipment and apparatus for faulty design and operation tearing due to centrifugal force.

11. MACHINERY BREAKDOWN CONSEQUENTIAL LOSS

This policy covers actual loss of profits sustained as a result of business interruption caused by machinery breakdown.

12. ELECTRONIC EQUIPMENT

The policy covers material damage for many types of low and medium power electrical plants for both material damage and loss of information suffered by external data media used in computing facilities.

CUSTOMIZED NON LIFE PRODUCTS

In line with its values, CIC Group has continued to improve and innovate in terms of various insurance products in order to continue to cater for changing insurance needs. These are the recently customized products:

1. CIC SCHOOL GUARD INSURANCE

This is a comprehensive policy designed for academic institutions covering property, students, teaching and non-teaching staff as well as owners' liabilities.

2. CIC MOTOR COMMERCIAL PLUS

This is an enhanced policy designed for heavy commercial vehicles. It provides inter alia, a tracking device and meets loan repayments while the vehicle is under repair.

3. CIC BIASHARA SALAMA INSURANCE

This policy caters for persons unable to secure insurance from the conventional insurance market. It covers fire and burglary for small and medium enterprises ("SMEs") and micro-finance institutions.

4. CIC COMBINED INSURANCE

This policy combines the various risks that businesses are exposed to under the following classes: Fire and Perils, Fire Consequential Loss, Burglary, All Risks, Money, Fidelity Guarantee, Group Personal Accident, WIBA, Employer's Liability Common Law and Public Liability.

5. CIC PROPERTY OWNERS INSURANCE

This is a conveniently packaged policy covering various risks faced by property owners. It covers the following range of risks: buildings against loss or damage; bodily injury by accident or disease sustained by employees in the course of employment; legal liability under common law for damages and claimant's costs related to bodily injury by accident or disease and directly related to negligence or breach of common law; and third party liabilities incurred.

6. CIC JILINDE PERSONAL ACCIDENT POLICY

This policy is a customized Personal Accident Cover for micro-enterprises that provides monetary payments in the event of bodily injury sustained by the insured.

7. CIC STUDENTS PERSONAL ACCIDENT INSURANCE

This is a Personal Accident cover for students and pupils at primary, secondary and tertiary educational institutions including students on industrial attachment.

8. CIC SCHOOL BUS INSURANCE

This a customised policy extended to school buses and other school owned vehicles.

9. CIC LADY AUTO

This is a new insurance policy tailored for ladies. Lady motorists can claim for loss of their personal effects like handbag and its contents in the event of an accident or theft of an insured motor vehicle. This cover intends to address numerous risks faced by lady motorists and their nuclear families while traveling.

The features include:

- Courtesy Car for the period of repair to a maximum 24 days.
- Personal Accident Cover
- Last expense of Ksh 100,000/-
- Personal Accident Cover for Domestic Employee
- Trauma Counseling
- Handbag and Contents
- Third Party Medical Expenses
- Replacement of Lost Car Keys following partial theft
- Forced ATM Withdrawal

MEDICAL INSURANCE PRODUCTS:

1. FAMILY HEALTH INSURANCE

Otherwise known as the CIC - MEDISURE Family Health Plan. This is a medical insurance policy designed to meet prevalent medical needs for nuclear families and individual persons. The cover offers all benefits which include Inpatient, outpatient, maternity, dental and optical benefit. The policy offers a flexible, comprehensive and affordable in-patient cover for hospitalization expenses arising from both illnesses and accident.

2. CIC - MEDISURE CORPORATE IN-PATIENT COVER

CIC - MEDISURE is a corporate medical policy designed to meet prevalent medical requirements for corporate organizations with ten (10) or more employees and directors. The cover offers all benefits which include Inpatient, outpatient, maternity, dental and optical benefit. The policy pays valid medical expenses arising from both illness and accidents, subject to the cover limit.

3. CIC MEDIPACK (SME)

Medipack is a Health Insurance solution from CIC, designed for SMEs. Medipack caters for medical expenses incurred by the insured members and their dependants for either Inpatient or Outpatient cases, Medipack also caters for Maternity, Dental & Optical expenses.

4. CIC AFYA BORA

CIC's Afya Bora product customer comes with affordable premiums, and quality health care at the hospital level courtesy of CIC's strong relationships with health providers and fast claims settlement. The cover provides in-patient and outpatient benefits for a family of up to 6 members with an in-patient cover limit of Kshs.250,000 and out-patient limit of Kshs.50,000. The upper age limit for parents is 70 years at entry and children are covered from 1 month old to 25 years with proof of enrollment in school or college at an affordable premium of Kshs.32,000 per family per year.

GROUP LIFE PRODUCTS

1. MICRO-CREDIT INSURANCE

CIC offers a specialized group creditor life insurance policy customized to cover short term loan balances on reducing balance basis for small scale businesses. This policy pays off the outstanding loan balance in the event that the insured borrower dies/or is permanently disabled within the insurance period.

2. GROUP FUNERAL EXPENSES

Covers funeral limits in the event of death of an insured member who is between age 1 and 18 years (children) and 18 and 75 years for adults. Pays insured funeral benefit within 48 hours of death.

3. GROUP MORTGAGE

This product is designed for institutions offering long-term loans (mortgages) for purchase of property (houses, cars, land). This is a particular type of life assurance taken out for the term of the mortgage and designed to pay it off on the death and/or permanent disability of the borrower or joint borrower.

4. LOAN GUARD POLICY

This covers all loan balances in the event of death / total permanent disability of a group or society member who is aged between 18 and 75.

5. MEPIP

The insurance covers members of an Institution aged between 18 and 75 years old with outstanding loans against death or total permanent disability. The premium is paid once for each individual loan.

6. GROUP LIFE ASSURANCE

Group life policy covers death and permanent disability in the event of the death of a member of the scheme provided he/she is still in the service of the employer or scheme holder. This cover enables the employer/scheme holder to alleviate the financial distress that might befall the dependents of an insured member upon his/her death or permanent disability.

7. GROUP CREDIT LIFE

Credit life insurance covers death and permanent disability in the event of the death of a member of an Institution. It is a life insurance policy designed to pay off a borrower's debt if that borrower dies. The face value of a credit life insurance policy decreases proportionately with an outstanding loan amount as the loan is paid off over time until both reach zero value.

INDIVIDUAL LIFE PRODUCTS

1. CIC ACADEMIA POLICY

CIC Academia plan is a combination of insurance protection and savings that allows the insured to prepare for the cost of their child's education. It is a suitable endowment policy for education of children at any age. The policy term can vary from 9 to 18 years.

2. CIC INVEST PLAN POLICY

CIC Invest Plan Policy is a life savings policy that helps the insured to plan finances and avails money in Installments at selected periods in the future. This will enable the insured to finance projects of choice in accordance with the time plan. The policy term can vary from 12 to 24 years.

3. SMART SAVER POLICY

This is a flexible savings plan that allows one to accomplish their financial dreams and desires. Smart Saver policy is a savings cum protection product that provides a defined sum assured at either maturity of the policy or death of the policyholder. It is structured to suit your specific needs and risk profile for a continuous period with a term ranging from 5 to 25 years.

4. THE BOARD MEMBERS INSURANCE PLAN

The Board Members Insurance Plan is an investment plan that pays cash benefits to a Board Member when the member leaves the Board through retirement or non re-election. The benefits are; Final Maturity Benefit and non-reelection benefit whose term of the policy is 12 years.

5. FAMILY LIFE PLAN

The policy provides a shared life cover that pays on the first death of any declared family member. The policy runs for a term of 5 years, premiums are payable annually or as a single premium. The product provides cover for funeral expenses to declared family. The product covers self, spouse, four children below the age of 18 years and a total of two parents be they parents or parents-in-law.

CUSTOMIZED LIFE SOLUTIONS

1. CIC DIASPORA

The world has become a global village where one is hardly ever fully un-tethered from their home. We at CIC Insurance Group fully understand this attachment and have gone further to develop insurance and pension products specifically tailored to meet the needs of Kenyans living in the Diaspora. We have simple and clear. Diaspora products and our paperless transactions make us efficient so that you can do business with us online within minutes.

2. CIC M-BIMA

M-Bima is an online insurance platform accessible over the web or as a mobile application. This enables self-service to the clients and intermediaries.

INDIVIDUAL AND GROUP PENSION PRODUCTS

1. CIC JIPANGE PENSION PLAN

This is a pension plan for individuals who wish to diversify their saving options and also for those organizations that wish to set up a staff pension scheme for their employees without going through the hassles of registering a brand new pension scheme.

2. CIC UMBRELLA RETIREMENT BENEFITS SCHEME

Is a multi-employer retirement benefit scheme open to groups (employers) who come together in a pool by making contributions into the scheme. The scheme provides for each employer to choose the level and type of benefits the employee shall enjoy at retirement. The Scheme is also NSSF ACT 2013 Tier II- contributions compliant.

3. GUARANTEED FUND INVESTMENT - OCCUPATIONAL SCHEMES

Duly registered occupational schemes can also take advantage of the competitive rates of return that are always above market average that is offered by our guaranteed fund.

4. CIC ANNUITY PLAN

The product addresses the financial planning needs of people in or approaching retirement by converting a lump sum of at least 400,000 into periodic payments (monthly, quarterly, semi-annually and annually) with an aim to secure guaranteed income for life. Annuities provide a form of protection against the risk or outliving one’s assets by guaranteeing income payments. CIC Annuity plan is an immediate annuity with joint and single life options with the maximum guarantee period of 20 years.

CIC ASSET MANAGEMENT (CICAM)

CICAM, as a licensed fund manager, is mandated to provide investment advisory and fund management services to individuals, “chamas”, SACCO’s, SME’s and any other legal entity. We manage:

1. UNIT TRUSTS

We offer a simple range of unit trust funds where anyone can invest from as little as KShs. 5,000 Unit trusts allow you the flexibility to access your money at any time, these are:

a). MONEY MARKET FUND

For Investors who are seeking capital preservation whilst not seeking long-term capital growth. A short-term parking bay for surplus funds particularly in times of market volatility. A high degree of capital stability & are strictly risk averse.

b). EQUITY FUND

For Investors who are seeking long-term capital growth from a well-diversified portfolio. Typically have an investment horizon of more than four years are comfortable with taking on some risk of market and potential capital loss.

c). BALANCED FUND

For Investors who are typically ready to invest over the medium to long-term. Hold large cash balances but need extra returns at moderate risk. Seek to benefit from a well-diversified portfolio of market instruments.

d). FIXED INCOME FUND

For Investors who are typically ready to invest over the medium-to-long term. Hold large cash balances but need extra returns at moderate risk. Seek a reasonable return from a well-diversified portfolio of fixed income securities. CIC Asset Management Limited is now licensed by Retirement Benefits Authority to manage retirement benefit schemes

2. CICAM INCOME DRAWDOWN FUND

The CICAM Income Draw down Plan is an investment product that allows you to re-invest your retirement savings. It runs for a minimum of 10 years and one can choose to accept any amount up to a maximum of 15% of the fund balance per annum.

3. CICAM SEGREGATED FUND

This product is targeted to registered retirement schemes that are big enough to enable, on their own, investment diversification and negotiation of favorable investment terms. In this product, each client's funds are held separately by a custodian appointed by the client and funds are managed independently from other retirement benefit schemes and in line with the objectives set out for the fund.

4. CICAM SEGREGATED UMBRELLA FUND

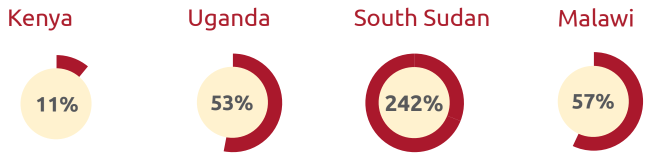
The CICAM segregated Umbrella fund is a product designed to focus on small to medium enterprises (SME's) as well as larger Organizations willing to set up segregated retirement benefits scheme but do not wish to be entangled in legal, administrative and statutory liabilities applicable to segregated schemes.

The CICAM Umbrella gives these organizations an opportunity to pool together into one scheme, with each organization having a flexibility to design their Trust rules like any occupational scheme while having shared service providers and governed by one Trust Deed.

OUR DISTRIBUTION

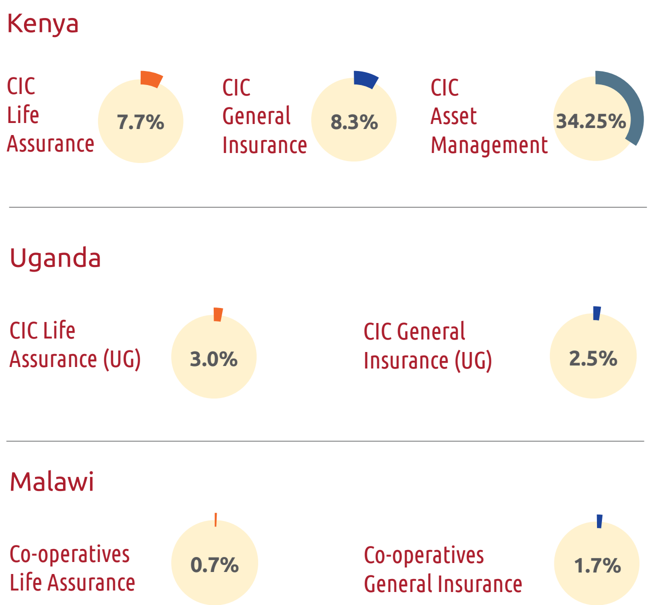
The group has footprint across the country & region through the branch networks, brokers & independent agents and tied financial advisors. We endeavor to bring our products and services closer to our clients through our branch network all over the country and our regional offices in South Sudan, Uganda and Malawi. We have a head office at Upper hill, Nairobi and 27 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.

CIC Group operating entities - Premium growth – Kenya 11%, Uganda 53%, South Sudan 242% and Malawi 57%



CIC Group Kenya entities - Market share – CIC General 8.3%, CIC Life 7.7%, CIC Asset Management 33.6%

Entity/Market share



OUR VALUE CREATION

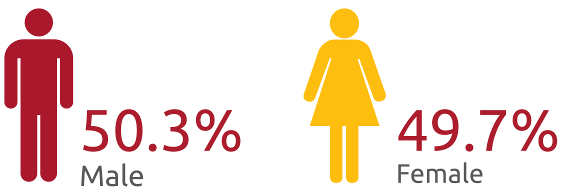
FINANCIAL CAPITAL AND ASSETS

The funding for the Group comes from investors, institutions, co-operatives and individuals. The funds are used to run the activities of the Group and generate returns for shareholders. We create value for our shareholders by efficiently managing the financial resources and assets.

HUMAN CAPITAL AND LEADERSHIP

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

- Staff Head Count: 509
- Permanent employees: 482
- Short term contract employees: 27



INTELLECTUAL CAPITAL AND VALUE PROPOSITION

Our intellectual assets, such as brand value, innovative products, innovation capacity and reputation also plays a key role in growing the business. Strong brand affinity and exceptional innovation capacity keeps us ahead of the competitors. CIC Group has a strong and visible brand presence all over the country. It offers unique value proposition to various customer segments using the right channels and products. Differentiation is one of the most important strategic and tactical activities in order to win in the chosen markets. We shall continue leveraging on this good will to maximize market and profitable growth.

MANUFACTURED CAPITAL AND TECHNOLOGY

Our business structure and operational processes provide the structure and mechanisms through which we run the business including information technology software, systems and structures.

OUR STAKEHOLDERS AND PARTNERS

Our stakeholders are diverse and they include individuals, groups of individuals, valued investors, Co-operative societies, employees, customers, regulators, government, suppliers, the media, civil society and communities that we interact with including the diaspora.

These stakeholders also include organisations in the cooperative sector among them the NACOS (National Cooperative Organisations), CAK (Cooperative Alliance of Kenya), ICA (International Cooperative Alliance), and ICMIF (International Cooperative and Mutual Insurance Federation).

NACOS are national cooperative organisations mandated to offer specialised service to the cooperative movement. CIC Insurance Group offers insurance service to cooperatives.

CAK is the apex cooperative body in Kenya in which CIC Insurance Group is an affiliate. As a member, CIC contributes to the national development of cooperatives which includes advocacy.

ICA is the world umbrella body for cooperatives in which our National Chairman serves as the Vice President of the body. As a member CIC plays a critical role in promoting the interests of cooperatives in Africa and the world.

ICMIF

CIC Insurance group jointly entered into a partnership with International Co-operative Mutual Insurance Federation (ICMIF) to formulate an evidence based country strategy for developing inclusive mutual insurance in Kenya. ICMIF aims to help Mutual Micro insurance reach scale in emerging markets in order to positively impact the lives of millions of low income households. ICMIF is a Global organisation with 225 members in 70 countries writing over USD 270B in premiums.

555 PROJECT

CIC Kenya is a member of ICMIF and was selected to represent the African continent in the 555 project. CIC has 3 Partners involved in the project - P&V (Belgium), Thrivent Financial (USA), We Effect (Sweden and Kenya).The Kenya project began with studies which involved in-depth insights into the inclusive mutual insurance environment with a view of identifying the gaps that would lead to scale up of insurance among low income households. This resulted to an evidence based strategy for dairy insurance as the anchor product for small holder farmers in Kenya.

ROLE OF THE PARTNERS

Through ICMIF's foundation, CIC is benefiting from Technical and Financial support on the 555 Kenya Strategy. P&V Belgium gave CIC immense support during the strategy design which saw CIC develop a 5 year Business Plan. Thrivent Financial were critical at the implementation stages of the project which kicked off in August 2018. WeEffect have helped CIC in developing a training module for farmers while all the 3 partners have peldged financial support for the farmer training and marketing related costs. The development partners are not benefiting materially on this project other than seeing CIC increase its Insurance penetration in a sustainable and mutually benefical manner to its policyholders.

OUR SUSTAINABILITY

CIC staff have knowledge of the common business practices and to uphold the Company's values. The company will conduct business according to the highest ethical and legal standards and employees will be expected to adhere to basic ethical principles. The expected conduct is governed by truthfulness, openness to new ideas, and consideration for the individual rights of others, including the right to hold and express opinions different from one's own.

OUR MATERIAL ISSUES

SOLVENCY

Solvency continues to be a challenge with the insurance industry average at 98% (minimum should be 100% now and 200% by June 2020). CIC General solvency is at 142% while CIC Life Assurance solvency is a commendable 166%.

The Global Credit Rating results for the insurance business lines have stable credit ratings;

Global Credit Rating	CIC General	**May 2017** Rating: A (KE) Outlook: Negative	**May 2018** Rating: A- (KE) Outlook: Stable
	CIC Life	**May 2017** Rating: A+ (KE) Outlook: Negative	**May 2018** Rating: A+ (KE) Outlook: Stable

CORPORATE BOND

CIC Insurance Group listed a 5-year corporate bond on 8 October 2014 at the NSE. The bond was oversubscribed by 111% and the management took a decision to uptake KES 5 Bn. The coupon rate is 13% payable in arrears in half year instalments. We have annually performed projections for the periods leading to maturity of the Bond. The bond matures in October 2019.

IFRS 9

CIC Group PLC applied the new standard from 1 January 2018 changing the accounting for financial instruments.

Impact: Additional provisions necessitated by the implementation of IFRS 9 has resulted in a slow growth of retained earnings.

CYBERCRIME, FRAUD AND THEFT

The claims settlement process is the true value of an insurance cover. Claims account for the highest percentage of the group's cost. The manner in which a claims process is managed is therefore vital to the group's profitability and we endeavor to deliver on our promise of keeping our word and our promise to our clients. 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.

COMPLIANCE REQUIREMENTS

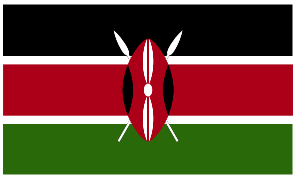
The Companies Act, 2015 - Change of name Section 53 states that a company that is both a limited company and a public company may only be registered with a name that ends with the words "public limited company" or the abbreviation "plc". The

Group is in compliance with the requirement of the Act.

OUR OPERATING ENVIRONMENT

KENYA

Gross Domestic Product



Kenya National Bureau of Statistics (KNBS) data shows the economy grew by 6.0% in Q3-2018 compared to 4.4% in Q3-2017. Growth was attributable to favorable weather conditions and a stable macro environment. The country experienced heavy rains that impacted positively on agriculture (5.2% growth compared to 3.7% in 2017) and hydroelectric power generation. Tourism recorded the highest growth at 16% followed by ICT that grew 9%. Manufacturing sector expanded 3% from a contraction of 0.1% in 2017. To sustain the strong momentum, restoring credit growth will be crucial to economic stimulus. Fiscal deficit remains an impediment but measures towards fiscal consolidation were passed in the Finance Bill 2018/19.

Interest rate

The Monetary Policy Committee (MPC) maintained the policy rate at 9% in November 2018. The Committee noted that inflation expectations remained well anchored within the target range, and that the economy was operating close to its potential. This was the second time the rate was maintained at 9% since the cut in July 2018.In the current environment of rate caps, the cut had a downward effect on yields with T-bill rates across the 3 tenors coming down in Q418. This made it easier for the government to continue borrowing from the domestic market at lower rates. We expect the short-term rates to remain stable into Q1 2019.

Inflation rate

The cost of living measure averaged 5.61% in Q4 2018 up from an average of 4.70% in Q3 driven by higher fuel, transport and food prices. These three items combined account for 63% of the Consumer Price Index (CPI). The transport index was the most affected due to imposition of 8% VAT on petroleum products as well as a temporary increase in crude oil prices. Crude oil prices have continued to decline after oil producers came together to curb the shortage caused by the Iran sanctions. We expect inflation levels to be lower in Q1 2019.

Currency

The Kenyan shilling appreciated against the dollar supported by inflows from offshore investors and banks cutting dollar positions amid dwindling importer demand, on November 2018. Commercial banks quoted the shilling at 100.65/85 per dollar. In October, the Kenyan shilling remained stable due to thin importer and corporate dollar demand meeting with some inflows from the horticulture and tourism sectors. Commercial banks quoted the shilling at 100.90/101.00 per dollar. In November, the Kenyan shilling firmed against the dollar with the Central Bank of Kenya denying claims by the International Monetary Fund that the Kenyan shilling was overvalued.

The current account position has improved on the back of improved agricultural exports and tourism receipts. Foreign exits and sentiments of currency depreciation could further pressure on the currency in Q1 2019; however, with fairly healthy inflows the shilling should be stable.

Equity Market

The NASI and NSE-20 shed 6.17% & 1.45% respectively in Q4 2018. Equities were on a decline due to foreign investor outflows that hit frontier and emerging markets as they showed little confidence in their performance. Kenya was particularly affected following uncertainty around new tax measures and lukewarm relations with the IMF after failure to complete two reviews of the program that ended on September 2018. Strategic-Current fundamentals do not warrant a decline in equities as witnessed in 2018. The gap between fundamentals and valuations presents a potential significant gain. It is expected that the challenges currently being experienced are short-lived.

Property Market

Hass Consult Index; Rents across the market increased by 1.5 percent over the quarter down from 3.3 per cent in the previous quarter on tightening market liquidity. Property prices posted a 1.1 per cent over the quarter with detached housing leading the segment up 1.3 per cent while semi-detached houses posted the strongest total return at 11.8 percent. Land prices for both Nairobi suburbs and satellite towns register lackluster performance as buyers await direction on the Government's affordable housing policy. Despite renewed confidence, the interest rate cap remains a hurdle towards the market realizing its full potential.

SOUTH SUDAN

Economic Review:

Real GDP contracted by an estimated 3.8% in 2018, following a contraction of 6.3% in 2017, supported by a slight recovery in global oil prices. On the supply side, the oil sector continued to be the main contributor to growth, accounting for about 70% of GDP in 2017, followed by agriculture (10%), manufacturing (7%), and services (6.1%). On the demand side, public consumption was the main contributor, following the 2017 56% increase in public salaries. The current account turned to an estimated deficit of 12.7% of GDP in 2018, from a surplus of 1.7% in 2017, due to a decline in exports, and continued to stymie growth. Income tax increases, high inflation, internal conflicts, disruptions to oil production, a fall in oil prices, and weak agricultural production were the main drivers of the decline in GDP.

The fiscal deficit was an estimated 1.5% of GDP in 2018, down from a surplus of 5.8% in 2017. Recent debt sustainability analysis puts South Sudan in the debt distress category, with total public debt estimated at 48.5% of GDP in 2018 and public external debt at 32.6% of GDP. Inflation remained high at an estimated 104.1% in 2018, due mainly to uncontrolled growth in the monetary base. The South Sudanese pound depreciated further in 2018, and the economy continued to have severe foreign exchange shortages, leading to an active parallel market.

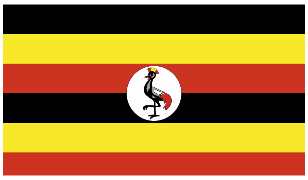
Inflation rates

The inflation rate in South Sudan was recorded at 33.50 percent in November of 2018. Inflation Rate in South Sudan averaged 88.66 percent from 2008 until 2018, reaching an all-time high of 835.70 percent in October of 2016 and a record low of -14 percent in November of 2013.

Currency

Sudan continues to face macroeconomic challenges and a shortage of hard currency, and the Sudanese Pound has further deteriorated to 70 SDG on the parallel market in December. Food prices are already 150-200 percent above average and are expected to increase to 200-250 percent above average during the 2019 lean season, reducing household food access.

UGANDA



Real GDP growth was an estimated 5.3% in 2018, up from 5.0% in 2017. On the supply side, industry (9.7% growth) and services (8.2%) contributed considerably, while agriculture showed slower growth (4.5%). On the demand side, greater investment in public infrastructure was the main contributor to growth, while the current account registered a deficit due to growing imports of capital goods, thereby stymieing growth.

The fiscal deficit widened to an estimated 4.7% in 2018, driven largely by ongoing public infrastructure investments supported by borrowing from both external and domestic sources. The country's debt-to-GDP ratio was estimated at 40.0% in 2018, with external debt at 28.1% of GDP. The 2017 debt sustainability assessment indicated that Uganda is at a low risk of debt distress. Inflation fell to an estimated 3.2% in 2018, due mainly to lower food inflation and prudent monetary policy.

Under the inflation targeting monetary policy framework, the Bank of Uganda sets a policy interest rate, called the Central Bank Rate (CBR), which is intended to guide short-term inter-bank lending rates and thereby influence the marginal cost of funds for commercial banks. The BOU uses regular interventions in the money market to ensure that the 7 day interbank rate is as close as possible to the CBR.

The CBR is the operating target of monetary policy. It is set once every two months and is publicly announced, at a press briefing held immediately after the rate setting meeting, so that it clearly signals the stance of monetary policy going forward. The CBR is set at a level which is consistent with achieving the objectives of monetary policy.

MALAWI

The country's economic performance has historically been constrained by policy inconsistency, macroeconomic instability, poor infrastructure, rampant corruption, high population growth, and poor health and education outcomes that limit labour productivity. The economy is predominately agricultural with about 80% of the population living in rural areas. Agriculture accounts for about one-third of GDP and 80% of export revenues. The performance of the tobacco sector is key to short-term growth as tobacco accounts for more than half of exports, although Malawi is looking to diversify away from tobacco to other cash crops.

Inflation has continued in single digits, at 9.0% in July 2018. Projected economic growth of 4.3% in 2019 faces continuing risks of weather related and macro-economic shocks, particularly due to potential fiscal and debt pressures in the lead up to elections in May 2019, while a challenging business environment further weighs on growth.

The current account deficit was 9.8% of GDP in 2016/17, down from 13.0% in 2015/16. The improvement was due largely to a reduced import bill following the 2017 bumper harvest. However, the current account deficit worsened to an estimated 11.3% of GDP in 2017/18 but is projected to narrow slightly to 10.9% in 2018/19.

HOW WE MANAGE OUR RISKS

CIC has a well establish Risk Management Governance framework; our risk management goal is to ensure the group is able to deliver on its objective. Our risk management culture is driven by the board who have set the tone at the top by integrating risk management in the forward looking strategy for the Group.

All CIC personnel are responsible for managing the risks that relate to their particular area of work. Risks should be managed in a way to optimize the gains for CIC and its stakeholders.

The goal is not to eliminate risk, but to manage the risks in all of CIC's activities to maximize opportunities and minimize adverse consequences.

Risk Management Governance Framework

Our risk management Governance is as hereunder;

Board of Directors

The board is responsible for determing the nature and the extent of the significant risks the company is willing to take to achieve its strategic objectives.

Audit and Risk Committee

Reviews risk managment intiatives including; company key risk exposures, mitigating controls and Compliance with regulations and processes.

Senior Management

These are the risk owners who are responsible for allocating resources to deal with risk managment, making risk and business priority and aligment of risk management strategy to the companys stategy.

Risk and Compliance

Coordinating the risk management throughout the whole company liaising with all the stakeholders.

Internal Audit

Providing assurance of the adequacy of the risk management process.

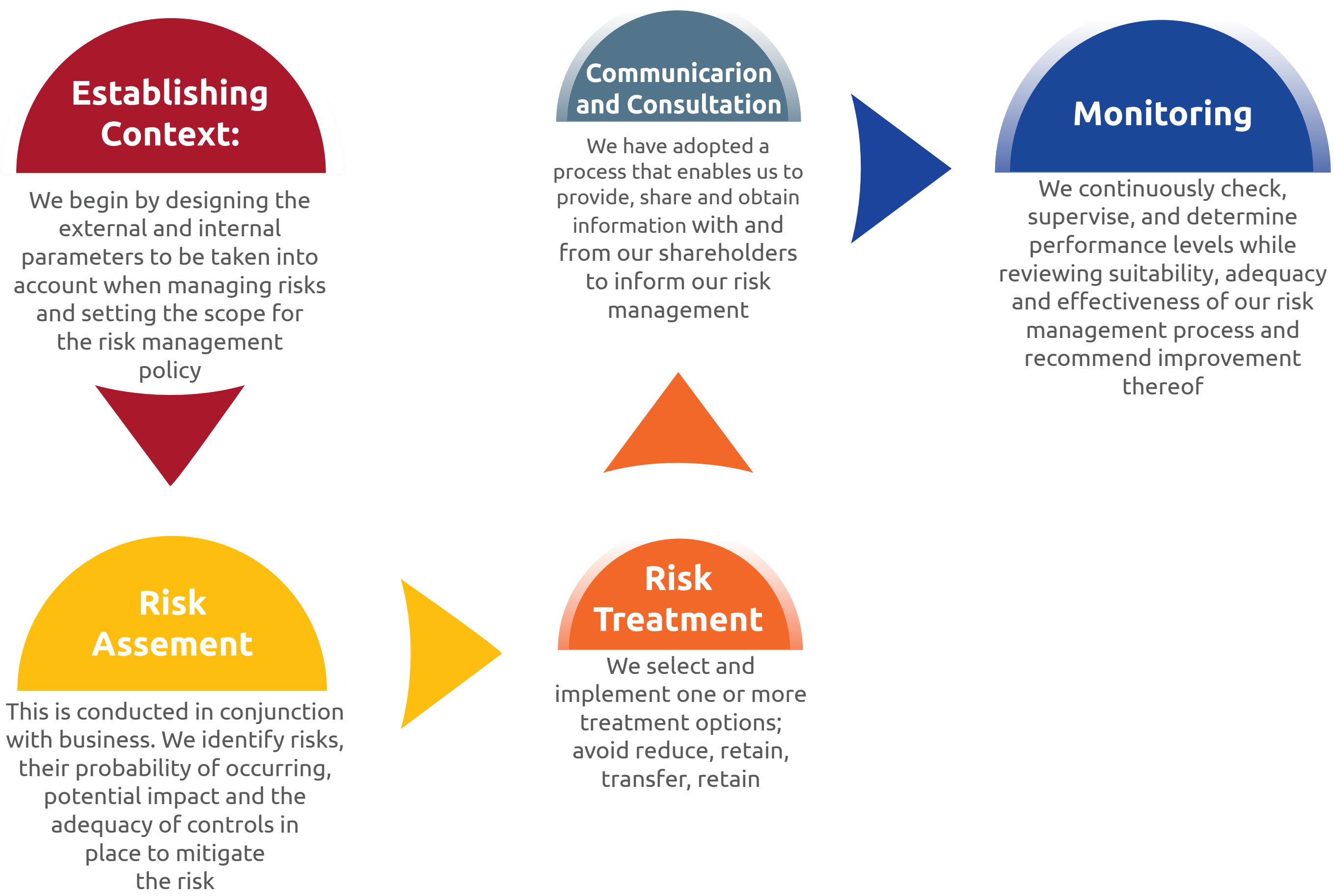
Key Principles for Managing Risks

Alignment exists between the objectives, risks and controls at all levels within CIC:

- Between strategies, operational objectives and individual job accountabilities
- Between the risks being taken and the CIC's appetite and tolerance for risk
- Between the control and the desired level of investment in implementing such control

Given the fast and continuous change in today's business environment, CIC's competitive advantage is dependent on the rapid deployment of new strategies, whilst remaining focused on existing strategies.

In order to achieve the above, CIC must therefore streamline the actions of all staff, individually and collectively towards achieving its business objectives. This entails the alignment of the objectives, risks and controls throughout the enterprise. It should encompass the respective business processes and operational activities undertaken by all levels of staff. The diagram below depicts how this alignment is achieved



Our Principal Risks and Mitigation Plan

Key Risk Description	Mitigation
Insurance Risk This is the risk under our insurance contracts which carry a possibility that the insured event occurs and the uncertainty of the amount resulting from the event	We have developed internal processes in line with regulations, supported by applied quantitative data to guide the underwriting process. We have invested in a qualified manpower to ensure best practice in insurance business from underwriting to claims.
Regulatory Risk Our regulatory environment is complex; The ever increasing and changing regulatory requirement the Group faces from it Kenyan and regional operations is a key source of risk.	CIC has built a compliance culture and compliance is monitored through a well-established compliance model. We have also endeavored to build a constructive, responsive and open relationship with out regulators and other industry stakeholders.
Financial Risk The exposure to this risk is through our financial assets, Financial Liabilities, reinsurance assets and insurance liabilities. The risk is that the proceeds from our financial assets are not sufficient to fund our obligations.	The group manages this risk mainly through Asset Liability Matching Framework that has been developed to match assets arising from insurance liability to investment contracts in terms of duration and returns
Credit Risk This is a risk that a counter party will be unable to pay amounts in full when due. These may arise out of insurance/reinsurance contracts, cash at bank, corporate bonds, deposits at bank and anticipated provisions based on implementation of IFRS 9.	The group has enhanced its credit management framework, which enables us to limit our overall risk exposure to any single counterpart.
Cyber Risk An external, cyber attack or insider threat could result in service interruption, breach of confidentiality and loss of client, transaction and investment data. This would have a negative impact of our revenues, customers, reputation and leave us vulnerable to fraud.	CIC has strengthened its ICT environment and we are investing in better systems and data protection add-ons to ensure our operating environment is hardened against any attacks. We have also ensured we have a robust BCP and a contracted a state of the art DRP center to ensure that we are able to recover our data in case of loss of primary data site.

Whistle Blower Policy

CIC has a well-established whistle blower policy that provides a platform for stakeholders (Customers, staff, agents, brokers, suppliers) to raise concern regarding any suspected wrongdoing. The whistle blower platform is managed by an independent Ombudsman to ensure anonymity.

The policy has been designed to entrench risk escalation to the board ensuring that all reports are followed to conclusion. Our policy is enforced by the code of conduct and anti-fraud policy to which every staff member must attest.

OUR STRATEGIC PILLARS

Our Strategic Focus

To achieve our goal of becoming the undisputed leading insurer in Kenya, we have identified 10 Key Focus areas that would drive us towards realising this vision. We have developed strategies to address each of these focus areas, and are confident that they will transform our business and give value to our shareholders.

Profitable Growth
We will have profitable growth and not growth at any cost.

Prudent Cost Management
We have created a team to focus on innovation and continuous improvement to ensure prudent cost management

To Enhance Efficiency
We have business processes to address control weaknesses / checklists / consistency

Employee Engagement
We link rewards / personal development / career opportunities to performance management.

Customer Experience
We have aligned brand promise with client experience, periodically reviewing product, market, customer segment, and channel alignment.

Reliable, Accurate and User-friendly Systems
This involves aligning operational strategy across functional silos and have introduced KPIs accordingly.

Sales Force Efficiency
Involves enhancing analytical capability to create more specific sales activity.

Effective Debt Management
This is crucial in addressing solvency, growth capacity and share capital requirements.

Data Analytics
This entails use of data analytics and market intelligence in decision making.

Delivering a Return
The above strategic pillars will ensure that we outperform set benchmarks.

CORPORATE SOCIAL RESPONSIBILITY

Introduction

CIC Insurance has served the Kenyan population for 50 years responding to insurance and investment needs to a wide range of customers. We have remained true to our mission of enabling people achieve financial security. We are guided by our core values and cooperative principles, which form our identity. To drive its corporate social responsibility activities, the company established CIC Foundation which runs a high school scholarship project as its flagship program.

Education

CIC Insurance is passionate about empowering members of society. Notably education plays a big role in transforming communities as supported by Sustainable Development Goal Number 4. In the period under review, CIC Foundation sponsored 67 students to help them achieve their dream of attaining high school education. The initiative was informed by the Foundation's objective of promoting education opportunities for needy students. Beneficiaries of the scholarship program are drawn from accross the country.

Environment

As part of our contribution to mitigate the effects of climate change, CIC believes in conserving and protecting the environment for a better life. The staff joined other cooperative members during the Ushirika Celebrations planting over 600 trees, spreading the message of the need to conserve the environment. The staff also participated in quarterly clean ups through Upperhill District Association (UHDA) where CIC is a member. The aim was to nuture a culture of concern and care for the environment to those working and living in the area.

Group Chairman Japheth Magomere OGW (center) joins CIC staff during the Ushirika tree planting initiative at Jamhuri grounds Nairobi

CIC staff take action to promote a clean and healthy environment in Upperhill

AKI Medical Camp

In accordance with the cooperative spirit which is also embedded in our values, we joined other insurance companies to sponsor the Association of Kenya Insurers (AKI) medical camp which was held in Machakos, Matuu area. This initiative aimed to raise awareness and offer treatment to ailments prevalent in the area. Some of the services offered to the locals included diabetes screening, education on diabetes, oral healthcare, dental check ups, cancer screening, VCT services, nutrition and general counselling. The medical camp reached out to 1600 residents. AKI partnered with Kenya Diabetes Management and Information Centre.

From left - GM CIC Group Joseph Kamiri presents CIC's donation to AKI Executive Director Tom Gichuhi (center) in support of the medical camp. With him is Eva Muchemi Executive Director Kenya Diabetes Management Centre

Blind Walk

We are passionate about educating the public on risk awareness and mitigation measures. This is what we do and comes naturally as we interact with the members of society. We are concerned about the rate of accidents on our roads and recognise the need to sensitize people on observing safety measures for the benefit of all road users including persons living with disability. CIC joined Kenya Society for the Blind to sensitize Kenyans about respecting road users with visual impairment. The initiative included a blind walk which gave those gifted with sight the opportunity to experience the life of a road user living with visual impairement. This initiative included eye screening for the participants.

Participants take up the blind walk to raise awareness about road users with visual impairment

Run for the Bibless

Kenya National Adult Literacy Survey, 2006 report, indicated that 38.5 % (7.8 million) of the Kenyan adult population was illiterate. Although literacy levels have been a challenge in Kenya especially in the remote areas, there has been improvement over time with the support of free primary education. The status is despite the fact that literacy skills have proven to enhance social and economic development thereby standing out as a requirement. CIC partnered with Bible Translation and Literacy (BTL) through a charity run to raise funds that would be used to improve literacy skills for small language groups in Kenya.

Some of the CIC staff who participated in Run for the Bibless initiative

Golf for Charity

As we interact with the society, we take time to spread hope to humanity. CIC participated in the St Andrews Charity Golf challenge. This annual golf tournament is held to raise funds to support children homes at Tumaini, Hawa and Isara. The beneficiaries form a vulnerable section of society. Through the funds drive, the children from these homes are able to access basic needs, a good education, and the opportunity for a bright future.

Intermediaries Nelson Ndegwa and Muchemi Ndung'u with MD CIC General Elijah Wachira (2nd Left) and GM Joseph Kamiri (4th from L) at a charity golf

BUSINESS REVIEW

Operating and Service Delivery Models

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

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. The Group's focus on innovation and excellence in service delivery has differentiated it in the market and earned it National and International recognition.

Products and Services

CIC Group is licensed to trade in all insurance product and services lines except aviation. Our operating model includes a comprehensive and fully embedded risk management process which assists us in identifying and managing risks and opportunities to deliver the Group's strategy and the other essential elements of our business model. CIC Group was awarded the 2018 Group Life Company of the Year Award for a third year in a row. In the year the Group also received the Winner's trophy for the FIRE Awards, Insurance category.

Claims Settlement and Management Process

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

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

Distribution and Partnerships

The group has footprint across the country through the branch networks, brokers & independent agents and tied financial advisors. We endeavor to bring our products and services closer to our clients through our branch network and our regional offices in South Sudan, Uganda and Malawi. We have a head office at Upper hill, Nairobi and 27 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. CIC is a member of ICMIF and was selected to represent the African continent in the 555 project. The Kenya project began with studies which involved in-depth insights into the inclusive mutual insurance environment with a view of identifying the gaps that would lead to scale up of insurance among low income households.

CIC GROUP

Income and Asset Growth

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

Our focus in setting such targets is to achieve sustainable performance over the short and long term. We supplement the income from our underwriting processes through the returns from the various investment portfolios. The Group owns two commercial buildings in Upper hill which generates rental income and parcels of land which continue to appreciate and offer competitive returns. Approval for change of use (from agricultural to mixed use/commercial) for Kiambu property was granted in the year. Consultants engagements are underway as we seek to maximise value extraction from the investments. We create value for our shareholders by efficiently managing the financial resources and assets.

Information Communication and Technology

The company has invested heavily in ICT infrastructure and systems. The customers can file a report including claims at any CIC branch offices countrywide. The branches are interconnected with the head office via a wide area network which makes communication easy. The group has also embraced ICT technology to distribute its products through M-Bima platform. To enhance efficiency and timely reports, the group is implementing an ERP system within which will integrate processes and reports. This is complemented with the changes and improvements on the core business systems.

Employees and Leadership

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

Strong Brand Presence and Value Proposition

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

Procurement Policy Statement and Practices

We have established a procurement policy whose primary objective is to ensure that best total value is achieved when procuring goods, services and works while simultaneously ensuring it supports CIC Insurance Group mission and operations.

The policy is designed to ensure that procurement at CIC Group is conducted in a transparent manner that promotes fair competition, instils integrity, transparency and fairness while eliminating arbitrariness in the entire process. This will ensure increased confidence in the process by shareholders, staff, vendors and the general public.

The CIC Insurance Group Procurement policy is reviewed bi-annually to ensure it is synchronized and benchmarked with emerging best practice in procurement and to address any emerging issues that may arise during implementation.

CIC Group spends a sizeable amount of its financial resources on procuring various goods, works and services to facilitate the discharge of its mandate and mission. This is done by following a uniform, systematic, efficient and cost effective procedure to ensure that best total value is achieved when procuring goods, services and works.

The procurement process is conducted in a transparent manner to bring competition, fairness and elimination of arbitrariness in the system under the following principles

1. Value for money: This is the trade-off between price and performance that provides the greatest overall benefit under the specified selection criteria.

2. Fairness: To achieve best value for money, the procurement process must protect the Group from proscribed practices such as fraud, corruption, collusion and other unethical practices.

3. Integrity & Transparency: The manner in which the procurement process is undertaken must provide all internal and external stakeholders with assurance that the process is fair and transparent and that integrity has been maintained.

4. Effective Competition: By fostering effective competition among vendors, CIC Group applies the principles of fairness, integrity and transparency to achieve best value for money.

5. Best Interests: Undertaking procurement in the best interest means carrying out procurement activities in a manner that enables CIC Group attain its general and specific objectives in compliance with applicable procurement procedures.

Risk Management Practices

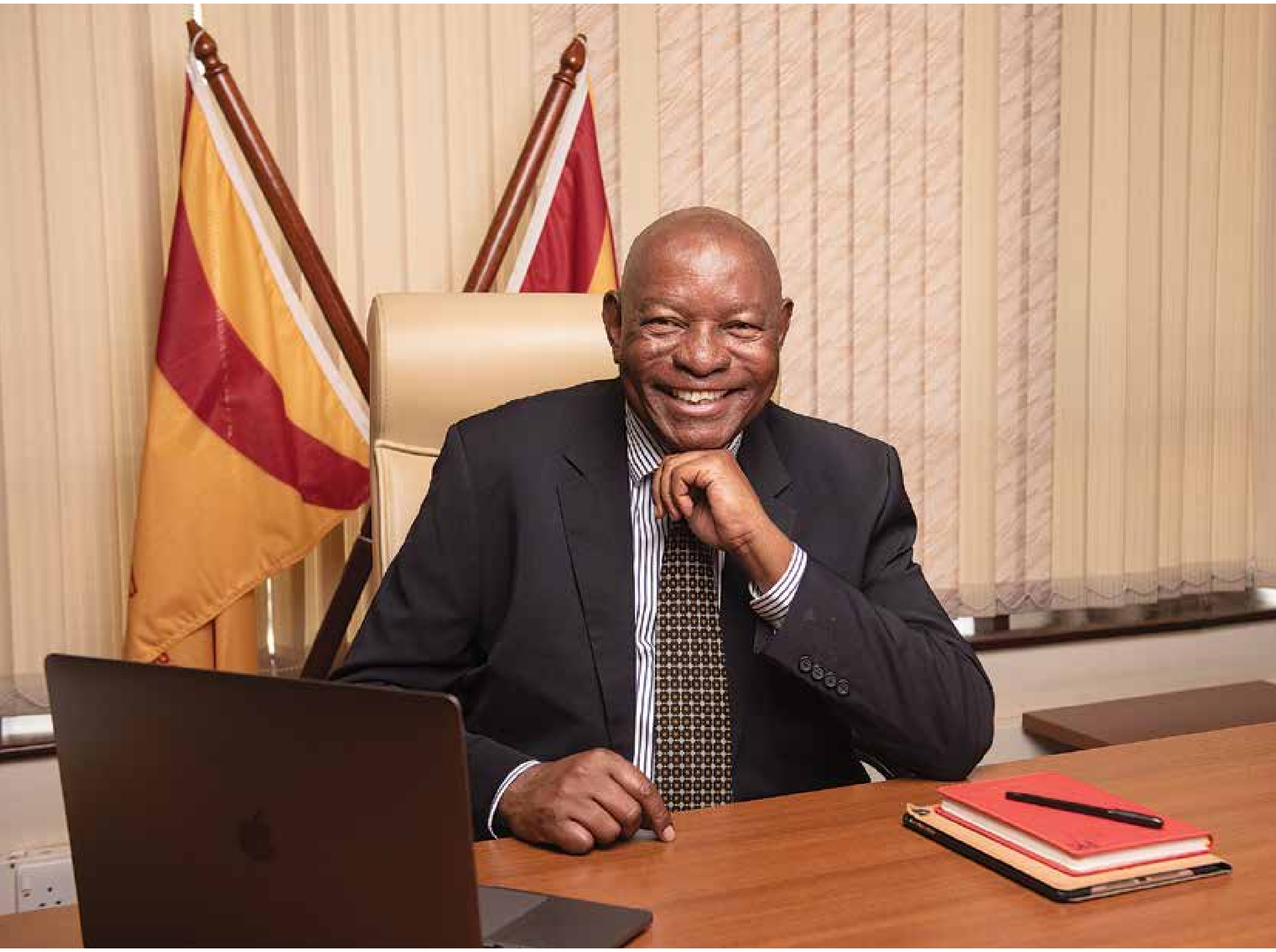
Key risks facing the company and industry at large are fraudulent activities, undercutting by other players thereby causing unfair competition and challenges in collection of premiums. Various strategies and initiatives have been implemented to mitigate against adverse effects of these risks. This includes adopting strict underwriting guidelines on pricing of all risks, thorough claims investigations, cost containments and aggressive collection of all current and old debts. Stringent Solvency requirements by the regulator and the poorly performing investment environment, led the company to adopt a strategy of reduced risk appetite and strict underwriting terms.

WINNER
2018
Financial Reporting Award
INSURANCE CATEGORY

AKI Awards
Overall Winner 2018

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

MESSAGE FROM
THE GROUP CHAIRMAN'S DESK



On behalf of the CIC Insurance Group, I am pleased to present to you the Annual Report and Financial Statements for the year ended 31st December 2018. Broadly speaking, the economic environment in 2018 had a noticeable shift from 2017, owing to the country's stability and favourable weather conditions. The macroeconomic factors enabled business continuity and some element of growth across various sectors, leading to the economy expanding by 6% at the end of the third quarter, compared to 4.7% registered the same period in 2017.

The stable conditions however did not translate to growth in the insurance industry. As at the third quarter of 2018, General Insurance premiums had only grown marginally by 1.7%, to close at KShs 101 billion while Life Insurance premiums had risen by 3.9%, closing the quarter at KShs 62.8 billion. This was on the backdrop of fraudulent claims which affected many industry players especially those operating general business.

CIC Group gross written premium in 2018 grew by 12% from KShs 14.9 billion to KShs 16.6 billion. Profit before tax for the year grew by 64% to KShs 852 million from KShs 519 million in 2017. The group's asset base grew by 8% to KShs 32.9 billion from KShs 30.5 billion.

Our General business registered a 1% growth in gross written premiums, from KShs 10.1 billion to KShs 10.2 billion as at close of 2018. CIC General profit before tax grew by 88% to KShs 630 million from KShs 335 million. These results followed an analysis at the beginning of 2018 which indicated a likely increase in risk based capital requirements, slowdown in business which would lead to undercutting, and low returns in investments. We then embarked on strategies that focused more on profitability, debt and fraud management which lead to a significant improvement in the results.

Our long term business, CIC Life Assurance gross written premium grew by 23% from KShs 4.1 billion to KShs 5.1 billion. Our growth was mainly organic with cooperatives being a major contributor towards group life business. Profit declined by 16% from KShs 224 million to KShs 188 million. This was as a result of reserves for our annuity business, and poor performance of equities at the Nairobi Securities Exchange (NSE).

CIC Asset Management maintained a strong performance closing the year with KShs 39 billion of assets under management, compared to KShs 32 billion in 2017. Profit before tax was KShs 126 million from KShs 85 million. Total income was KShs 336 million from KShs 262 million. The growth in CICAM was mainly as a result of our marketing efforts, good customer service, and support from key segments such as cooperatives.

Unlike a number of our competitors, CIC did not issue a profit warning in the period under review owing to the great support from our customers, prudent underwriting and effective strategies implemented by the company. As a result of the financial performance, the board recommends paying a dividend of 13% (2017,12.5%).

FUTURE OUTLOOK

As a company that has served the market for 50 years, we still have a lot to accomplish. We are a mature and vibrant brand aiming to take over the market through well thought out strategies. Technology is a critical component in our business. We have invested, and will continue to invest on technological systems that provide efficiency and value to our customers. The e-Oxygen for instance is a system that has contributed to the growth in medical business. As a result of this and other measures, medical business has consistently registered profits in the last two years.

We recognise the role of customers in growing our business. In essence, everything revolves around the customer. This is why we continue to reflect on the customer journey, and implement measures that improve the customer experience. Our strategic focus includes understanding and being responsive to customer needs in order to provide unmatched services. We continue to enhance relationships in all our market segments to help us achieve this.

Our journey towards the next 50 years will require building strategic partnerships with like-minded organisations. This will allow us to break into new and existing markets, as well as provide learning opportunities in these markets. These partnerships will enable us to understand the market better, including success factors that will drive our services further as we aim for the market leader position.

As an insurance and financial investment provider, we are an important player in the cooperative sector and intend to continue the good work in building the cooperative movement. CIC is committed to deepening financial inclusion by offering insurance and financial investment solutions that appeal to a wide range of customers. Our mission is to enable people achieve financial security. As we look forward to the future, our promise is that we shall continue to provide the right financial solutions to enable people achieve financial independence, and empower them to achieve their dreams, which is a goal shared by cooperatives.

Thank you.

Japheth Magomere OGW, Chairman CIC Group

BOARD OF DIRECTORS

Mrs. Mary Mungai

Mr. Gordon Ondiek Owuor

Mr. Philip Lopokoiyit

Mr. Harrison Githae

Mr. James Njue Njiru

Ms. Jyoti Patel

BOARD OF DIRECTORS

Mr. Japheth Anavila Magomere OGW
GROUP CHAIRMAN

Mr. Japheth Anavila Magomere aged 67, is the President of the International Co-operative Alliance (ICA) Africa and the Vice President of ICA Global. He 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 Cooperative Alliance of Kenya and is the Honourable Secretary of Maisha Bora Sacco. He has been a Council member of East African Farmers Federation since 2008 and joined the board in 2017. Japheth is the current Chairman of the National Council for Ushirika Day Celebrations, 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.

Mr. Peter Kipkirui Nyigei
GROUP VICE CHAIRMAN

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

Mr. Tom Gitogo
GROUP CHIEF EXECUTIVE OFFICER (GCEO)

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

Mr. Michael Ondinya Wambia
DIRECTOR

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

Mr. Jonah Makau Mutuku
DIRECTOR

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

Mrs. Rosemary Majala Githaiga
DIRECTOR

Mrs. Rosemary Majala Githaiga aged 55, has over 25 years' experience as a lawyer and is the former Group Company Secretary of the Co-operative Bank of Kenya Limited. She is a graduate of Nairobi University, LLB (Hons), and has a Post Graduate Diploma in Legal Studies from Kenya School of Law. She is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries (CPS (K), an Associate Member of the Chartered Institute of Arbitrators, a member of the Institute of Directors of Kenya and a member of Women Corporate Directors (WCD) Kenya Chapter. She is an accredited governance auditor and consultant. Rosemary also serves as a director on the boards of the Co- operative Bank of South Sudan and CIC Africa Insurance (SS) Limited.

Mr. Gordon Ondiek Owuor
DIRECTOR

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

Mr. Philip Lopokoiyit
DIRECTOR

Mr. Philip Lopokoiyit aged 52, joined CIC Insurance Group Limited as an independent director and Chairman of the Audit committee. Philip is also a Director at NIC Group PLC. He has extensive experience in financial management and has served in senior management positions for over 20 years. He is currently the Managing Director, Central Services at Flamingo Horticulture Ltd and has previously served in the roles of BAT Area Head of Finance in West and East and Central Africa respectively. Philip is a member of the Institute of Certified Public Accountants of Kenya CPA (K), a fellow Member of the Institute of Chartered Accountants in England and Wales (FCA) and a member of the Institute of Chartered Management Accountants, ACMA. He also holds an MBA from Warwick Business School, UK and a Bachelor of Commerce, Accounting option from the University of Nairobi. He has attended various international and local trainings regarding matters of governance and leadership.

BOARD OF DIRECTORS

Ms. Jyoti Patel
DIRECTOR

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

Mr. Harrison Githae
DIRECTOR

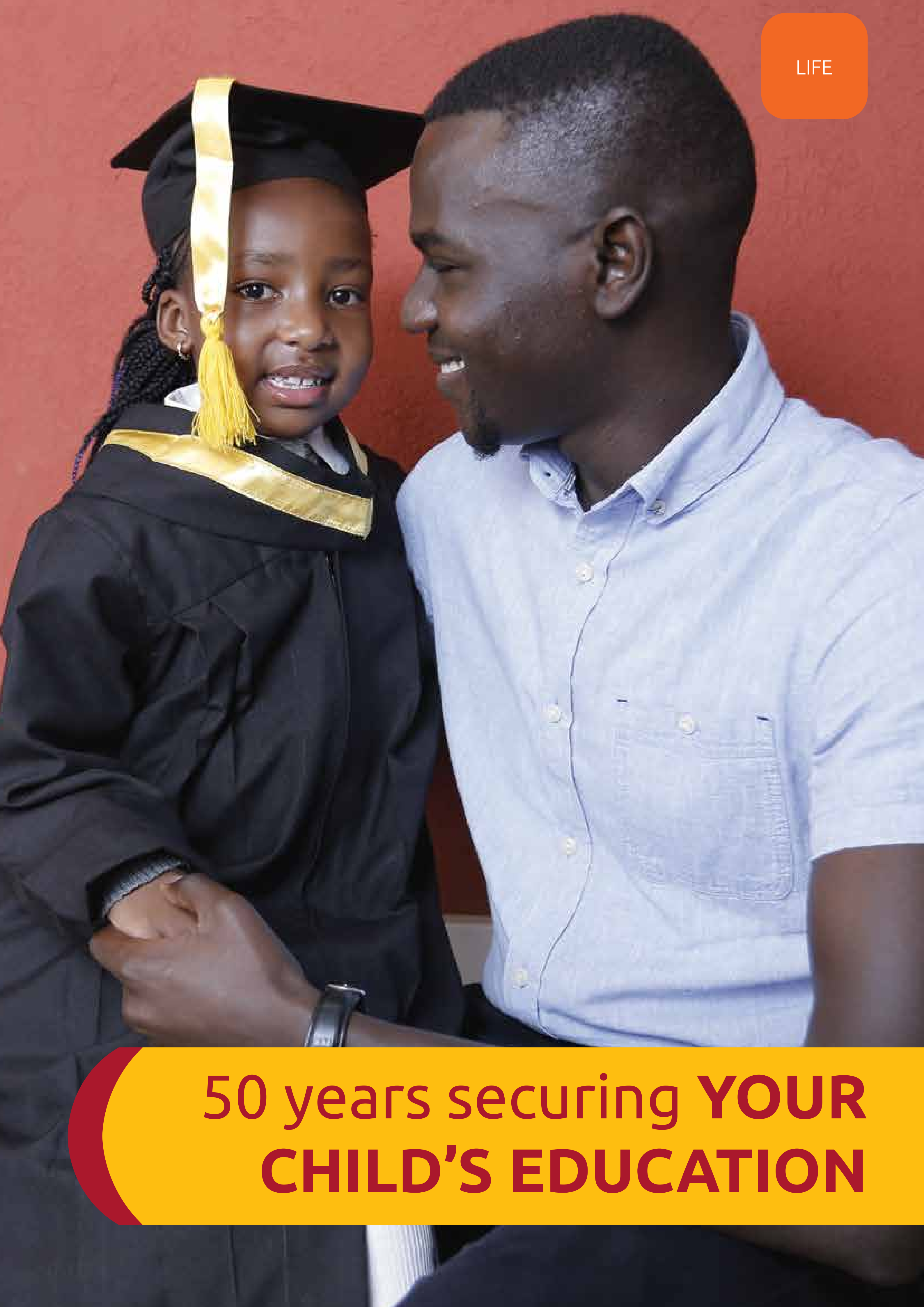
Mr. Harrison Githae Hunyu aged 72, is the Director representing Central Region based societies and is currently the Chairman of Mutheka FCS Limited. He is a Board member of Nairobi Coffee Exchange Limited. He has worked as a Parliamentary Reporter (Hansard), District Officer, District Commissioner and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

Mrs. Mary Mungai
DIRECTOR

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

Mr. James Njue Njiru
DIRECTOR

Mr. James Njue Njiru aged 51, 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 Cooperative 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.



50 years securing **YOUR CHILD'S EDUCATION**

MESSAGE FROM
THE GROUP CHIEF EXECUTIVE OFFICER

On behalf of the Management Team of CIC Insurance and its subsidiaries, it is my pleasure to present our annual report and financial statements covering the year ended December 31st 2018.

Insurance Industry Analysis

Insurance premium recorded a growth rate of only 3.44%. Life sector grew by 5.27% compared to a 2.23% growth in the Non-Life segment. The non-life segment contributed 59.3% (KES 129.03 billion) while long-term insurance business contributed 40.7% (KES 87.34 billion) of the total premium written by insurers during the period under review.

The loss ratio under general insurance for the period was 62.2% (2017: 60.9%). Claims incurred by general insurers were KES 56.78 billion as at December 2018, an increase of 3.5% compared to KES 54.86 billion incurred during the previous year. Commissions and management expense ratios under general insurance business were 7.2% and 32.4% respectively resulting in a combined ratio of 101.8%.

The insurance industry asset base grew significantly by 19.67% to KES 637.4 billion as at the end of December 2018 from the KES 532.6 billion held as at the end of December 2017. Investments by the industry insurers were a total of KES 530.35 billion.

CIC GROUP FINANCIAL PERFORMANCE

The company gross written premiums grew by 12% from KShs.14.9 B in 2017 to KShs.16.6 B in 2018. The company results continued to improve the Group's profitability before tax rising from KShs 519 M in 2017 to KShs 852 M in 2018.The bulk of this profitability came from our operations on Kenya.

CIC General Insurance

CIC market share has averaged 7.7% over the last 12 month period.

We continue to be the market leaders of note in both Motor Private and Motor Commercial classes. Solvency for most players continues to be a challenge – for now the minimum requirement is 100% but this should increase to 200% by June 2020. Our solvency at 142% is above the minimum though impacted by the additional provisions necessitated by the implementation of IFRS9.

We achieved a profit before tax of Shs 630m in this subsidiary. Improving the quality of business and continued expense management were key contributors to the profitability. Additionally, we have seen the benefit of the motor accident assessment Centre which has reduced fraudulent claims.

CIC Life Assurance

Our life insurance market share continues to grow. The punishing reserves regime for annuity business is the main reason the life industry has significantly scaled down on growth. Through AKI, the industry is lobbying to have this reserving methodology changed for 2019 going forward. Solvency continues to be a challenge with the industry average at 98% (minimum should be 100% and 200% by June 2020). CIC solvency is currently at a commendable 166%. Our professionalism saw us win the AKI Group Life Company of the year award yet again.

CIC Asset Management (CICAM)

Despite a difficult investment environment for most of 2018, CICAM has continued to do well. We command about 30% of the unit trust market and the team hopes to push the more knowledgeable customers to take this opportunity to invest in the equity fund for enhanced returns as the market recovers. During the year we introduced three more products (Umbrella Scheme, Wealth Management and Income drawdown to cater for customer needs.

Regional Businesses

Our businesses in the region have continued to grow the top line despite numerous challenges. Both Malawi and South Sudan posted improved results.

UGANDA

Premium grew commendably by 53%. Profitability was however adversely affected by low Investment income and the impact of IFRS9 on premium debtors.

SOUTH SUDAN

There is evidence on the ground that the economy is picking up. Our premium income has grown significantly mainly on the back of medical business. Due to Hyperinflation challenges, we have changed our base/reporting currency to USD.

MALAWI

There are strong indications that at the current trajectory, our Malawi business will very likely break even in 2019.

WAY FOWARD

CIC Group has for several decades shouldered the risks of Kenyans by providing flexible Insurance and financial services built around their needs. We intend to continue playing our role as a key financial services group in the region and the biggest cooperative insurer in Africa. In addition to insuring nearly all cooperatives, we will continue to insure big Kenyan blue chip companies from all sectors of the economy as well as government entities, by doing our work diligently and professionally.

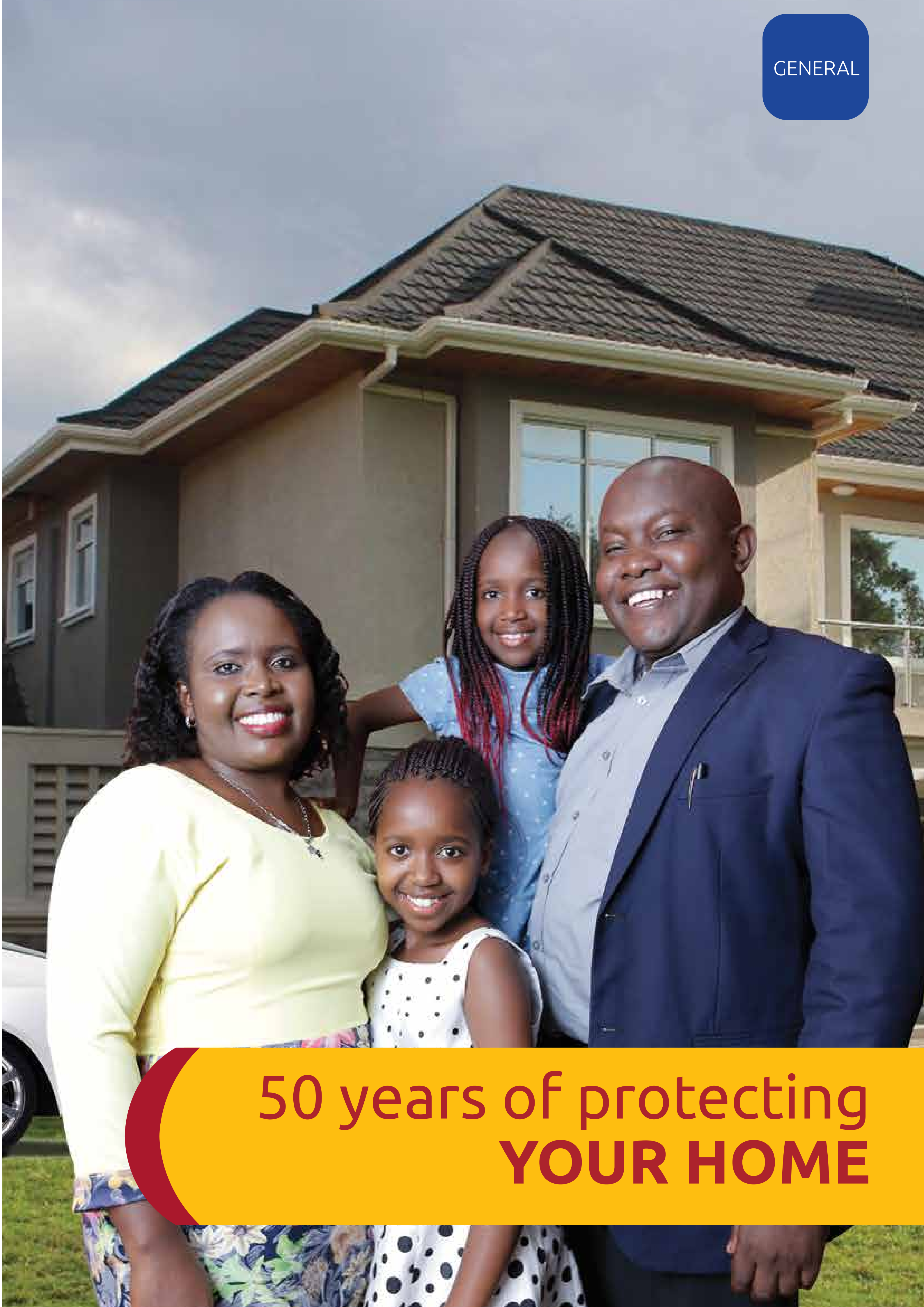
We take great pride in setting the pace in innovation as well as financial reporting in the insurance industry and we were not surprised when we won the FiRe award in 2018.

We are keen to go out to our clients and partners to honestly and sincerely seek feed back on what they would like us to address. This is how we have grown together and continued to improve our customer service. Many thanks to clients, board and staff for all the support.

We will continue to keep our word.

TOM GITOGO

GROUP CHIEF EXECUTIVE OFFICER


GENERAL
50 years of protecting
YOUR HOME

BOARD OF MANAGEMENT

George Wafula

Japheth Omare

Andrew Murunga

Joseph Kamiri

Pamela Oyugi

Mary Noel A. Wanga

BOARD OF MANAGEMENT

Henry Njerenga

Michael Kabiru

Richard Nyakenogo

Muyesu Luvai

Susan Robi

Tabitha Kihanya


Henry Malmqvist
Dickson Ireri
Fred Ruoro
Michael Mugo
Grace Mundu
Salome Wambui

BOARD OF MANAGEMENT

Tom Gitogo

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

Elijah Wachira

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

Jack Kionga

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

Stanley Mutuku

Stanley aged 46, is the Managing Director CIC Asset Management. He holds an MBA (Double Major) in Finance and Strategic Management and a B Com (Double Major) in Business Administration, Management and Marketing. Professionally, Mr. Mutua has a CPA, CIM and Capital Market Specialist Training - INTERFIMA and is currently undertaking his CFA qualification. Mr. Stanley has over 20 years work experience in the financial services industry having worked for Old Mutual Kenya and Jubilee Insurance. He has worked in CIC for the last 8 years. He is also a licenced practitioner and member of ICIFA (K).

George Wafula

George aged 44, is the Group Chief Finance Officer, CIC Insurance Group. George has an MBA in Strategic Management from Strathmore Business School and holds a Degree in Business Administration from USIU. George also has a certificate- Doing Business in a Globalized Environment from IESE Business School, Spain. He is a member of the Institute of Certified Public Accountants of Kenya as well as ACMA (Association of Chartered Management Accountants). Before Joining CIC Insurance Group, George had over 20 years' experience in various capacities in FMCG at Unilever, Telecoms at Airtel and Insurance at Kenindia Assurance.

Japheth Omare

Japheth aged 43, is the Managing Director, CIC Africa Uganda Ltd. 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.

Robert Murigih

Robert, aged 61, is the Managing Director of CIC–Africa Co-operatives Insurance Limited in Malawi. He holds a Diploma in Business Management (DBM) from the University of Nairobi. He also holds a Certificate in Corporate Governance from Centre for Corporate Governance, Kenya. A holder of the White Badge from the Outward Bound International Leadership School he is also a seasoned and dynamic management professional and a skilful negotiator with over 40 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 Group in April, 2006.

Andrew Murunga

Murunga aged 42, is the Managing Director CIC Africa Insurance (SS) Limited. He has vast wealth of experience in the Insurance Industry both in Kenya and South Sudan He is a Bachelor of Education Degree (Maths/ Economics) graduate from Moi University and a holder of an MBA majoring in Insurance and Risk Management from the University of Nairobi in addition to a Diploma in Insurance from the Chartered Insurance Institute. He is a member of the Institute of Directors of Kenya, Chartered Insurance Institute - UK and The Insurance Institute of Kenya. His fruitful career in CIC started in 2009 as an Underwriter in the General Business.

Gail Odongo

Ms. Odongo aged 46, 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 49, is the Group General Manager - Branch Distribution. He has over 25 years of experience working in the insurance sector in various fields such as Underwriting, Sales, Marketing and Customer Service. Henry has implemented for CIC Group the Customer Satisfaction Index (CSI) which has brought significant improvements in customer care operations. He is a graduate of The Management University of Africa (MUA) - Executive Bachelors of Business Management (EBBM). He holds a Diploma in Marketing Management (DMM) from the Kenya Institute of Management in addition to various programs attended over time including in the corporate governance area. He is also a full member of good standing of KIM holding title MKIM.

He is a member of Audit Risk & Governance committee of KIM and have served in the National Council including other committees of the board for over ten years.

Joseph Kamiri

Joseph aged 52, is the General Manager - Business Initiatives Execution & Customer Experience. 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 52, 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 council 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.

BOARD OF MANAGEMENT

Pamela Oyugi

Pamela aged 51, 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 50, is an Advocate of the High Court of Kenya with over 17 years' experiences both as a practicing and corporate lawyer. She joined CIC in 2008 as a Company Secretary and Legal Advisor. Currently she is the Company Secretary of the three Subsidiary Companies owned by CIC Insurance Group Limited (CIC General, CIC Life Assurance and CIC Asset Management) and a Trustee of CIC Foundation.

Ms. Wanga is a Certified Public Secretary CPS (K) and holds a Bachelor of Law Degree, Bachelor of Social Legislation, and Post Graduate Diploma in Kenya Laws and Diploma in Insurance (AIIK). She is also a Member of the Institute of Directors Kenya, Insurance Institute of Kenya, LSK, ACIArb,ICPSK. Prior to joining CIC, she worked at the Kenya Industrial Estates at senior level. She is currently pursuing a Master of Law at the University of Nairobi.

Richard Nyakenogo

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

Susan Robi

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

Muyesu Luvai

Luvai aged 41, 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.

CIC GROUP

Michael Mugo

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

Henry Malmqvist

Henry aged 39, 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.

Fred Ruoro

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

Dickson Ireri

Ireri aged 53, is the General Manager - Operations, CIC General Insurance Company Limited. He holds a Bachelor of Commerce (Accounts Option) and a Masters of Business Administration (MBA). He is also an associate of Insurance Institute of Kenya (AIIK). Mr. Ireri has been in the insurance industry for 24 years. He joined CIC in 1992.

Tabitha Kihanya

Tabitha aged 34, is the General Manager - Alternative Channels at CIC Group with over 10 years work experience in various capacities within the Banking and Insurance industry. She holds a Bachelor's Degree in Business Management from Moi University, and is currently undertaking a Diploma in Insurance from College of Insurance – (AIIK). Tabitha is a member of Insurance Institute of Kenya (IIK).

Grace Mundu

Grace aged 48, is the General Manager Sales. She holds a Master's degree in Business Administration. She is an associate of Insurance Institute of Kenya (AIIK).She also has professional qualification in FIIK.Mrs. Mundu has over 21 years' experience in the insurance industry. She joined CIC in 1998.

Salome Wambui

Salome aged 32, is the Actuarial Manager, General Business. She holds a BSc (Hons) in Actuarial Science, Masters in Economics (Econometrics) and is a Fellow of the Institute and Faculty of Actuaries (IFoA) in the UK. Salome also holds certificates in Financial Econometrics, Mathematical Finance and New Managers Leadership Program from Strathmore Business School. Prior to joining CIC, Salome worked as a lecturer in Strathmore University and Alexander Forbes (EA) in their actuarial department. She is also a member of The Actuarial Society of Kenya (TASK). Salome joined CIC Insurance Group in 2014.

MESSAGE FROM
THE GROUP CHIEF FINANCE OFFICER

Building Momentum

"Overall, the results show strong progress across all areas of the business and, together with improved efficiency, position the Group well to deliver further earnings and to take advantage of improved market environment"

For CIC Group, 2018 was another year of progress, with the Group growing operating earnings while continuing to improve its focus on profitable growth. Reflecting this performance, and management's expectations of further improvement in 2019, the Board proposed a 13% dividend for 2018.

Executing on key strategic priorities

2018 showed a strong underlying performance with profit before tax up by 64% versus the prior year. The Group further reduced its operating expenses, with overall savings of Kshs.319 million.

During the year, management continued to improve on cost savings, by establishing assessment centres which had a positive impact on reduction of claims and improved operational efficiency.

The Group total income was up from Kshs.15.6b in 2017 to Kshs.17.1B in 2018, representing 10% growth. This increase was as a result of 18% growth in net earned premium.

The balance sheet also recorded a good growth, total assets increased by 8% and total equity to shareholders' fund increased by 3% this was as a result of IFRS 9 day one impact on reserves.

Cash generated from operations increased by 9% to Kshs.2.4B and cash and cash equivalents grew by 48% from Kshs.2.9B in 2017 to Kshs.4.3B in 2018 attributed to improved working capital management.

	2018 Ksh M	2017 Ksh M	% Growth
Gross premium	16,627	14,887	12%
Net Earned Premium	14,261	12,095	18%
Claims	(9,250)	(7,857)	18%
Loss ratio	*65%*	*65%*	
Commission	(1,480)	(1,099)	35%
Commission ratio	*10%*	*9%*	
Operating expenses	(3,952)	(4,452)	(11%)
Management expense ratio	*28%*	*37%*	
Finance cost	(650)	(650)	
Investment income	1,923	2,482	(23%)
Profit before tax	852	519	64%

Progress made across all business

General business top line has slightly grown over the year with a gross written premium of Kshs.10B, driven by improved underwriting performance and reduced expenses.

Life business continued to build on its group life strategy. The combination of portfolio growth, improved product mix and cost improvements has led to be recognized as leader in group life assurance 2018.

Asset management has continued to show steady growth, while also improving their portfolio performance. Growth in asset under management at 39 Billion has also continued to drive management fees while reflecting a broader positive trends within the Group business.

Top line for South Sudan grew significantly by 242% due to acquisition of new medical business, while Uganda and Malawi's gross written premium grew by 65% and 60% respectively and are yet to breakeven due to high operating cost.

Other Matters

Accounting standards and policies

During the year the Group applied International financial reporting standards (IFRS); IFRS 9 - Financial Instruments premised on expected losses and required increase in provisions on instruments with high risk, and reclassification of financial assets. IFRS 15 – Revenue from contracts with customers, which were effective on 1st January 2018; and IFRS 16 – Leases, which was issued in January 2016 to replace International Accounting Standard (IAS) 17 - accounting for Leases, will be effective from 1st January 2019. The cumulative impact on the adoption of this standard is included in the notes to the accounts of 2018 financial statements.

Looking forward into 2019, the Group is geared to providing excellent customer service, leveraging on new technologies and talent transformation, while customizing products and services to meet evolving demands of the emerging digital economy.

George Wafula

Group Chief Finance Officer

REPORT OF THE INDEPENDENT GOVERNANCE AUDITOR
TO THE SHAREHOLDERS OF CIC INSURANCE GROUP PLC

Introduction
We have performed Governance Audit for CIC Insurance Group PLC covering the year ended 31st December 2018 which comprised assessment of Governance Practices, Structures and Systems put in place by the Board.

Board Responsibility
The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organisation. The responsibility includes planning, designing and maintaining governance structures through policy formulation necessary for efficient and effective management of the organisation. The Board is responsible for ensuring its proper constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members' rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management.

Governance Auditor's Responsibility
Our responsibility is to express an opinion on the existence and effectiveness of Governance instruments, policies, structures, systems and practices in the organization within the legal and regulatory framework and in accordance with best governance practices as envisaged under proper Board constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members' rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management, based on our audits.

We conducted our audits in accordance with ICPSK Governance Audit Standards and Guidelines which conform to global Standards. These standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organizations policies, systems, practices and processes. We believe that our governance audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the Board has put in place effective, appropriate and adequate governance structures in the organisation which are in compliance with the legal and regulatory framework and in line with good governance practices in the interest of stakeholders.

CS. Jacqueline Oyuyo Githinji, ICPSK GA. No 00030
For Umsizi LLP
13th March, 2019

CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2018

Introduction

The Board of Directors of CIC Insurance Group PLC (Board) strives to ensure that CIC Insurance Group PLC and its subsidiaries (Group) attain the highest standards of governance. The Group recognizes that it has responsibilities to its shareholders, customers, employees and business partners as well as the communities in its sphere of operations.

The Board, being an arm that is bestowed with the ultimate responsibility of formulating policies, procedures and guidelines, has entrenched, prudent corporate governance structures and processes at the epicenter of the Group's business operations. Accordingly, the Board has adopted an appropriate Board Charter and policies, and, established Board Committees with clearly defined terms of reference for performance of the Board's delegated functions.

Much on the Group's corporate governance can be found on the corporate governance page in the investor relations section of the Group's website, (https://cic.co.ke/investor-relation/) which contains the Charter and some of the policies referred to in this statement. These documents are periodically reviewed and enhanced to take account of changes in law and governance practices.

Governance Highlights for the year ended 31st December 2018

For the period ended 31st December 2018, in affirming its dedication in upholding and enhancing the Group's governance processes, the Group:

a. Reviewed and enhanced its Board and Committees' Charter to ensure they continue to reflect best practice corporate governance;
b. Carried out a Board remuneration review for benchmarking purposes with comparable peer companies to ensure that the board members are remunerated fairly and responsibly;
c. Carried out independent assessment and evaluation of performance of the Board, Board Committees and individual directors including the Company Secretary to ensure that they continue to discharge their mandates prudently;
d. Carried out a legal and compliance audit with the objective of establishing the level of adherence to applicable laws, regulations and standards;
e. In its bid to continuously keep the Board members within touching distance of a very dynamic business regulatory environment, the directors and senior management were professionally trained in the fields of, inter-alia, Finance, Investments, Audit and Employee Engagement. Such training went a long way in giving the directors an all-round view of the business in its quest to enhance a return on investments to shareholders and other stakeholders.

The Group recognizes that responsible, sustainable corporate governance is not just a 'nice-to-have' component of its operations but a very vital and key component for the attainment of the Company's mission of enabling people achieve financial security and the vision of being a world class provider of insurance and other financial services.

BOARD COMPOSITION AND GOVERNANCE POLICIES

The Board's composition is determined by the nature of the Group's business and the shareholding structure with particular attention being paid to the Board Charter and the Group's Memorandum and Articles of Association.

The following are the guiding principles in determination of the board composition:

- The Company's shareholding structure;
- Maintenance of the requisite independence on the board;
- The sufficiency of the size of the Board as is necessary to attain the objectives of the company;

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

- Effective succession planning to ensure smooth transition on the board;
- Board Diversity to ensure that there is the desired mix of skills, knowledge, expertise and experience to enable the board discharge its duties effectively.

Membership of the Board

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

During the financial year ended 31st December 2018, the Board was composed of the following Directors:

Name	Directorship	Year of appointment
Japheth Magomere	Group Chairman and Non-Executive Director	1988
Peter Nyigei	Group Vice-Chairman and Non-Executive Director	2009
Michael Wambia	Non-Executive Director	2008
Gordon Owuor	Non-Executive Director	2006
Harrison Githae	Non-Executive Director	2010
Jonah Mutuku	Non-Executive Director	2008
Rosemary Githaiga	Non-Executive Director	2010
James Njue	Non-Executive Director	2016
Veronicah Leseya*	Non-Executive Director *(until 23rd May 2018)*	2012
Jyoti Patel**	Independent Non-Executive Director *(from 1st June 2018)*	2018
Mary Mungai	Independent Non-Executive Director	2015
Philip Lopokoiyit	Independent Non-Executive Director	2015
Tom Gitogo	Group CEO and Executive Director	2015

**Veronicah Leseya retired from the Board at the Company's last Annual General Meeting of 23rd May 2018.*
***Jyoti Patel was appointed to the Board on 1st June 2018 to fill in the casual vacancy left by the retirement of Veronicah Leseya.*

Unless stated otherwise, all directors served as directors for the entire reporting period. Details of each director's qualifications, special responsibilities, skills, expertise and experience are contained in the profiles set out on pages 26 - 30 of the Integrated Financial Report.

Board Appointments

The Board through the Nominations Committee annually reviews the required skills mix and expertise that individual directors bring to the board. The committee set the criteria for new director appointments by having regard to the overall composition of the Board.

When considering appointments to the Board, the Nominations Committee sets out to, among other things, bring on Board individuals who:
- Are persons of integrity as defined under Chapter Six of the Constitution of Kenya;
- Have sufficient abilities and time available to perform their roles effectively.
- Brings an independent and questioning mind to their role;
- Enhances the breadth and depth of skills and knowledge to the board as a whole; and
- Enhances the experience, independence and diversity of the board as a whole.

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

The Nominations Committee in carrying out its mandate of proposing nominations for appointment to the Board and being cognizant of the fact that each director may not have experience in all facets of the business, strives to achieve and attain an appropriate mix of directors with vast experience in the fields of their professions.

All Non-Executive Directors are appointed pursuant to formal letters of appointment outlining the key terms and conditions of their appointment (including the time commitment envisaged, remuneration and other duties).

Director Independence
In determining the independence or otherwise of a director, the Board, not only relies on the codified principles but also has an objective regard to the relationship between a director and the Group or between a director and third parties that may compromise the director's independence.

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

Director Orientation and Continuous Professional Development
Immediately upon their appointment, directors are oriented on all facets of the business including the governance structure. The Group has a comprehensive induction programme that adequately familiarizes a director with the Group.

On an ongoing basis, Directors and senior management participate in Board Training facilitated by industry and professional bodies to broaden their knowledge of the Group's business. In addition, during board meetings, the board is regularly updated on the latest industry related developments.

Further, during the financial period ended 31st December 2018, the Board and senior management were re-trained on the Code of Corporate Governance for Public Listed Companies and the compliance status of the Group with Code.

Notification and Conflict of Interest
The directors, as a matter of course, are required to bring to the attention of the Chairman any circumstances that might lead to a conflict of interest, whether real or potential and at each Board meetings, directors declare any conflicts of interests and such is appropriately recorded in the minutes and in a register.

Independent Advice
Directors are entitled to seek and take independent professional advice on such matters and issues that are complex or require further professional interrogation. However, this does not abrogate the Board's responsibility to make independent decisions as such advice is only meant to enhance comprehension of certain matters placed before the Board.

Company Secretary
Under the direction of the Group Chairman, the Group Company Secretary is responsible for ensuring good information flows within the Board and its committees and between senior management and non-executive Directors, as well as facilitating induction and assisting with professional development of non-executive Directors, as required.

Board Evaluation
The Group understands that given the Board plays a key role in setting of the strategic goals of the Group and monitoring of management, improvements in the Board's performance can have a profound positive effect on the effectiveness of an entity.

It is on this background that the Group conducted an annual evaluation and review of the performance of the board as a whole and of each individual director's contribution, Group Chairman, Group Chief Executive Officer

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

and the Group Company Secretary for the period under review through an externally facilitated process of self and peer evaluation. This evaluation involved an examination of the Board's and Committee's overall effectiveness and it was rigorous enough to identify areas for improvement and ensure maximum benefit.

OPERATIONS AND RESPONSIBILITIES OF THE BOARD COMMITTEES

In as much as the Board has established Board Committees, it retains full responsibility for overseeing and appraising the Company's strategies, policies and performance. These committees perform a delegated function and are established to enhance efficiency and effectiveness of the Board. In line with this, the Board has established the following committees each with distinct and terms of reference:

1. Audit & Risk Committee;
2. Governance and Human Resources Committee;
3. Finance and Investment Committee; and
4. Nomination Committee

The Board is responsible for protection and enhancing long term shareholder value and ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of key responsibilities to ensure this is achieved including:

a. Setting out and monitoring implementation of the Group's Corporate strategy and performance objectives, which are designed to meet stakeholders' needs and manage business risks;
b. Approving initiatives and strategies designed to ensure the continued growth and success of the Group;
c. Approving of the Group's annual budget and supplementary budgets if necessary;
d. Monitoring performance against budget – via establishment and reporting of both financial and non-financial key performance indicators; and
e. Implementation of the Company's risk framework, including setting risk appetite and implementing systems to ensure risk is appropriately managed.

Other responsibilities that are the preserve of the Board include:

a. Selecting, appointing, removing and planning the succession of the GCEO;
b. Recommending to the shareholders for approval any dividends and the annual financial reports;
c. Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestures;
d. Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
e. Reporting to shareholders.

Board Meetings

The Board meets regularly, at least four (4) times a year at quarterly intervals and holds additional meetings and briefings as and when the board deems appropriate. Members of senior management are sometimes invited to attend certain Board meetings. This provides a direct line of communication between the directors and management.

In the year 2018, the Board of Directors convened Five (5) official Board Meetings attended as follows.

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

Name	Meetings attended
Japheth Magomere	5/5
Peter Nyigei	5/5
Michael Wambia	5/5
Gordon Owour	5/5
Harrison Githae	5/5
Jonah Mutuku	5/5
Rosemary Githaiga	5/5
James Njue	5/5
Veronicah Leseya* *(Retired from the Board effective 23rd May 2018)*	1/5
Jyoti Patel* *(Appointed to the Board from 1st June 2018)*	2/5
Mary Mungai	5/5
Philip Lopokoiyit	5/5
Tom Gitogo	5/5
Gail Odongo *(Secretary)*	5/5

Board Committees
The Board has delegated work to its three (3) standing Committees to effectively deal with specialized issues; the Audit and Risk Committee, the Finance and Investment Committee and the Governance & Human Resource Committee. The mandate of these committees is clearly defined in each of the Committees' Terms of Reference. The Committees make recommendations for actions to the Board, which retains collective responsibility for decision making.

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

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

Audit and Risk Committee
The Audit & Risk Committee assists the Board to monitor the integrity of the Group's financial reporting, risk management framework and internal controls.

The Committee also reviews and, where appropriate, make recommendations to the Board on the adequacy and effectiveness of the Group's internal control and risk management systems.

Further, the Committee monitors the effectiveness and objectivity of the Company's internal audit function and performance, independence and objectivity of the Company's external auditors, making recommendations as to their reappointment and approving their term of engagement and level of audit fees.

The Committee is composed of four (4) members, three (3) of whom are independent non-executive directors two of whom hold professional qualifications in accounting and are in good standing with the Institute of Certified Public Accountants of Kenya (ICPAK). In accordance with the provision of the Companies Act 2015, the committee members are confirmed yearly by the shareholders at the Annual General Meeting.

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

The Committee is chaired by an Independent non-executive director. The table below shows the membership of the Audit and Risk Committee for the reporting period ended 31st December 2018 and meetings attendance during that period:

Name	Duration	Attendance of meetings
Philip Lopokoiyit, Chairperson	Entire Reporting Period	4/4
Peter Nyigei	Entire Reporting Period	4/4
Judith Olouch	Entire Reporting Period	4/4
James Njue*	Until May 2018	3/4
Jyoti Patel**	From June 2018	2/4
Muyesu Luvai (Secretary)	Entire Reporting Period	4/4

Finance and Investment Committee
The Finance and Investment Committee is appointed by the Board to provide financial oversight to the Group. The Committees' role includes scrutinizing, approving the Group's annual budget, reviewing and providing oversight on all major finance and investment activities of the Group and provide guidance and recommendations to the Group on these and related matters.

In the reporting period ended 31st December 2018, the Committee comprised of seven (7) members as shown, together with their attendance of meetings, below:

Name	Duration	Attendance of meetings
Rosemary Githaiga, Chairperson	Entire Reporting Period	4/4
Cornelius Ashira	Entire Reporting Period	4/4
John Mbitu	Entire Reporting Period	4/4
Edwin Otieno	Entire Reporting Period	4/4
James Njue*	From June 2018	2/4
Japheth Magomere	Entire Reporting Period	4/4
Tom Gitogo	Entire Reporting Period	4/4
Gail Odongo (Secretary)	Entire Reporting Period	4/4

Governance and Human Resource Committee
The Board had in place a Governance and Human Resource Committee comprising of six (6) members drawn from the members of the Board.

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

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

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

In the reporting period ended 31st December 2018, the Committee comprised of Six (6) members as shown, together with their attendance of meetings, below:

Name	Duration	Attendance of meetings
Michael Wambia, Chairperson	Entire Reporting Period	12/12
Japheth Magomere	Entire Reporting Period	12/12
Gordon Owour	Entire Reporting Period	12/12
Harrison Githae	Entire Reporting Period	12/12
Jonah Mutuku	Entire Reporting Period	12/12
Tom Gitogo	Entire Reporting Period	12/12
Gail Odongo (Secretary)	Entire Reporting Period	12/12

Nominations Committee

The Board had in place a Nomination comprising of seven (7) members drawn from the members of the Board.

The committee is responsible for identifying candidates for positions on the Board. The process includes an evaluation of the skills and experience required in a candidate to ensure continuing Board balance and relevant experience. The committee is also responsible for implementing the Board Diversity Policy and monitoring progress toward the achievements of its objectives.

In the reporting period ended 31st December 2018, the Committee comprised of seven (7) members as shown, together with their attendance of meetings, below:

Name	Duration	Attendance of meetings
Michael Wambia, Chairperson	Entire Reporting Period	1/1
Japheth Magomere	Entire Reporting Period	1/1
Gordon Owour	Entire Reporting Period	1/1
Harrison Githae	Entire Reporting Period	1/1
Jonah Mutuku	Entire Reporting Period	1/1
Tom Gitogo	Entire Reporting Period	1/1
Gail Odongo (Secretary)	Entire Reporting Period	1/1

GOVERNANCE POLICIES IN PLACE AT THE GROUP

The Group has, as a matter of good practice, formulated and put in place a Board Charter and relevant policies to ensure that the Group is run on a sustainable business model that will ultimately yield valuable return to the shareholders and other stakeholders. Such policies formulated by the Board include:

- Code of Professional Conduct and Ethics for Members of the Board
- Trading Policy
- Continuous Disclosure Policy
- Communications Policy
- Risk Management Policy
- Diversity Policy
- Stakeholders Management Policy
- Procurement Policy

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

Code of Professional Conduct and Ethics for Members of the Board
The company is committed to adherence to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. In this regard, the Board has approved various policies that prescribe standards of behaviour and expected conduct of the Group's personnel in all business dealings.

The Code of Conduct provides and spells out the highest degree of probity in the business behaviour and conduct expected of directors in the course of their duties. This codified expectation is premised on the understanding that their conduct reflects on the Group's corporate image and reputation. The Code of Conduct has prescribed matters touching on:

- Insider Trading
- Conflict of Interest
- Whistle blowing
- Anti-competitive practices.

Trading Policy
The Board has approved a Trading Policy whose primary concern is:

- To provide the Circumstances in which Directors, Officers, employees, supervised persons, contractors and their associates my trade in CIC securities.
- To prevent actual or perceived conflicts of interest to protect the reputation of the Group to ensure that public confidence is maintained in the Group as a business entity.

The policy establishes a procedure for buying, selling or otherwise dealing in the company's securities by prohibiting dealing by directors and company personnel either directly or through their associates during the closed window.

Risk Management
The Group has a Corporate Risk Management Policy and an Enterprise Risk Management framework which incorporate applicable principles and guidelines of the International Standard ISO 31000:2009 Risk Management. The Policy sets out the framework for risk management and compliance and at the Group.

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

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

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.

Information Technology
CIC Group's ICT infrastructure and information systems are a crucial aspect of its business operations providing technology platforms that ensure exceptional service delivery and customer experience. The company's technologies, communication infrastructure and corporate data are governed by an ICT Policy comprising of standards that adhere to global best practices as well as local regulatory requirements. These standards ensure all technology acquisitions are cost effective; the implemented systems are reliable, robust and scalable and that the infrastructure investments are secured from system failure, cyber threats and other technology risks. In the event of a major disaster, business continuity is assured through the availability of a Tier 1 disaster recovery

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

site that provides standby mission-critical systems and backup data at a dedicated, remote and secure location outside the central business district. CIC Group is committed to meeting the present and future customer needs through the use of digital technologies such as mobile applications, interactive web portals, social media, cloud and other ICT advancements. Our continued Investment in these areas provides all our customers, partners and stakeholders with secure access to our insurance and asset management products and services.

Procurement
We have established a procurement policy whose primary objective is to ensure that best total value is achieved when procuring goods, services and works while simultaneously ensuring it supports CIC Insurance Group mission and operations.

The policy is designed to ensure that procurement at CIC Group is conducted in a transparent manner that promotes fair competition, instils integrity, transparency and fairness while eliminating arbitrariness in the entire process. This will ensure increased confidence in the process by shareholders, staff, vendors and the general public.

The CIC Group Procurement is reviewed annually to ensure it is synchronized and benchmarked with emerging best practice in procurement and to address any emerging issues that may arise during implementation.

Internal Audit
The Internal Audit function is strategically independent of management although, by way of a 'dotted-line' it reports to the Board through the Audit and Risk Committee. Internal Audit provides assurance that the Group's financial and operational risk are being managed appropriately and that the internal control framework is operating effectively.

Continuous Disclosure
The Board has established a Continuous Disclosure Policy which is a key requirement under the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015. The Group's Management has the discretion to determine what matter are potentially material and price sensitive and to determine whether those matters are required to be disclosed to the market.

The key overriding objectives of this policy are:

- All Group personnel are aware of the Company's obligations
- Accountability for timely disclosure of material information
- Shareholders and the market are kept informed of price sensitive information affecting the company.

Communication with Stakeholders
The Board aims to ensure that all stakeholders are informed of all material information relating to the company by communicating to stakeholders through:

- Continuous disclosure reporting to the Capital Markets Authority in line with the Capital Markets Disclosure requirements;
- Its annual reports; and
- Media releases and other investor relations publications on the Group's website.

Further, the Group further communicates to its stakeholders in the following manner:

a) Annual General Meeting

The Board is keen on not only the importance of providing information but also of enabling two-way communication between the company and its shareholders through the holding of the Annual General Meeting.

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

Shareholders are given an opportunity to participate at the meeting and those who cannot make it to the meeting are allowed to attend through proxies.

Further, the Company auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report.

b) Investor Briefings

The Group holds press briefings to provide both institutional and corporate investors with an accurate account of the company financial state of affairs upon which they can make an informed buy or sell decision.

c) Customer service

The Company has established a fully-fledged Customer Service Department to respond to inquiries from shareholders and other stakeholders in relation to the Group, provided the information requested is already publicly available or mot price sensitive Further the Group has, as a matter of policy, entrenched in its employees a culture of treating customers and other stakeholders fairly.

CONSOLIDATED TOP TEN SHAREHOLDERS OF CIC INSURANCE GROUP PUBLIC AS AT 31 DECEMBER 2018

Consolidated Top 10 Shareholders						
Name	As at 31 December 2018		As at 31 December 2017		Variance	
	Total Shares	% Shareholding	Total Shares	% Shareholding	Shareholding	%
Co-operative Insurance Society Limited	1,943,441,304	74.30	1,943,441,304	74.30	-	0.00
Mr. Gideon Maina Muriuki	131,724,304	5.04	131,724,304	5.04	-	0.00
Standard Chartered Nominees Non-Resident Ac 9011	24 ,422,040	0.93	24,422,040	0.93	-	0.00
Goodwill (Nairobi) Limited A/C 94	16,699,989	0.64	14,751,089	0.56	1,948,900	0.07
Weda Welton	15,556,800	0.59	15,556,800	0.59	-	0.00
NIC Custodial Services A/C 077	15,481,560	0.59	15,481,560	0.59	-	0.00
Nelson Chege Kuria	13,909,800	0.53	13,909,800	0.53	-	0.00
Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	11,700, 000	0.45	6,000,000	0.23	5,700,000	0.22
Mr John Njuguna Ngugi	11,041,600	0.42	11,041,600	0.42	-	0.00
Kenya Reinsurance Corporation Limited	10,800,000	0.41	10,800,000	0.41	-	0.00
Total	2,194,777,397	83.91	2,190,008,497	83.73	4,768,900	0.18
Others (17,833 Shareholders)	420,761,131	16.09	425,530,031	16.27	-	
Total	**2,615,538,528**	**100.00**	**2,615,538,528**	**100.00%**	**-**	

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

TOP TEN INDIVIDUAL SHAREHOLDERS OF CIC INSURANCE GROUP PUBLIC AS AT 31 DECEMBER 2018

Top 10 Individual Shareholders						
	As at 31 December 2018		As at 31 December 2017		Variance	
Name	Total Shares	% Shareholding	Total Shares	% Shareholding	Shareholding	%
Mr. Gideon Maina Muriuki	131,724,304	5.04	131,724,304	5.04	0	0.00
Weda Welton	15,556,800	0.59	15,556,800	0.59	0	0.00
Nelson Chege Kuria	13,909,800	0.53	13,909,800	0.53	0	0.00
Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	11,700, 000	0.45	6,000,000	0.23	5,700,000	0.22
Mr John Njuguna Ngugi	11,041,600	0.42	11,041,600	0.42	0	0.00
Mr Tom Mbuthia Gitogo	9,500,000	0.36	5,300,000	0.20	4,200,000	0.16
Weda & Emily Achieng Chweya Welton	8,880,000	0.34	8,880,000	0.34	0	0.00
Mr Stanley Charles Muchiri	6,453,312	0.25	6,453,312	0.25	0	0.00
Nancy Wangari Ndungu	5,520,000	0.21	5,520,000	0.21	0	0.00
Mrs Joyce Wanjiku Muriuki	5,108,640	0.20	5,108,640	0.20	0	0.00
Total	**219,394,456**	**8.39**	**209,494,456**	**8.01**	**9,900,000**	**0.38**

TOP TEN COOPERATIVES INSURANCE SOCIETY LIMITED CORPORATE SHAREHOLDERS AS AT 31ST DECEMBER 2018

Name	Balance	%
The Co-operative Bank of Kenya Ltd	694,056,720	35.71
Co-operative Bank Savings and Credit Society Ltd	187,155,264	9.63
K-Unity Savings and Credit Co-operative Society Limited.	63,017,776	3.24
Nawiri Savings and Credit Co-operative Society Limited	36,132,130	1.86
Harambee Co-operative Savings and Credit Society Ltd	35,234,280	1.81
FEP Co-operative Savings and Credit Society Ltd	30,720,000	1.58
Kipsigis Teachers Savings & Credit Society Ltd	29,764,248	1.53
Stima Co-operative Savings and Credit Society Ltd	26,162,384	1.35
Boresha Savings And Credit Co-operative Society Limited	26,134,224	1.34
H&M Savings and Credit Co-operative Society Ltd.	24,732,000	1.27

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

CIC INSURANCE GROUP PLC DIRECTORS SHAREHOLDING AS AT 31 DECEMBER 2018

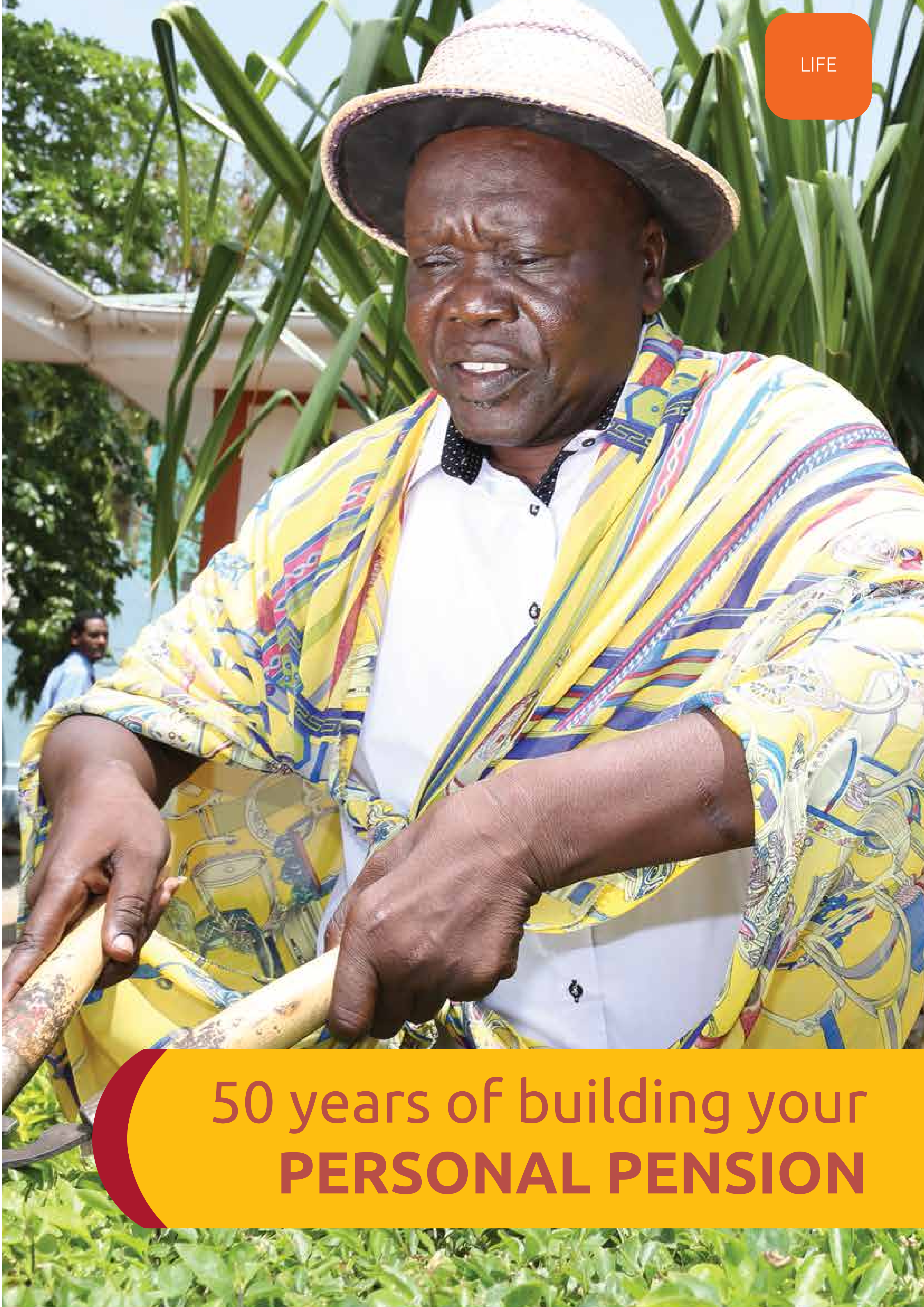
Directors Shareholding Schedule						
Name	As at 31 December 2018		As at 31 December 2017		Variance	
	Shareholding	%	Shareholding	%	Shareholding	%
Mary Mungai	-	0.00	-	0.00	-	0.00
Philip Lopokoiyit	-	0.00	-	0.00	-	0.00
Jyoti Patel	-	0.00	-	0.00	-	0.00
Peter K. Nyigei	12,000	0.00	12,000	0.00	-	0.00
Jonah M. Mutuku	24,000	0.00	24,000	-	0.00	0.00
Michael O. Wambia	36,000	0.00	36,000	0.00	-	0.00
James Njiru	48,000	0.00	48,000	0.00	-	0.00
Harrison Githae	252,000	0.01	252,000	0.01	-	0.00
Gordon Owuor	264,000	0.01	264,000	0.01	-	0.00
Japheth Magomere	672,000	0.03	672,000	0.03	-	0.00
Rosemary Githaiga	2,589,600	0.10	2,589,600	0.10	-	0.00
Tom Gitogo	9,500,000	0.36	5,300,000	0.20	4,200,000	0.16
Total	**13,397,600**	**0.51**	**9,197,600**	**0.35**	**4,200,000**	**0.16**

Distribution of Shareholders as at 31st December 2018

Distribution of Shareholders						
Shareholding	As at 31 December 2018			As at 31 December 2017		
	No. of Shareholders	No. of Shares	% Shareholding	No. of Shareholders	No. of Shares	% Shareholding
1- 500	4,775	1,041,557	0.04	4,423	984,947	0.04
501 - 5,000	6,439	13,040,383	0.05	6,544	13,468,044	0.51
5,001- 10,000	1,591	11,923,639	0.46	1,646	12,341,862	0.47
10,001 - 100,000	4,442	124,013,209	4.74	4,615	130,317,845	4.98
100,001 - 1,000,000	531	127,058,824	4.86	557	133,467,968	5.10
Above 1,000,000	65	2,338,460,916	89.41	62	2,324,957,862	88.89
TOTALS	**17843**	**2,615,538,528**	**100.00**	**17,847**	**2,615,538,528**	**100.00**

Category Summary of Shareholders as at 31st December 2018

Shareholder	As at 31 December 2018			As at 31 December 2017		
	No. of Shareholders	No. of Shares	% Shareholding	No. of Shareholders	No. of Shares	% Shareholding
Foreign Companies	4	27,435,376	1.05	4	27,435,376	1.05
Foreign Individuals	81	3,210,384	0.12	80	2,728,044	0.10
Local Companies	673	2,024,076,439	77.39	696	2,022,981,624	77.34
Local Individuals	17,085	560,816,329	21.44	17,067	562,393,484	21.50
	17,843	**2,615,538,528**	**100.00**	**17,847**	**2,615,538,528**	**100.00**



50 years of building your **PERSONAL PENSION**

AT CIC GROUP,
We keep our word

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

CIC GROUP

CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS	J. Magomere	– Group Chairman
	P. Nyigei	– Group Vice Chairman
	T. Gitogo	– Group Chief Executive Officer
	H. Githae	
	G. Owuor	
	M. Wambia	
	J. M. Mutuku	
	V. Leseya	– Retired (23rd May, 2018)
	R. Githaiga	
	M. Mungai	
	P. Lopokoiyit	
	J. Njue	
	J. Patel	– Appointed (1st June, 2018)

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
	S. Mutua	– Managing Director: CIC Asset Management Limited
	E. Wachira	– Managing Director: CIC General Insurance Limited
	J. Kionga	– Ag. Managing Director: CIC Life Assurance Limited
	J. Omare	– Managing Director: CIC Africa (Uganda) Limited
	A. Murunga	– Managing Director: CIC Africa Insurance (SS) Limited
	R. Murigih	– Managing Director: CIC Africa Co-operatives Insurance Limited
	G. Odongo	– Group Company Secretary/Chief Legal Officer
	P. Oyugi	– General Manager Human Resource & Administration
	M. Wanga	– Company Secretary
	M. Luvai	– Group Chief Internal Auditor
	M. Mugo	– General Manager Metropolis
	S. Robi	– Group Risk and Compliance Manager
	H. Malmqvist	– Group Chief Information Officer
	F. Ruoro	– General Manager Medical
	D. Ireri	– General Manager Operations (CIC General)
	T. Kihanya	– General Manager Alternative Channels
	G. Mundu	– General Manager Sales (CIC General)
	J. Kamiri	– General Manager Business Initiatives Execution
	R. Nyakenogo	– General Manager Co-operatives
	M. Kabiru	– General Manager Finance and Investments
	H. Njerenga	– General Manager Branch Distribution
	S. Ndegwa	– 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

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

1. INCORPORATION
The Group is domiciled in Kenya where it is incorporated as a public company Limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 61.

2. DIRECTORATE
The directors who held office during the year and to the date of this report are set out on page 61.

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

4. RECOMMENDED DIVIDEND
The directors recommend the approval of a first and final dividend of KShs 340 Million (2017: KShs 314 Million) which represents 13% of paid up capital (2017: 12%)

5. GROUP RESULTS

	2018 KShs'000	2017 KShs'000
Profit before taxation	851,621	519,156
Taxation charge	(226,258)	(40,683)
Profit for the year	**625,363**	**478,473**

6. BUSINESS REVIEW

Operating and Service delivery models
Our operating model is a customer driven model, where all our functions work together with a unitary goal of serving the customer at one stop (One CIC). A service delivery model defines how work adds value and relates to the business. At CIC Insurance Group we operate a flexible and aligned service delivery model that will ensure that customers are served promptly, and in a cost-effective way. The cost austerity measures adopted by the Group in the year resulted in both lower budget and industry expense margins.

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. The Group's focus on innovation and excellence in service delivery has differentiated it in the market and earned it National and International recognition.

Products and Services
CIC Group is licensed to trade in all insurance product and services lines except aviation. Our operating model includes a comprehensive and fully embedded risk management process which assists us in identifying and managing risks and opportunities to deliver the Group's strategy and the other essential elements of our business model. CIC Group was awarded the 2018 Group Life Company of the Year Award for a third year in a row. In the year the Group also received the Winner's trophy for the FIRE Awards, Insurance category.

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

6. BUSINESS REVIEW *(continued)*

Claims Settlement and Management process

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

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

Distribution and partnerships

The group has footprint across the country through the branch networks, brokers & independent agents and tied financial advisors. We endeavor to bring our products and services closer to our clients through our branch network and our regional offices in South Sudan, Uganda and Malawi. We have a head office at Upper hill, Nairobi and 27 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; with the Cooperative Movement, banks and other intermediaries so that our products reach and serve every household in Kenya. CIC Insurance group is a member of ICMIF and was selected to represent the African continent in the 555 project. The Kenya project began with studies which involved in-depth insights into the inclusive mutual insurance environment with a view of identifying the gaps that would lead to scale up of insurance among low income households.

Income and Asset growth

Increasing assets, growing revenue and lowering unit costs enables us to drive our profit and further invest in growing our business. We derive our income through prudent underwriting processes in life and general insurance products and managing client's investment through asset management, pensions, annuity funds on behalf of our customers.

Our focus in setting such targets is to achieve sustainable performance over both the short and long term. We supplement the income from our underwriting processes through the returns from the various investment portfolios. The Group owns two commercial buildings in Upper hill which generates rental income and parcels of land which continue to appreciate and offer competitive returns. Approval for change of use (from agricultural to mixed use/commercial) for Kiambu property was granted in the year. Consultants engagements are underway as we seek to maximise value extraction from the investments. We create value for our shareholders by efficiently managing the financial resources and assets.

Information Communication and Technology

The Group has invested heavily in ICT infrastructure and systems. The customers can file a report including claims at any CIC branch offices countrywide. The branches are interconnected with the head office via a wide area network which makes communication easy. The group has also embraced ICT technology to distribute its products through M-Bima platform. To enhance efficiency and timely reports, the group is implementing an ERP system within which will integrate processes and reports. This is complemented with the changes and improvements on the core business systems.

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

6. BUSINESS REVIEW *(continued)*

Employees and leadership

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

Strong brand presence and Value proposition

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

Procurement practices

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

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

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

Risk management practices
Key risks facing the Group and industry at large are fraudulent activities, undercutting by other players thereby causing unfair competition and challenges in collection of premiums. Various strategies and initiatives have been implemented to mitigate against adverse effects of these risks. This includes adopting strict underwriting guidelines on pricing of all risks, thorough claims investigations, cost containments and aggressive collection of all current and aged receivables. Stringent Solvency requirements by the regulator and the poorly performing investment environment, led the Group to adopt a strategy of reduced risk appetite and strict underwriting terms.

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

7. STATEMENT AS TO DISCLOSURE TO THE GROUP AND COMPANY'S AUDITOR

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

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

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

8. TERMS OF APPOINTMENT OF THE AUDITOR

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 20 million has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

Secretary
13th March, 2019
Nairobi, Kenya

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

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and its subsidiaries (together 'the group') as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the group and company keeps proper accounting records that: (a) show and explain the transactions of the group and company; (b) disclose, with reasonable accuracy, the financial position of the group and company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Kenyan Companies Act, 2015.

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

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

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

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

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

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

Approved by the board of directors on 13th March, 2019 and signed on its behalf by:

Japheth Magomere

Tom Gitogo

DIRECTORS REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

Executive Directors

1. The remuneration for the executive director is as per a negotiated contract of employment. It incorporates a bonus scheme that is only triggered upon achieving various targets agreed with the board. The trigger was not reached in 2017 and 2018.
2. The CEO has a service gratuity of 31% of the annual basic pay payable at the end of the contract for each year worked.
3. The CEO* is on a 5-year contract which commenced on 1st March 2015 and has a 3 months termination notice.

Non-Executive Directors

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

During the financial year ended 31 December 2018, the Board was composed of the following Directors:

Executive	Non-Executive	Independent
Tom Gitogo *	Japheth Magomere *(Chairman)*	Veronicah Leseya *(Retired 23rd May 2018)*
	Peter Nyigei *(Vice Chairman)*	Mary Mungai
	Michael Wambia	Philip Lopokoiyit
	Gordon Owuor	Jyoti Patel *(Appointed 1st June 2018)*
	Harrison Githae	
	Jonah Mutuku	
	Rosemary Githaiga	
	James Njue	

* Group Chief Executive Officer

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

The following table shows remuneration for the Executive and Non-Executive Directors in respect of qualifying services on the group board for the year ended 31 December 2018.

Group Directors 2018 emoluments (KShs)

Name	Designation	Salary	Allowances	Retainer	Sitting Allowance	Honoraria	Board Expenses	Total
Tom Gitogo	GCEO*	53,733,340	21,117,445	-	-	-	-	74,850,784
Japheth Magomere	Chairman			2,659,714	4,310,450	600,000	371,250	7,941,414
Peter Nyigei	V/Chairman			1,174,714	1,236,471	585,714	312,159	3,309,058
Gordon Owuor	Director			1,115,314	1,678,671	578,571	262,950	3,635,506
Harrison Githae	Director			1,135,114	1,834,757	585,714	264,000	3,819,585
James Njue	Director			1,115,314	959,271	571,429	269,121	2,915,135
Jonah Mutuku	Director			1,115,314	1,666,800	571,429	308,516	3,662,059
Mary Mungai	Director			1,075,714	912,429	571,429	247,500	2,807,072
Micheal Wambia	Director			1,115,314	1,739,137	571,429	270,150	3,696,030
Philip Lopokoiyit	Director			1,115,314	869,550	578,571	208,886	2,772,321
Rosemary Githaiga	Director			1,115,314	716,100	578,571	255,750	2,665,735
Veronicah Leseya	Director			464,714	255,750	578,571		1,299,035
Jyoti Patel	Director			650,600	417,107		255,750	1,323,457
Grand Total		**53,733,340**	**21,117,445**	**13,852,454**	**16,596,493**	**6,371,428**	**3,026,032**	**114,697,192**

Group Directors 2017 emoluments (KShs)

Name	Designation	Salary	Allowances	Retainer	Sitting Allowance	Honoraria	Board Expenses	Total
Tom Gitogo	GCEO	52,168,291	21,087,241	-	-	-	-	73,255,532
Japheth Magomere	Chairman			2,574,000	2,830,571	600,000	1,327,429	7,332,000
Peter Nyigei	V/Chairman			1,049,786	1,182,636	585,714	505,314	3,323,450
Gordon Owuor	Director			1,022,457	1,209,036	578,571	478,914	3,288,978
Harrison Githae	Director			1,042,257	1,355,886	585,714	492,114	3,475,971
James Njue	Director			1,022,457	1,055,586	578,571	478,914	3,135,528
Jonah Mutuku	Director			1,022,457	1,260,186	578,571	478,914	3,340,128
Mary Mungai	Director			982,857	821,286	571,429	465,714	2,841,286
Micheal Wambia	Director			1,022,457	1,362,486	578,571	478,914	3,442,428
Philip Lopokoiyit	Director			1,022,457	646,386	578,571	478,914	2,726,328
Rosemary Githaiga	Director			1,022,457	1,004,436	578,571	478,914	3,084,378
Veronicah Lesenya	Director			1,022,457	646,386	578,571	478,914	2,726,328
Grand Total		**52,168,291**	**21,087,241**	**12,806,099**	**13,374,881**	**6,392,854**	**6,142,969**	**111,972,335**

*GCEO- Group Chief Executive Officer

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

By Order of the Board

Gail Odongo
Group Company Secretary

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

Tel: +254 20 2886000
Email: Info@ke.ey.com
www.ey.com

REPORT OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF CIC INSURANCE GROUP PLC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and separate financial statements of CIC Insurance Group PLC (the Company) and its subsidiaries (together, the Group), set out on pages 75 to 210, which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

Partners: C O Atinda, H C Wasike, G Gitahi, M M Kimoni, C W Mbogo, A K Gichuhi,
A M Muthusi, J M Ngonga, F N M Kamau, N M Muhoya, T O Nyakoe, C A Munda, C N Kirathe.
A member firm of Ernst & Young Global Limited.
Licenced by ICPAK as a Limited Liability Partnership of Certified Public Accountants.

EY
Building a better working world

Key Audit Matter	How the matter was addressed in the audit
Allowance for expected credit losses	
The expected credit losses on financial assets carried at amortised cost are determined under application of IFRS 9 - Financial Instruments. The Group's financial assets at amortised cost include; amounts due from related parties, loan receivables, Government securities, deposits with financial institutions, commercial papers, corporate bonds, other receivables and cash and bank balances. The impairment of these financial assets was considered to be a key audit matter because significant judgement was involved in determining the expected credit losses as disclosed in note 2(h) to the financial statements. Key areas of judgement included: • the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model; • the identification of exposures with a significant deterioration in credit quality; • assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors; and • the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	Our audit procedures included the following: • We assessed and tested the design and operating effectiveness of the key controls over the: i. data used to determine the expected credit losses on financial assets carried at amortised cost. ii. expected credit loss model, including model build and approval, ongoing monitoring/ validation, model governance and mathematical accuracy. • We assessed the modelling techniques/ methodology against the requirements of IFRS 9 - Financial Instruments. • We assessed and tested the material modelling assumptions as well as overlays with a focus on the: i. key modelling assumptions adopted by the Group; ii. basis for and data used to determine overlays; and iii. sensitivity of the collective provisions to changes in modelling assumptions. • In addition, we assessed the adequacy of the disclosures in the financial statements.
Valuation of Policy Holders' Liabilities	
CIC Life Assurance Limited deals with life assurance business, which is long-term in nature. As a result, the company determines the liabilities it would expect in the long-term, using actuarial valuation methods and in line with the guidelines established by the Kenyan Insurance Regulatory Authority (IRA) as disclosed in note 2(e) to the financial statements. We have considered this issue as a key audit matter since estimation of the actuarial value of policyholders' benefit is complex and subjective in nature since it involves use of judgements and assumptions on the discount rate, mortality, inflation bonuses, withdrawal rates and initial and subsequent expenses subject to the minimum basis prescribed in the valuation guidelines.	We understood, evaluated and tested the design and implementation of key controls over the actuarial valuation process. We reviewed the methodology and inputs used as well as assumptions made in determining the value of the policyholders' benefits. We evaluated whether the valuation was carried out in accordance with the valuation guidelines as issued by the Insurance Regulatory Authority (IRA) of Kenya. In addition, we assessed the adequacy of the disclosures in the financial statements.

Key Audit Matter	How the matter was addressed in the audit
Estimation of Insurance contract liabilities	
As disclosed in note 48 in the financial statements, insurance contract liabilities amounted to KShs 5.3 Billion as at 31 December 2018, for the general insurance. Valuation of these liabilities is highly judgmental because it requires several assumptions to be made with high estimation uncertainty such as loss ratios and estimates of the frequency and severity of claims. The significant accounting judgements and assumptions are further described in note 2(f). Small changes in the assumptions used to value the liabilities particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities. The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of insurance liabilities may arise. Consequently, we have determined the valuation of insurance contract liabilities to be a key audit matter.	We performed the following procedures: • Review of sensitivity analysis over key judgements and assumptions. • Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. • We also compared samples of claims case reserves to appropriate documentation, such as reports from loss adjusters to test the controls over the valuation of individual claims reserves. • Assessed the adequacy of the company's disclosures in respect of the assumptions used in valuation.

Other Information

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

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

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

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

Building a better working world

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.

Building a better working world

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

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

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

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

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

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

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

i) in our opinion, the information given in the report of the directors on pages 62 to 65 is consistent with the consolidated and separate financial statements; and,

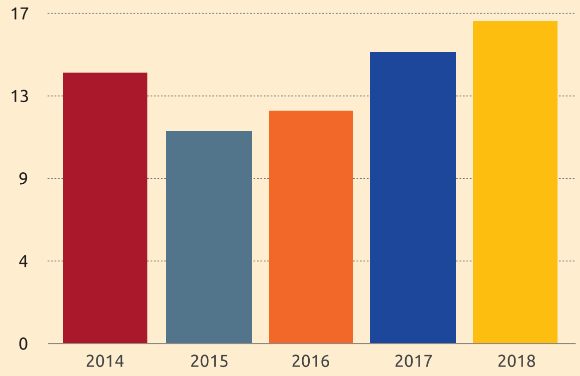
ii) in our opinion, the auditable part of directors' remuneration report on page 68 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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

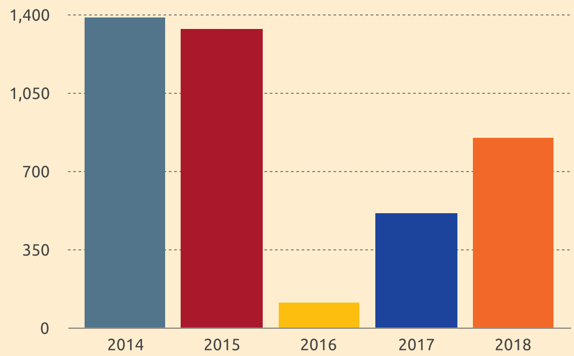
Nairobi, Kenya
26 / 4 / 2019

FINANCIAL HIGHLIGHTS

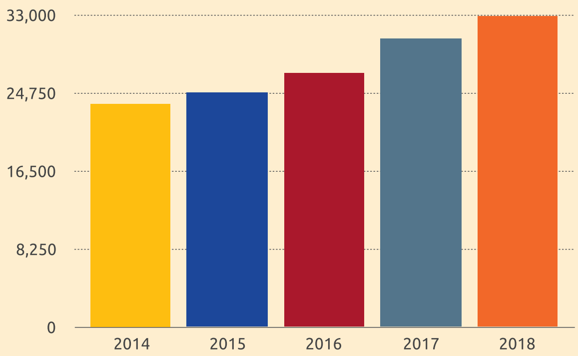
Gross Written Premiums



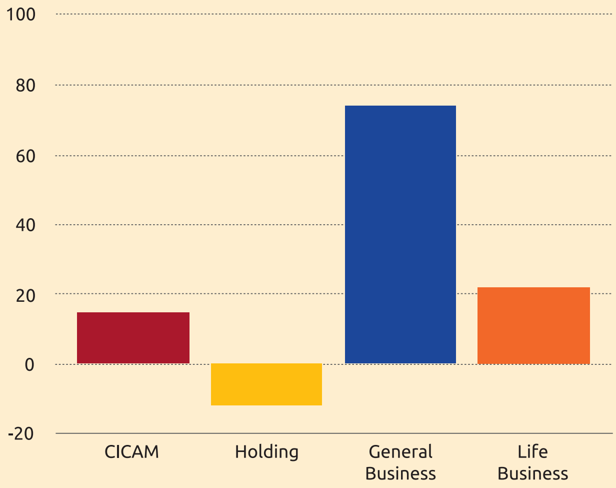
Profit Before Tax



Total Assets



Subsidiaries Performance



CONSOLIDATED AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
Gross written premiums	3 (a)	16,627,384	14,886,887	-	-
Gross earned premiums	3 (b)	16,945,301	14,336,192	-	-
Less: Reinsurance premiums ceded	3 (c)	(2,683,815)	(2,241,195)	-	-
Net earned premiums		14,261,486	12,094,997	-	-
Fees and commission income	4 (a)	903,839	1,023,407	-	-
Interest revenue calculated using the effective interest method	5 (i)	1,244,655	-	248,836	-
Other investment income	5 (ii)	272,809	1,543,581	294,000	549,253
Other gains	6	354,096	704,373	509,121	491,246
Foreign exchange gain		41,826	233,904	-	-
		2,817,225	3,505,265	1,051,957	1,040,499
		17,078,711	15,600,262	1,051,957	1,040,499
Commissions expense	4 (b)	(2,384,012)	(2,122,470)	-	-
Claims and policyholders benefits payable					
Gross benefits and claims paid	7	(9,736,515)	(8,900,071)	-	-
Gross change in insurance contract liabilities	7	(1,285,159)	(946,294)	-	-
Change in contract liabilities ceded to reinsurers	7	953,110	974,108	-	-
Claims ceded to reinsurers	7	818,509	1,015,789	-	-
Net benefits and claims	7	(9,250,055)	(7,856,468)	-	-
Operating and other expenses	8 (a)	(3,946,169)	(4,264,736)	(66,520)	(117,026)
Allowance for expected credit losses	8 (d)	(5,647)	-	-	-
Loss on net monetary position	9	-	(187,478)	-	-
		(15,585,883)	(14,431,152)	(66,520)	(117,026)
Finance cost	10	(650,000)	(650,000)	(650,000)	(650,000)
Share of profit of associate	17	8,793	46	-	-
Profit before taxation		851,621	519,156	335,437	273,473
Taxation (charge)/credit	11	(226,258)	(40,683)	84,848	98,275
Profit for the year		625,363	478,473	420,285	371,748
OTHER COMPREHENSIVE INCOME					
Other comprehensive income that will not be reclassified to profit or loss in subsequent years (net of tax)					
Fair value (loss)/gain on equity instruments at fair value through other comprehensive income	23	(2,237)	3,586	-	-
Surplus on revaluation of buildings	13	28,316	21,914	-	-
Other comprehensive income that will be reclassified to profit or loss in subsequent years (net of tax)					
Foreign exchange currency translation gain/ (loss)	37	14,462	(99,595)	-	-
Fair value gain/(loss) on debt instruments at fair value through OCI		96,528	(51,308)	4,887	2,024
Total other comprehensive income for the year (net of tax)		137,069	(125,403)	4,887	2,024
Total comprehensive income for the year (net of tax)		762,432	353,070	425,172	373,772
Earnings per share (KShs)	12	0.24	0.18	0.16	0.14

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 KShs'000	2017 KShs'000
PROFIT FOR THE YEAR ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE PARENT	615,194	489,485
NON - CONTROLLING INTERESTS	10,169	(11,012)
	625,363	478,473
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:		
ORDINARY EQUITY HOLDERS OF THE PARENT	850,944	421,296
NON-CONTROLLING INTERESTS	(88,512)	(68,226)
	762,432	353,070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
ASSETS			
Property and equipment	13 (a)	1,128,384	1,204,738
Investment properties	14 (a)	7,231,475	6,686,483
Intangible assets	15 (a)	249,261	171,257
Deferred tax asset	16 (a)	741,133	639,615
Investment in associate	17	146,717	137,924
Financial assets at amortised cost- Corporate Bonds	19	522,067	672,660
Financial assets at amortised cost -Government securities	20	1,784,398	1,412,690
Financial assets at amortised cost -Loans receivable	21 (a)	617,504	821,784
Financial assets at fair value through other comprehensive income -Government securities	22 (a)	5,841,496	5,005,009
Financial assets at fair value through other comprehensive income – Uquoted Equity instruments	23	18,212	20,449
Financial assets at fair value through profit or loss – Quoted Equity instruments	24	1,329,421	1,240,619
Financial assets at amortised cost -Deposits and commercial paper	25 (a)	94,017	1,295,182
Investments in collective investment schemes at fair value through Profit or loss	25 (c)	1,025,977	-
Deferred acquisition costs	26	527,710	592,713
Receivables arising out of direct insurance arrangements	27 (a)	1,627,426	1,527,331
Receivables arising out of reinsurance arrangements	27 (b)	1,902,239	1,429,216
Reinsurers share of liabilities and reserves	28	2,146,606	2,252,569
Other receivables	29 (a)	228,692	249,650
Due from related parties	30	102,998	45,886
Deposits with financial institutions	31 (a)	5,253,988	4,836,107
Cash and bank balances	51	456,012	263,494
Total assets		32,975,733	30,505,376
EQUITY AND LIABILITIES			
Share capital	32	2,615,578	2,615,578
Share premium	33	162,179	162,179
Statutory reserve	34	1,100,931	1,102,608
Contingency reserve	35	21,017	9,435
Revaluation surplus	36	151,019	128,423
Foreign currency translation reserve	37	(299,031)	(417,894)
Fair value deficit	38	(171,319)	(265,610)
Retained earnings	39	4,316,056	4,227,821
Equity attributable the owners of the parent		7,896,430	7,562,540
Non-controlling interest	40	(13,944)	74,568
Total equity		7,882,486	7,637,108
LIABILITIES			
Deferred tax liability	16 (a)	495,824	473,809
Borrowings	41	5,129,914	5,106,529
Other payables	42 (a)	1,014,747	949,764
Tax payable	11 (b)	7,702	43,341
Dividend payable	43	-	34,607
Payables arising from reinsurance arrangements and insurance bodies	27 (c)	245,047	132,403
Deposits administration contracts	44	3,124,116	2,113,915
Actuarial value of policyholder liabilities	45	5,166,952	4,268,880
Unit linked contracts	46	474,554	536,926
Provisions for unearned premiums reserve and unexpired risks	47	4,192,320	4,510,237
Insurance contracts liabilities	48	5,242,071	4,697,857
Total liabilities		25,093,247	22,868,268
Total equity and liabilities		32,975,733	30,505,376

The financial statements were approved by the Board of Directors on 13th March, 2019 and signed on its behalf by:

Japheth Magomere **Philip Lopokoiyit** **Tom Gitogo**

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
ASSETS			
Property and equipment	13 (b)	46,605	53,602
Investment properties	14 (b)	3,600,000	3,100,000
Intangible assets	15 (b)	30,673	14,617
Deferred tax asset	16 (b)	330,192	245,344
Investment in associate	17	138,400	138,400
Investment in subsidiaries	18	3,600,878	3,528,633
Financial assets at amortised cost -Loans receivable	21	35,174	73,924
Financial assets through other comprehensive income -government securities	22 (b)	-	35,113
Taxation recoverable	11 (b)	2,000	2,000
Financial assets at amortised cost -deposits and commercial paper	25 (b)	-	888
Other receivables	29 (b)	9,005	1,072
Due from related parties	30	444,271	537,508
Deposits with financial institutions	31 (b)	1,366,178	1,849,624
Cash and bank balances	51	1,146	4,872
Total assets		9,604,522	9,585,597
EQUITY AND LIABILITIES			
Equity			
Share capital	32	2,615,578	2,615,578
Share premium	33	162,179	162,179
Fair value deficit	38	-	(4,887)
Retained earnings	39	1,559,629	1,461,018
Total equity		4,337,386	4,233,888
LIABILITIES			
Due to related parties	30	116,535	181,574
Borrowings	41	5,129,914	5,106,529
Other payables	42 (b)	20,687	28,999
Dividend payable	43	-	34,607
Total liabilities		5,267,136	5,351,709
Total equity and liabilities		9,604,522	9,585,597

The financial statements were approved by the Board of Directors on 13th March, 2019 and signed on its behalf by:

Japheth Magomere **Philip Lopokoiyit** **Tom Gitogo**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital KShs'000 (Note 32)	Share Premium KShs'000 (Note 33)	Statutory Fund KShs'000 (Note 34)	Revaluation surplus KShs'000 (Note 36)	Contingency reserve KShs'000 (Note 35)	Foreign Currency Translation Reserve Ksh'000 (Note 37)	Fair value reserve KShs'000 (Note 38)	Retained earnings KShs'000 (Note 39)	Due to equity holders of the parent KShs'000	Non-controlling interests KShs'000 (Note 40)	Total KShs'000
At 1 January 2018	2,615,578	162,179	1,102,608	128,423	9,435	(417,894)	(265,610)	4,227,821	7,562,540	74,568	7,637,108
Effect of adoption of new accounting standards	-	-	(53,046)	-	-	-	-	(115,643)	(168,689)	-	(168,689)
At 1 January 2018 (Restated)	2,615,578	162,179	1,049,562	128,423	9,435	(417,894)	(265,610)	4,112,178	7,393,851	74,568	7,468,419
Transfer to retained earnings	-	-	(115,000)	-		-	-	115,000	-	-	-
Contingency reserve	-	-	-	-	11,582	-	-	(11,582)	-	-	-
Tax on transfer to retained earnings	-	-	-	-		-	-	(34,500)	(34,500)	-	(34,500)
Dividends declared – 2018								(313,865)	(313,865)		(313,865)
Profit for the year	-	-	166,369	-	-	-	-	448,825	615,194	10,169	625,363
Other comprehensive income for the year	-	-	-	22,596	-	118,863	94,291	-	235,750	(98,681)	137,069
Total comprehensive income for the year	-	-	166,369	22,596	-	118,863	94,291	448,825	850,944	(88,512)	762,432
At 31 December 2018	2,615,578	162,179	1,100,931	151,019	21,017	(299,031)	(171,319)	4,316,056	7,896,430	(13,944)	7,882,486

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital KShs'000 (Note 32)	Share Premium KShs'000 (Note 33)	Statutor Fund KShs'000 (Note 34)	Revaluation surplus KShs'000 (Note 36)	Contingency reserve KShs'000 (Note 35)	Foreign Currency Translation Reserve Ksh'000 (Note 37)	Fair value reserve KShs'000 (Note 38)	Retained earnings KShs'000 (Note 39)	Due to equity holders of the parent KShs'000	Non-controlling interests KShs'000 (Note 40)	Total KShs'000
At 1 January 2017	2,615,578	162,179	1,034,836	109,368	2,150	(378,372)	(217,888)	4,012,652	7,340,503	138,960	7,479,463
Transfer to retained earnings	-	-	(115,000)	-		-	-	115,000	-	-	-
Contingency reserve	-	-	-	-	7,285	-	-	(7,285)	-	-	-
Additional Investment by minority interest	-	-	-	-	-	-	-	-	-	15,560	15,560
Acquired through business combination	-	-	-	-	-	-	-	109,874	109,874	(11,726)	98,148
Tax on transfer to retained earnings	-	-	-	-		-	-	(34,500)	(34,500)	-	(34,500)
Dividends declared – 2017	-	-	-	-		-	-	(274,633)	(274,633)	-	(274,633)
Profit for the year	-	-	182,772	-	-	-	-	306,713	489,485	(11,012)	478,473
Other comprehensive income for the year	-	-	-	19,055	-	(39,522)	(47,722)	-	(68,189)	(57,214)	(125,403)
Total comprehensive income for the year	-	-	182,772	19,055	-	(39,522)	(47,722)	306,713	421,296	(68,226)	353,070
At 31 December 2017	2,615,578	162,179	1,102,608	128,423	9,435	(417,894)	(265,610)	4,227,821	7,562,540	74,568	7,637,108

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital KShs'000 (Note 32)	Share premium KShs'000 (Note 33)	Fair value reserve KShs'00 (Note 38)	Retained Earnings KShs'000 (Note 39)	Total KShs'000
At 1 January 2017	2,615,578	162,179	(6,911)	1,363,903	4,134,749
Dividends declared and paid – 2017	-	-	-	(274,633)	(274,633)
Profit for the year	-	-	-	371,748	371,748
Other comprehensive income for the year	-	-	2,024	-	2,024
Total comprehensive income for the year	-	-	2,024	371,748	373,772
At 31 December 2017	2,615,578	162,179	(4,887)	1,461,018	4,233,888
At 1 January 2018	2,615,578	162,179	(4,887)	1,461,018	4,233,888
Effect of adoption of new accounting standards	-	-	-	(7,809)	(7,809)
At 1 January 2018 (Restated)	2,615,578	162,179	(4,887)	1,453,209	4,226,079
Dividends declared and paid– 2018	-	-	-	(313,865)	(313,865)
Profit for the year	-	-	-	420,285	420,285
Other comprehensive income for the year	-	-	4,887	-	4,887
Total comprehensive income for the year	-	-	4,887	420,285	425,172
At 31 December 2018	2,615,578	162,179	-	1,559,629	4,337,386

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

CASH FLOWS FROM OPERATING ACTIVITIES *(continued)*	Note	2018 KShs'000	2017 KShs'000
Cash generated from operations	50	2,381,134	2,199,646
Tax paid	11 (b)	(375,900)	(109,125)
Net cash generated from operating activities		2,005,234	2,090,521
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	820,591	1,197,591
Dividend income	5	44,586	56,126
Purchase of property and equipment	13	(54,611)	(71,671)
Purchase of investment property	14	(8,242)	(38,475)
Purchase of intangible assets	15	(114,905)	(48,840)
Purchase of corporate bonds	19	(11,599)	(113,106)
Proceeds from maturity of corporate bonds	19	5,518	54,888
Purchase of government securities at amortised cost	20	(446,540)	(222,220)
Maturities of government securities at amortised cost	20	75,000	45,300
Mortgage loans advanced	21 (a)	(7,382)	(51,550)
Mortgage loan repaid	21 (a)	181,730	126,475
Other staff loans advanced	21 (b)	(170,987)	(151,064)
Other staff loan repaid	21 (b)	212,472	200,520
Purchase of government securities at fair value through other comprehensive income	22	(2,241,606)	(2,782,736)
Maturity of government securities at fair value through other comprehensive income	22	1,490,425	1,386,363
Purchase of equity investment at fair value through profit or loss	24	(411,730)	(484,152)
Proceeds from sale of equity investments at fair value through profit or loss	24	78,540	219,282
Additions in deposits with non-financial institutions	25	(9,413)	(1,003,330)
Proceeds from maturities in deposits with non-financial institutions	25	1,546	1,095,764
Additions to collective investment schemes		(321,862)	-
Maturities of collective investment scheme		517,223	-
Decrease/(Increase) in deposits with financial institutions (excluding cash and cash equivalents)	31	809,277	(1,916,110)
Net cash generated from/ (cash used in) investing activities		438,031	(2,500,945)
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional investment by minority shareholder		-	15,560
Interest paid	41	(650,000)	(650,000)
Dividends and withholding tax paid	43	(348,472)	(274,633)
Net cash used in financing activities		(998,472)	(909,073)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,444,793	(1,319,497)
Effect of foreign exchange translations		634	(182,582)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		2,877,373	4,379,452
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	51	4,322,800	2,877,373

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		335,437	273,473
Adjustments for:			
Expected credit losses on other receivables		2	-
Expected credit losses on deposits with financial institutions		(1,186)	-
Expected credit losses on related parties		1,796	-
Interest income	5	(248,836)	(287,253)
Interest expense	10	650,000	650,000
Depreciation on property and equipment	13	18,335	16,965
Fair value gains on revaluation on investment property	14	(491,758)	(466,422)
Fair value loss on disposal of government securities		4,887	
Amortisation of intangible assets	15	6,509	6,346
Impairment of Nakumatt Holding commercial paper	25	-	59,832
Amortisation of bond expenses	41	23,385	20,508
Dividend income		(294,000)	(262,000)
Working capital changes;			
(Increase)/decrease in other receivables		(7,941)	(748)
Decrease/(increase) in related party balances		26,403	247,497
Increase/(decrease) in other payables		(8,312)	5,336
Cash generated from/(used in) operations		14,720	263,534
Taxation paid		-	-
Net cash generated from/(used in) operating activities		14,720	263,534
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	248,836	280,252
Purchase of property and equipment	13	(11,339)	(5,187)
Purchase of investment property	14	(8,242)	(33,578)
Purchase of intangible assets	15	(22,565)	(716)
Investment in subsidiaries	18	(72,241)	(119,147)
Disposal of government securities		35,113	-
Mortgage loan repaid	21 (a)	9,664	41,439
Other staff loans repaid	21 (b)	29,080	15,096
Proceeds from maturities in deposits with non-financial institutions	25	888	38,673
Decrease/(increase) in deposits with financial institutions (excluding cash and cash equivalents)		(53,272)	2,504
Dividend received		294,000	262,000
Net cash generated from operations		449,925	481,336
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	41	(650,000)	(650,000)
Dividends paid	43	(348,471)	(274,633)
Net cash used in financing activities		(998,471)	(924,633)
INCREASE IN CASH AND CASH EQUIVALENTS		(533,826)	(179,763)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,854,496	2,034,259
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	51	1,320,670	1,854,496

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

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

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

(a) Basis of preparation

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

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

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

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

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the Group. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in note (2 (h)) 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 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

(b) Basis of consolidation *(continued)*

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

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

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

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

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

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

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

The Group financial statements reflect the result of the consolidation of the financial statements of the group and its subsidiaries, CIC General Insurance Limited, CIC Life Assurance Limited, CIC Asset Management Limited, CIC Africa Insurance (SS) Limited, CIC Africa (Uganda) Limited, CIC Africa Co-operatives Insurance (Malawi) Limited details of which are disclosed in note 18, made up to 31 December 2018.

(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 2018

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.

(iv) 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 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(b) Basis of consolidation *(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.

New standards, amendments and interpretations adopted by the Group

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

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

On 1 January 2018, CIC Insurance Group PLC and Its Subsidiaries adopted the following new standards, new Interpretations and amendments to standards.

	Effective for accounting period beginning on or after
IFRS 9 Financial Instruments	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts -Amendments to IFRS 4	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2	1 January 2018

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
New standards, amendments and interpretations adopted by the Group *(continued)*

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

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

Standards issued but not yet effective:

New or revised standards and interpretations:

	Effective for accounting period beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC Interpretation 23 Uncertainty over income tax treatments	1 January 2019
Amendments to IAS 28: Long-term interests in associates and joint ventures	1 January 2019
IFRS 3 Business Combinations - Previously held interests in a joint operation	1 January 2019
IFRS 11 Joint Arrangements - Previously held interests in a joint operation	1 January 2019
IAS 12 Income Taxes - Income tax consequences of payments on financial instrument classified as equity	1 January 2019
IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IFRS 3: Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
The Conceptual Framework Financial Reporting	1 January 2020
IFRS 17 Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or indefinitely Joint Venture	Effective date deferred indefinitely

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

IFRS 15 Revenue from Contracts with Customers

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
New standards, amendments and interpretations adopted by the Group *(continued)*

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

Step 1: Identify the contract(s) with the customer
The Group and its subsidiaries have formal agreements in place with its customers who are mainly the medical schemes, pension schemes and unit trust scheme, to run the schemes on their behalf.

Step 2: Identify the performance obligation in the contract

The obligation of the Group as stipulated in the agreement is to carry out the administration of the various medical schemes, Pension schemes and Unit trust scheme. The performance obligation is not complex, since it involves only one obligation which is that of rendering administration services, the performance obligations are satisfied overtime as administration services are delivered.

Step 3: Determine the transaction price
For the medical schemes, the agreement clearly stipulates the transaction price i.e. that the Group who acts as the administrator shall make a yearly charge known as administration fee payable out of the Medical funded scheme and this shall be between KShs 1,200- KShs1,500 per member per annum and charged monthly.

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

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

For unit trusts schemes, group subsidiaries and other segregated schemes, the agreement clearly stipulates the transaction price i.e. that the fund manager shall make a monthly charge known as the management fee payable out of income of the Fund and this shall be expressed as an annual percentage of the value of the portfolio scheme. The ranges during the year ended December 2018 has been as follows;

- Unit trust scheme -2 % (this should not exceed 5%)
- Group subsidiaries -0.25%per annum
- Segregated schemes –range 0.2 -0.3% (This will vary depends on how CIC Asset Management Limited has negotiated with the customer)

Therefore, the transaction price which comprises of variable consideration related to the administration fees allocated to each period because the management fees relates specifically to the Group's efforts to provide administration services during the quarter

There is no significant financing component.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
New standards, amendments and interpretations adopted by the Group *(continued)*

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

For the medical schemes, the Group charge's administration fee based on the membership, for unit trust's schemes, group subsidiaries, other segregated schemes and pension schemes, at any point, the Group will charge administration fee as a percentage of size of the portfolio or value of contributions. This means that as the size of the scheme or amount or contributions grows, so does the income for the group and the reverse is true. Therefore, the transaction price which comprises of variable consideration related to the administration fees allocated to each period because the management fees relates specifically to the Group's efforts to provide administration services during the period.

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

Administration fees is recognised as percentage of scheme value or contributions and is recognised over time, as the Group performs the obligation, the customer simultaneously receives and consumes the benefit. The revenues from these contracts represent 2.35 % of the total revenue from the Group's operations as a result no further disclosures have been made.

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 like the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Transition to IFRS 16

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
New standards, amendments and interpretations adopted by the Group *(continued)*

Transition to IFRS 16 *(continued)*

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

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019

Assets	Group KShs,000	Company KShs,000
Property and equipment-Right of use	184,815	36,946
	-	
Liabilities	-	
Lease liabilities	(144,068)	(42,246)
Net impact on equity	40,747	(5,300)

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

Work completed by the Group indicates that the new leases standard is expected to have a material effect on the Group's and company's financial statement, as it will significantly increase the Group's and Company's recognised assets and liabilities as described above. In addition, compared with the existing accounting for leases, the classifications and timing of expenses will be impacted which will lead to some improvement in the Group's and Company's operating profit, while its interest expense will increase. This is due to change in the accounting for expenses of leases that were classified as operating leases under IAS 17. The minimum impact has been further disclosed in note 53 (operating leases)

IFRS 17 Insurance Contracts

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

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

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
New standards, amendments and interpretations adopted by the Group *(continued)*

Transition to IFRS 17 *(continued)*

- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non- distinct investment components) are not presented in the income statement but are recognised
- directly on the statement of financial position.
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021 with comparative figures required. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group has adopted IFRS 9.

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

(c) Changes in accounting policies and disclosures

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

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

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

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. The Group has adopted IFRS 9 Financial Instruments and hence the amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts did not have an impact on the Group. Refer to note 1(C) continued below for detailed discussion on adoption of IFRS 9: Financial Instruments.

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

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

IFRS 9 Financial Instruments

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

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

The effect adopting IFRS 9 as at 1 January 2018 was as follows;

	Group 1-Jan-18 Ksh'000'	Company 1-Jan-18 Ksh'000'
Assets		
Corporate bonds	157,313	-
Loans to staff	(17,936)	5
Deposits and commercial papers	604	-
Other receivables	727	-
Due from related parties	117	-
Deposits with financial institutions	27,864	7,804
Total adjustment on Equity		
Retained Earnings	(168,689)	(7,809)

The nature of these adjustments is as described below:

Classification and Measurement

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

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

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

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

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

- Loans to staff, cash and cash equivalents, fixed deposits and other receivables were classified as Loans and receivables as at 31 December 2017; they are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as financial assets at amortised cost beginning 1 January 2018.
- Unquoted equity securities classified as Available for Sale (AFS) financial assets as at 31 December 2017, were classified and measured as equity instruments at fair value through OCI beginning 1 January 2018.
- Quoted equity instruments, deposits and commercial papers (investments in unit trusts) classified as financial assets at fair value through profit or loss continues to be measured as financial assets at fair value through profit or loss.
- Quoted Government securities classified as Available for Sale (AFS) financial assets as at 31 December 2017, were classified and measured as Debt instruments at fair value through OCI beginning 1 January 2018. The Group expects not only to hold the assets to contractual cash flows, but also to sell a significant amount on a relatively frequent basis.
- Government securities and deposits and commercial paper (others) classified as Held to maturity financial assets as at 31 December 2017, were classified and measured as Debt instruments at amortised cost. beginning 1 January 2018.
- Corporate Bonds classified as Financial Assets at Fair Value through Profit or Loss as at 31 December 2017, have been reclassified to financial assets at amortised cost beginning 1 January 2018.

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

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

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

		IFRS 9 Measurement category		
Group	Ksh'000'	Fair value through Profit or Loss Ksh'000'	Amortised cost Ksh'000'	Fair value through OCI Ksh'000'
IAS 39 Measurement category				
Fair Value through profit or loss				
Equity investments at fair value through profit or loss	1,240,619	1,240,619	-	-
Corporate bonds**	672,660	-	515,347	-
Loans and receivables				
Mortgages & other Loans	392,728		410,664	-
Other Loans	429,056	-	429,056	-
Other receivables	249,650		249,650	-
Due from related party	45,886	-	45,886	-
Held to maturity		-		
Government securities classified as				-
held to maturity	1,412,690	-	1,412,690	-
Deposits and commercial papers	1,295,182	-	1,294,578	-
Deposits with financial institutions	4,836,107	-	4,863,971	
Available for sale				
Government securities classified as available for sale	5,005,009	-	-	5,005,009
Equity investments classified as available for sale	20,449	-	-	20,449
	15,600,036	1,240,619	9,221,842	5,025,458
Company				
IAS 39 Measurement category				
Deposits and commercial papers	888	888	-	-
Loans and Receivables				
Mortgages & other Loans*	44,844	-	44,839	-
Other Loans	29,080	-	29,080	-
Other receivables	1,072	-	1,072	-
Due from related party	537,508	-	537,508	-
Held to maturity				
Deposits with financial institutions	1,849,624	-	1,841,815	-
Available for sale				
Government securities classified as available for sale	35,113	-	-	35,113
	2,498,129	888	2,454,314	35,113

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

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

*The change in carrying amounts because of additional impairment allowance. See the discussion on impairment below;
** As of January 2018, the group classified all corporate bonds portfolio as debt instruments at amortised cost. These instruments met solely payment of interest and principal (SPPI) criterion, were not actively traded and were held with the intention to collect contractual cash flows and without the intention to sell. The fair value of the portfolio as at 31 December 2017 was KShs. 672.6 million which was taken as the gross carrying amount on 1 January 2018. The effective interest rate applied on the portfolio was the nominal rates for the specific corporate bonds since none was issued at discount or premium. The amount of interest income recognised on the corporate bonds was KShs.32.8 million. The fair value of the corporate bond that the Group still held at 31 December 2018 was KShs 690 Million (31 December 2017 KShs 672.6 Million). Their change in fair value over 2018 that would have been recorded in profit or loss had these bonds continued to be revalued through profit or loss, would have been KShs 2.6 Million (2017: 1.9 Million).

Impairment

The adoption of IFRS 9,has fundamentally changed the Group's' accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all financial assets at amortised cost.

Upon adoption of IFRS 9 the Group recognized additional impairment on the Group corporate bonds by KShs 157 million, mortgages & other loans a recovery of KShs 17.9 million from previous IAS 39 provision, intercompany balances KShs 111 thousand and deposits with financial institutions KShs 27.8 million which resulted in a decrease in retained earnings of KShs 168.7 million as at 1 January 2018.

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

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

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

Group	Allowance for Impairment under IAS 39 as at 31 December 2017 Ksh'000'	Re-measurement Ksh'000'	ECL under IFRS 9 as at 1 January 2018 Ksh'000'
Corporate Bonds	-	157,313	157,313
Loans to staff	31,573	(17,936)	13,637
Deposits and Commercial Papers	71,001	604	71,605
Other receivables	-	727	727
Due to related parties	-	117	117
Deposits with financial institutions	28,453	27,864	56,317
	131,027	168,689	299,716
Company			
Corporate Bonds	-	-	-
Loans to staff	-	5	5
Deposits and Commercial Papers	59,832	-	59,832
Other receivables	-	-	-
Due to related parties	-	-	-
Deposits with financial institutions	-	7,804	7,804
	59,832	7,809	67,641

(d) Revenue recognition

Gross premiums

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

Reinsurance premiums

Gross reinsurance premiums on life are recognised as an expense when payable or on the date on which the policy is effective. Gross general written premiums under life and general reinsurance contracts comprise the total premiums payable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Premiums

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

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

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

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

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

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

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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned

Dividend income

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

Commission income

Commissions earned from reinsurance premium ceded is recognised in profit or loss in the period in which it is earned. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods

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

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

(d) Revenue recognition *(continued)*

Realised / unrealised gains and losses

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

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.

(e) Claims and policy holders benefits expenses

Gross benefits and claims paid

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, including: internal and external claims handling costs that are directly related to the processing and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

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

Reinsurance claims

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

(f) 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

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

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

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.

(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.

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

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

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

DACs are derecognised when the related contracts periods elapses.

(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.

(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.

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

(i) Reinsurance contracts held *(continued)*

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 liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

(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:

- t has a legally enforceable right to set off the recognised amounts; and
- It intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Deferred income tax

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

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

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

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

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.

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.

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

(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 (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.

Change of functional and presentation currency

The financial statements are CIC Africa Insurance(SS) Limited are presented in United States Dollar (USD) which is the functional currency of the company with effect 1 January 2018. The Group considered the following factors in determining the functional currency. The change was made to reflect that the Dollar has become the predominant currency in the company counting significant part of the company's cash flow.

The change has been implemented with prospective effect. The change of the presentation currency is applied retrospectively for comparative figures for 2017 of the company. The Group presents the financial statements in Kenya shillings hence the change in the currency has not impacted group.

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

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

(m) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses except for buildings which is measured based on revalued amounts. Only when the future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably and subsequently stated at historical cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

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

Property and equipment are reviewed for impairment as described in note (t) 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 date of disposal of an item of property, and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied The amount of consideration to be included in the gain or loss arising from the derecognition of property and is determined in accordance with the requirements for determining the transaction price in IFRS 15.

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

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

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 the profit or loss for the year to which they relate.

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

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

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

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

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

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

Intangible assets 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.

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

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

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. The date of disposal of an item of intangible asset is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied The amount of consideration to be included in the gain or loss arising from the derecognition of intangible is determined in accordance with the requirements for determining the transaction price in IFRS 15.

(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. Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they incurred. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination took place.

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

General provisions

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation. Where the 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.

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

Onerous contracts

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

(r) Employee benefits

Defined contributions provident fund

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

Statutory pension scheme

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

Leave

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

Bonus

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

Termination Benefits

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

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

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

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

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

(r) Employee benefits *(continued)*

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

(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 Uganda and Malawi.

(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. The Group bases its impairment calculation on detailed budgets and forecast calculations which are detailed in its five-year

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(t) Impairment of non-financial assets *(continued)*

strategic plan. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after fifth year.

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

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

The recoverable amount for the life insurance business has been determined based on a fair value less costs of disposal. 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) Insurance payables

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

(v) Financial and insurance liabilities

Insurance contract liabilities

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

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

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. It is assumed that premiums are earned

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(v) Financial and insurance liabilities *(continued)*
Insurance contract liabilities *(continued)*

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 to determine whether there is any overall excess of expected claims and deferred acquisition costs (DAC) over unearned premiums by using an existing liability adequacy test as laid out under the Kenyan Insurance Act. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant 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.

Reinsurance ceded to reinsurance counterparties

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

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

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

(x) Fair value measurement

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

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

(x) Fair value measurement *(continued)*

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

For 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. Fair value related disclosures have been made in note 55.

(y) Financial instruments (policy applicable after 1 January 2018)

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

Date of recognition

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

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss,

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(y) Financial instruments (policy applicable after 1 January 2018) *(continued)*

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

Financial assets

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(y) Financial instruments (policy applicable after 1 January 2018) *(continued)*

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

The Group's financial assets at amortised cost include Loans and receivables, cash and cash equivalents, deposits with financial institutions, commercial papers, corporate bonds, other receivables, government securities at amortised cost and due from related parties.

Business model assessment

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

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

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

The SPPI test

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

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

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(y) Financial instruments (policy applicable after 1 January 2018) *(continued)*
Financial assets at fair value through OCI (debt instruments) *(continued)*

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

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

The Group's financial assets at amortised cost includes loans and receivables, cash and cash equivalents, deposits with financial institutions, commercial papers, corporate bonds, other receivables, government securities at amortised cost and due from related parties.

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

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

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The unquoted financial assets have been designated at fair value through OCI because the Group intends to hold the assets into perpetuity. The Group has designated its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading.

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

Financial assets at fair value through profit or loss

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(y) Financial instruments (policy applicable after 1 January 2018) *(continued)*
Financial assets at fair value through profit or loss *(continued)*

The Group has classified quoted equity instruments and investments in collective investment scheme in this category.

Derecognition

Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:
The rights to receive cash flows from the asset have expired;Or

The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

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

Derecognition due to substantial modification of terms and conditions

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

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

Impairment of financial assets

Overview of ECL principles

As described in note 1 (c) the adoption of IFRS 9 has fundamentally changed the Group's financial assets loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all financial assets at amortised cost except insurance and reinsurance receivables, in this

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(y) Financial instruments (policy applicable after 1 January 2018) *(continued)*
Impairment of financial assets *(continued)*
Overview of ECL principles *(continued)*

section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

The calculation of ECLs

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

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

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

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

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

When estimating the ECLs, the Group considers three scenarios (a base case, optimistic (upside) and pessimistic (downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the staff loans and mortgages will cure and the value of collateral or the amount that might be received for selling the asset.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(y) Financial instruments (policy applicable after 1 January 2018) *(continued)*
The calculation of ECLs *(continued)*

The Group has applied the simplified approach in estimating expected credit losses on the other assets such as deposits with financial institutions, related party receivables, commercial papers, corporate bonds and other receivables.

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

12MECL (Stage 1) -The 12mECL is calculated as the portion of the LTECL that represents the ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring within 12 months following the reporting date.

LTECL (Stage 2)-This is recorded when a financial instrument has shown a significant increase in credit risk since origination.

Impairment (Stage 3) -For debt instruments considered credit-impaired, the Group recognises the lifetime expected credit losses for these instruments.

Forward looking information

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(y) Financial instruments (policy applicable after 1 January 2018) *(continued)*

Write offs

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

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

Financial liabilities

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

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

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

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

(y) Financial instruments (policy applicable after 1 January 2018) *(continued)*

The calculation of ECLs *(continued)*

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

  Or

- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

The Group has designated unit linked contracts as financial liabilities at fair value through profit or loss.

Loans and borrowings and payables

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

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

This category generally applies to other payables, amounts due to related parties.

Derecognition

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

Offsetting of financial assets and financial liabilities

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

(z) Financial instruments (policy applicable before 1 January 2018)

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(z) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Financial assets

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

The fair values of quoted securities investments are based on current bid prices. If the market for a financial asset is not active, the 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 represents financial assets designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling it in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments are recognised in profit or loss in the year that they arise.

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

Loans and receivables

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

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 profit or loss. Gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. Loans and receivables comprise Staff loans, other receivables, and cash and bank balances.

Held-to-maturity financial assets

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

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

(z) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Held-to-maturity financial assets *(continued)*

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

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

Available-for-sale financial assets

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

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

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

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

Reclassifications

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(z) Financial instruments (policy applicable before 1 January 2018) *(continued)*

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 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.

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

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

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

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

(z) Financial instruments (1AS 39) *(continued)*

profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

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

Financial liabilities and equity instruments issued by the 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

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

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

Subsequent measurement

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

Loans and borrowings and payables

This is the category most relevant to the 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 due to related parties and other payables.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(z) Financial instruments (1AS 39) *(continued)*

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 holder fails to make a payment when due in accordance with the terms of a debt instrument.

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

Derecognition

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

Offsetting of financial assets and financial liabilities

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

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

(ab) 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.

(ac) Events after the reporting date

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Group will assess if the information affects the amounts that it recognises in the Group's financial statements. The Group will adjust the amounts recognised in its financial statements to reflect any adjusting events even after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable. The entity's owners have no power to amend the financial statement after issue.

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

(ad) 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.

(ae) 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 2018: 30% (2017:30%) is incurred.

(af) Discretionary Participation Features (DPF)

A DPF gives holders of these contracts the right to receive, as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. The amount or timing of the additional benefits is contractually at the discretion of the Group. Under the terms of the contracts, surpluses in the DPF funds can be distributed to policyholders and shareholders based on recommendation by the statutory Actuary. The Group has the discretion over the amount and timing of the distribution of these surpluses to policyholders.
All DPF liabilities including unallocated surpluses at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

(ag) Product classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Once a contract has been classified as an insurance contract (life and general) it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without DPF. The insurance contracts with DPF are majorly for Life Assurance, while as the insurance the contract without DPF are both in general and life businesses. For investments contracts however, the group does not have investments contract with DPF, the investments contracts without DPF include the unit linked contracts. DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that meet the following conditions:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(z) Offsetting of financial assets and financial liabilities *(continued)*
(ag) Product classification *(continued)*

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

That are contractually based on:

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

(ah) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading

Expected to be realised within twelve months after the reporting period Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least
- twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.
Deferred tax assets and liabilities are classified as non-current assets and liabilities

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

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

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

- Capital management - Note 54
- Financial risk management and policies - Note 55.2
- Sensitivity analyses disclosures - Note 55.1

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.

(a) Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and price volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See note 56 for further discussion.

(b) Deferred tax assets

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

(c) Impairment of premium receivables

The Group reviews its individually significant balances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the debtor's financial situation. These estimate to provide all debts over 120 days is based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance (note 27).

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

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

(d) Operating lease commitments – Group as lessor

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

(e) Valuation of life insurance contract liabilities

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

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

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

(f) 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

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

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

(f) Valuation of non-life insurance contract liabilities *(continued)*

rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect once-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

(g) Revaluation of property and investment properties

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

(h) Impairment of financial assets

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

Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. See specific notes for financial assets that are subject to impairment assessment.

(i) Revenue from contracts with customers

The Group made judgement in determining what the performance obligation was and the timing in which revenue is recognised. The Group based in assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions may change due to circumstances arising that are beyond the control of Group. Such changes are reflected in the assumptions when they occur.

(j) Change in functional and presentation currency

The Group made judgement of the functional and presentation currency for CIC Africa Insurance (SS) Limited by assessing the primary economic environment in which it operates in, i.e the one it primarily generates and expends cash. This was based on the following factors:

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

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

(j) Change in functional and presentation currency *(continued)*

(i) The currency that mainly influences services that is the premium received. The premiums received in CIC Africa Insurance (SS) were mainly in USD, amounting to more than 90 % of the total premiums received by the company from 47% in the previous year.

(ii) The currency of the country whose competitive forces and regulations mainly determine the sales prices of its services, the currency of South Sudan is South Sudanese pound (SSP). Owing to the depreciation of the currency, most Corporates and N prefer to insure in hard Currency. In addition, South sudan being a net importer of goods, most hospitals, garages and service providers peg their goods and services on the USD to avoid being hit by huge foreign exchange losses.

(iii) The currency that mainly influences labour, material and other costs of providing services Most of the expenses are in USD mainly claims, salaries for expatriates which forms a bulk of the salaries, other costs are mainly paid in other Currencies such as Kenya Shillings and South Sudanese pound. All the cost remained the same where we had more than 50% in USD, expect for Claims which increased from 7% to 99%.

(iv) The currency in which funds from financing activities are generated in, the group assessed that the Company did not have any debt.

(v) The currency in which receipts from operating activities are usually retained, the Group retains its receipts for operating activities for is USD amounting to more than 80 % of the cash held at the end of the year as compared to previous year which was at 46%.

(k) Contingent liabilities

The Group is exposed to various contingent liabilities in the normal course of business including several 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) because 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.

Group	Type of tax	Amount (KShs 'million)
CIC General Insurance Limited	Excise duty and corporate tax	62
CIC Life Assurance Limited	Corporation tax	120
CIC Asset Management Limited	VAT (interest and penalties)	10
Total		192

In the opinion of directors and after taking appropriate tax advice, the balance of KShs 192 million is not payable and they have appealed the matter through the Tax Appeals Tribunal to review the assessment. The directors are of the opinion that the outcome of their appeal will be favourable hence no provision has been made for any tax liability that may arise from this assessment in these financial statements.

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

3. SEGMENT INFORMATION

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 life assurance business, general insurance business and other. Life assurance 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 business relates to all other categories of insurance business written by the Group and is analysed into several sub-classes of business based on the nature of the assumed risks. Other business comprises non-insurance related businesses. The Group's main geographical segment of business is in Kenya.

Measurement of operating segment profit or loss, assets and liabilities

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

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

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

Group management internally evaluates its performance based upon:

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

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

3. SEGMENT INFORMATION *(continued)*

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

		2018 KShs'000	2017 KShs'000
(a)	Gross written premiums		
	General insurance business		
	Motor	5,029,135	5,023,179
	Medical	3,295,866	2,276,582
	Fire	890,309	885,684
	Personal accident	311,859	359,460
	Theft	556,577	513,932
	Public liability	115,957	228,840
	Marine	137,701	148,203
	Engineering	239,155	373,242
	Miscellaneous accident	255,880	343,753
	Others	408,260	486,545
	Sub - total	11,240,699	10,639,420
	Life assurance business		
	Ordinary life	2,077,346	1,173,390
	Group life	3,309,339	3,074,077
	Sub - total	5,386,685	4,247,467
	Total gross written premiums	16,627,384	14,886,887
(b)	Gross earned premiums		
	General insurance business		
	Motor	5,276,083	5,298,129
	Medical	3,151,437	1,944,395
	Fire	946,034	783,258
	Personal accident	302,437	331,932
	Theft	543,031	492,156
	Public liability	186,706	279,784
	Marine	141,555	154,746
	Engineering	319,093	306,656
	Miscellaneous accident	219,447	271,668
	Others	500,832	203,632
	Sub - total	11,586,655	10,066,356
	Life assurance business		
	Ordinary life	2,052,690	1,191,420
	Group life	3,305,956	3,078,416
	Sub - total	5,358,646	4,269,836
	Total gross earned premiums	16,945,301	14,336,192

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

3. SEGMENT INFORMATION *(continued)*

(b) Gross earned premiums *(continued)*

Reconciliation between gross written premiums and gross earned premiums

	2018 KShs '000	2017 KShs '000
Gross written premiums	16,627,384	14,886,887
Movement in Unearned Premium Reserve (Note 47)	317,917	(550,695)
Gross earned premiums	16,945,301	14,336,192

(c) Reinsurance premiums

	2018 KShs '000	2017 KShs '000
General insurance business class		
Motor	167,260	174,339
Medical	81,100	28,042
Fire	489,582	584,159
Engineering	161,027	196,990
Personal accident	66,603	49,428
Theft	33,581	27,153
Miscellaneous accident	226,220	228,104
Marine	60,594	61,755
Public liability	127,716	184,222
Others	141,007	40,640
Reinsurance share of increase in UPR (note 47)	184,410	(188,186)
Sub – total	1,739,100	1,386,646
Life assurance business class		
Group life	927,575	841,986
Ordinary life	17,140	12,563
Sub - total	944,715	854,549
Total reinsurance premiums	2,683,815	2,241,195

(d) Investment income:
General insurance business class

(i) Interest revenue calculated using the effective interest method

	2018 KShs '000	2017 KShs '000
Interest from government securities at amortised cost – debt instruments	74,756	-
Interest on financial assets at amortised cost - corporate bonds	-	-
Interest from debt instruments at FVOCI	224,213	-
Amortisation of financial assets	2,279	-
Interest on staff loan receivables	8,401	-
Interest on bank deposits	270,657	-
Interest from deposits and commercial papers	7,949	-
	588,255	

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

3. SEGMENT INFORMATION *(continued)*

(d) Investment income *(continued)*

	2018 KShs'000	2017 KShs'000
(ii) Other investment income		
Fair value loss on government securities reclassified from prior periods	(11,222)	(1,334)
Interest from government securities held to maturity	-	302,328
Amortisation of financial assets	-	(6,987)
Interest on corporate bonds	-	430
Interest on staff loan receivables	-	14,185
Interest on bank deposits	-	183,232
Interest from deposits and commercial papers	-	44,239
Dividend income from equity instruments at FVPL	26,131	24,132
Rental income from investment properties	164,170	140,141
Interest from government securities classified as available for sales	-	64,718
Sub – total	179,079	765,084
Life assurance business class		
(i) Interest revenue calculated using the effective interest method		
Interest from government securities at amortised cost – debt instruments	40,703	-
Amortisation of financial assets at amortised cost	(2,111)	-
Interest on financial assets at amortised cost - Corporate bonds	32,879	-
Interest on financial assets at fair value through other comprehensive income – debt instruments	206,704	-
Interest on deposit with financial institutions	53,990	-
Interest on staff loan receivables	18,489	-
	350,654	-
(ii) Other investment income		
Interest from government securities classified as held to maturity	-	102,376
Amortisation of financial assets	-	(7,982)
Interest on Corporate bonds	-	29,734
Interest on deposit with financial institutions	-	29,004
Interest on staff loan receivables	-	29,396
Fair value loss on government securities reclassified from prior periods	-	(480)
Dividend income	17,811	13,518
Rental income from investment properties	45,918	47,580
Interest on Government securities classified as available for sale	-	161,527
Sub – total	63,729	404,673
Other business category		
(i) Interest revenue calculated using the effective interest method		
Interest from government securities at amortised cost	13,140	-
Interest on financial assets at amortised cost - Corporate bonds	8,156	-
Interest on deposits and commercial papers	20,071	-
Interest on deposit with financial institutions	280,714	-
Interest on staff loan receivables	18,627	-
	340,708	-

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

3. SEGMENT INFORMATION *(continued)*

(d) Investment income: *(continued)*

Other business category

(ii) Other investment income	2018 KShs'000	2017 KShs'000
Interest from government securities at amortised cost	-	20,189
Interest on financial assets at amortised cost - Corporate bonds	-	5,541
Interest on deposits and commercial papers	-	20,686
Interest on deposit with financial institutions	-	315,581
Interest on staff loan receivables	-	10,742
Dividend income	644	548
Fair value gain on corporate bonds	(539)	149
Fair value on equity investment at fair value through profit or loss	(5,066)	388
Sub – total	335,747	-
Total investment income (i&ii)	1,517,464	1,543,581

(e) Claims and policy holders' benefits expenses

	2018 KShs'000	2017 KShs'000
General insurance business class		
- Gross benefits and claims paid	6,855,168	6,208,252
- Claims ceded to reinsurers	953,110	974,108
- Gross change in insurance contract liabilities	(240,711)	(700,384)
- Change in contract liabilities ceded to reinsurers	(1,052,109)	(511,582)
Sub – total	6,515,458	5,970,394
Life insurance business class		
Gross incurred claims	2,424,932	2,089,077
Add: Reinsurance recoveries	655,689	662,781
Less Gross change in actuarial reserves	(916,069)	(928,416)
Reinsurer's share of change in actuarial reserves	570,045	62,632
Sub – total	2,734,597	1,886,074
Total claims and policy holders' benefits expenses	9,250,055	7,856,468

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

3. SEGMENT INFORMATION *(continued)*

Other disclosures:	General Insurance business KShs'000	Life Assurance Business KShs'000	Other business KShs'000	Total KShs'000
31 December 2018				
Reportable segment profits after tax	380,290	166,368	78,705	625,363
Reportable segment total assets	12,848,841	12,185,535	7,941,357	32,975,733
Less:				
: Related party balances	17,880	107,362	(22,244)	102,998
: Investment in subsidiaries	(1,700,000)	(800,000)	(1,272,064)	(3,772,064)
Reportable segment total assets - Net	11,166,721	11,492,897	6,647,049	29,306,667
Reportable segment total liabilities	8,704,620	10,125,575	6,263,052	25,093,247
Less: related party balances	-	(28,486)	-	(28,486)
Net	8,704,620	10,097,089	6,263,052	25,064,761
Interest income	353,810	352,765	315,571	1,022,146
Interest expense	-	-	650,000	650,000
Income tax charge/(credit)	(249,779)	(22,015)	45,536	(226,258)
Fees and commission income	282,090	282,116	339,633	903,839
Depreciation of property and equipment	69,302	40,362	68,113	177,777
Amortisation of intangible assets	17,712	3,445	15,751	36,908
Property and equipment additions	25,317	6,292	23,001	54,610
Intangible assets additions	2,784	1,114	9,787	13,685
31 December 2017				
Reportable segment profits after tax	271,876	182,772	18,825	473,473
Reportable segment total assets	13,116,624	10,285,064	7,103,688	30,505,376
Less:				
: Related party balances	(38,291)	(181,575)	265,752	45,886
: Investment in subsidiaries	(1,700,000)	(800,000)	(1,028,633)	(3,528,633)
Reportable segment total assets - Net	11,378,333	9,303,489	6,340,807	27,022,629
Reportable segment total liabilities	9,120,980	8,253,188	5,494,100	22,868,268
Less: related party balances	(161,780)	(51,471)	213,251	-
Net	8,959,200	8,201,717	5,707,351	22,868,268
Interest income	562,225	351,375	629,981	1,543,581
Interest expense	-	-	650,000	650,000
Income tax charge/(credit)	(63,337)	(41,345)	63,999	(40,683)
Fees and commission income	429,836	298,321	295,250	1,023,407
Depreciation of property and equipment	70,066	44,074	62,505	176,645
Amortisation of intangible assets	22,174	8,909	13,083	44,166
Property and equipment additions	37,517	14,149	20,005	71,671
Intangible assets additions	45,494	2,630	716	48,840

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

4. (a) Fees and commissions income

	2018 KShs'000	2017 KShs'000
General insurance business class		
Engineering	50,993	120,581
Fire	166,707	184,584
Public liability	6,593	38,008
Medical	-	1,723
Others	60,098	110,579
Sub total	284,391	455,475
Life assurance business class		
Group life commission	263,567	287,526
Ordinary life commission	19,845	18,357
Sub total	283,412	305,883
Other business category		
Fund management fees	296,832	229,587
Administration fee	37,343	31,500
Other income	1,861	962
Sub total	336,036	262,049
Total	903,839	1,023,407

(b) Commissions expense

	2018 KShs'000	2017 KShs'000
General Insurance business class		
Engineering	35,956	58,409
Fire	209,893	184,638
Public liability	35,768	42,027
Medical	296,714	197,543
Motor	646,425	616,091
Marine	65,266	20,170
Miscellaneous	27,784	29,184
Theft	91,659	81,473
Personal accident	56,977	60,117
Wiba	72,268	64,531
Others	81,574	99,198
Sub total	1,620,284	1,453,381
Life assurance business class		
Group life	592,967	471,325
Ordinary Life	170,761	197,764
Sub total	763,728	669,089
Total	2,384,012	2,122,470

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

5. INVESTMENT INCOME

GROUP	2018 KShs'000	2017 KShs'000
(i) Interest revenue calculated using the effective interest method		
Interest on financial assets at amortised cost – Government securities	128,598	-
Interest on deposit with financial institutions	336,995	-
Interest on financial assets at amortised cost - Corporate bonds	41,114	-
Amortisation of corporate bond	(83)	-
Corporate bond interest accrued but not yet received (note 19)	-	-
Interest on staff loan receivables	45,517	-
Interest income on financial assets at fair value through OCI- Government securities	427,791	-
Interest income from deposits and commercial papers	264,723	-
	1,244,655	-
(ii) Other investment income		
Interest on Government securities classified as held to maturities	-	444,351
Interest on deposit with financial institutions	-	490,527
Interest on Corporate bonds	-	33,409
Corporate bond interest accrued but not yet received (note 19)	-	2,296
Interest on staff loan receivables	-	54,906
Interest income on Government securities classified as available for sale	-	206,559
Interest income from deposits and commercial papers	-	84,287
Dividend income	44,586	56,126
Rental income from investment properties	228,223	187,903
Discount on government securities classification	-	(14,969)
Fair value loss on government securities reclassified from available for sale to held to maturity (note 22)	-	(1,814)
	272,809	-
Total (i&ii)	1,517,464	1,543,581
Investment income earned on financial assets, analysed by category of asset is as follows:		
Investments at amortised cost	816,864	918,095
Loans and receivables	-	139,193
Fair value through profit or loss Investments	-	35,705
Investments at fair value through OCI	427,791	206,559
Dividend income	44,586	56,126
Investment income earned on non-financial assets	228,223	187,903
Total investment income	1,517,464	1,543,581

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.

5. INVESTMENT INCOME *(continued)*

COMPANY	2018 KShs'000	2017 KShs'000
(i) Interest revenue calculated using the effective interest method		
Interest on deposits with financial institutions	248,836	-
(ii) Other investment income		
Interest on government securities classified as available for sale	-	4,375
Dividend Income	294,000	262,000
Interest on deposits and commercial paper	-	7,001
Interest on deposits with financial institutions	-	275,877
	294,000	549,253

6. OTHER GAINS

GROUP	2018 KShs'000	2017 KShs'000
Fair value gain on investment properties (note 14 (a))	541,424	531,856
Fair value gain/(loss) on quoted equity investments at fair value through profit or loss (note 24)	(244,388)	65,097
Fair value loss on corporate bonds (note 19)	-	(1,978)
Fair value on investment in collective investment scheme	20,071	
Miscellaneous income*	36,989	109,398
	354,096	704,373
COMPANY		
Fair value gains on investment properties (note 14 (b))	491,758	466,422
Miscellaneous income	17,363	24,824
	509,121	491,246

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

7. CLAIMS AND POLICYHOLDERS BENEFITS EXPENSES

Claims and policyholders benefits payable:	2018 KShs '000	2017 KShs '000
Gross benefits and claims paid	(9,736,515)	(8,900,071)
Gross change in insurance contract liabilities	(1,285,159)	(946,294)
Change in contract liabilities ceded to reinsurers	953,110	974,108
Claims ceded to reinsurers	818,509	1,015,789
Net benefits and claims	(9,250,055)	(7,856,468)

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

8. OPERATING AND OTHER EXPENSES

(a) GROUP

	2018 KShs'000	2017 KShs'000
The following items have been charged in arriving at profit before taxation:		
Staff costs (note 8 (b))	1,762,969	1,664,954
Auditors' remuneration	20,000	15,905
Directors' fees	28,770	26,181
Directors' emoluments	52,232	12,535
Subsidiaries' board expenses	73,327	67,936
Depreciation of property and equipment (note 13 (a))	177,777	176,645
Amortisation of intangible assets (note 15 (a))	36,907	45,011
Impairment charge for doubtful premium receivables (note 27)	87,381	529,769
Premium tax	104,404	102,963
Staff welfare	391,019	358,409
Utilities	358,803	348,820
Software licence costs	75,542	65,434
Printing and stationery	85,905	70,905
Business advertising and promotion	267,290	243,344
Professional fees	180,172	166,942
Statutory levies	61,301	51,107
Professional subscriptions	49,923	35,507
Pension capitalisation	33,165	67,793
Provision for doubtful loans receivable	-	31,573
Provision for doubtful Nakumatt Holdings Limited commercial paper (note 25(a))	-	71,001
Investment management fees	3,698	4,701
Amortisation of bond expenses (note 41)	23,385	20,508
Other expenses*	72,199	86,793
	3,946,169	4,264,736

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

(b) STAFF COSTS

	2018 KShs'000	2017 KShs'000
Staff costs include the following:		
- Salaries and allowances**	1,636,630	1,550,581
- Defined contribution expense	98,509	84,501
- Termination benefits expense	1,630	1,126
- Leave pay	26,200	28,746
	1,762,969	1,664,954
Number of employees	509	496

***Included in the staff costs is salary and allowances of KShs 75 million (2017: KShs 73 million) paid to the Group chief executive officer, who is also a director.*

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

8. OPERATING AND OTHER EXPENSES *(continued)*

(c) COMPANY

	2018 KShs'000	2017 KShs'000
Utilities	200	200
Impairment of Nakumatt Holdings commercial paper (note 25(b))	-	59,832
Depreciation of property and equipment (note 13 (b))	18,335	16,965
Amortisation of intangible assets (note 15 (b))	6,509	6,346
Audit fee	2,369	1,871
AGM expenses	1,524	336
Professional fees	4,360	1,584
Amortisation of bond expenses (note 41)	23,385	20,508
Investment management fees	6,905	5,008
Others	2,933	4,376
	66,520	117,026

(d) PROFIT BEFORE TAX

	2018 KShs'000	2017 KShs'000
GROUP		
The profit before tax is stated after charging:		
Depreciation of property and equipment	177,777	176,645
Amortisation of intangible assets	36,907	45,011
Audit fee	20,000	15,905
Staff costs	1,762,969	1,664,954
Provision for doubtful premium receivables	87,381	529,769
COMPANY		
The profit before tax is stated after charging:		
Depreciation of property and equipment	18,335	16,965
Amortisation of intangible assets	6,509	6,346
Audit fee	2,369	1,871
GROUP		
Allowance for expected credit losses:		
- Corporate bonds (note19)	(722)	-
- Loans receivable - Mortgage loans (note 20)	3,523	-
- Other Loans (note 20)	2,743	-
- Deposits and commercial papers (note 25(a))	(218)	-
- Other receivables (note 29(a))	2,169	-
- Due to related parties (note 30)	265	-
- Deposits with financial institutions (note 31(a)	(2,113)	-
	5,647	-

9. LOSS ON NET MONETARY POSITION

IAS 29 on Financial Reporting in Hyperinflationary Economies was applied by CIC Africa Insurance (South Sudan) Limited, one of the subsidiaries in the group for the year ended 31 December 2017. This resulted in the loss on the net monetary position representing the difference arising from the restatement of non-monetary assets, owners' equity and items in the statement of profit or loss and other comprehensive income items and the adjustment of index linked assets and liabilities.

	2018 KShs'000	2017 KShs'000
Loss on net monetary position	-	(187,478)

10. FINANCE COST – GROUP AND COMPANY

	2018 KShs'000	2017 KShs'000
Interest expense on borrowings (note 41)	650,000	650,000

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

11. TAXATION *(continued)*

GROUP *(continued)*	2018 KShs'000	2017 KShs'000
(a) Statement of profit or loss		
Current tax charge on taxable income at 30% (2017:30%)	315,161	266,774
Prior year overprovision	(9,400)	-
Deferred tax credit	(79,503)	(226,091)
	226,258	40,683
COMPANY		
Statement of profit or loss and other comprehensive income		
Deferred tax credit (note 16 (b))	(84,848)	(98,275)
(b) Statement of financial position		
At 1 January	43,341	(148,808)
Current tax charge for the year	315,161	266,774
Prior year under provision	(9,400)	-
Tax charge on transfer to retained earnings	34,500	34,500
Paid during the year	(375,900)	(109,125)
At 31 December	7,702	43,341
COMPANY		
At 1 January	2,000	2,000
Taxation charge for the year	-	-
Paid during the year	-	-
At 31 December	2,000	2,000
(c) Reconciliation of taxation expense to expected tax based on accounting profit		
Profit before taxation	851,621	519,156
Tax calculated at a tax rate of 30% (2017:30%)	254,786	175,168
Prior year over provision	(9,400)	-
Tax effect of expenses not deductible for tax*	(119,318)	(227,684)
Tax effect of income not subject to tax**	73,511	69,878
Tax effect on capital gains	26,679	23,321
Taxation charge for the year	226,258	40,683
COMPANY		
Profit before taxation	335,437	273,473
Tax calculated at a tax rate of 30%	100,631	82,042
Tax effect of expenses not deductible for tax**	(212,198)	(203,638)
Tax effect on capital gains	26,719	23,321
Taxation credit for the year	(84,848)	(98,275)

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

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

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	
	2018	2017	2018	2017
Profit attributable to ordinary shareholders' (KShs'000)	625,363	478,473	420,285	371,748
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)	0.24	0.18	0.16	0.14

There were no dilutive shares during the year (2017: Nil).

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

13. (a) PROPERTY AND EQUIPMENT – GROUP

2018	Buildings KShs'000	Motor Vehicles KShs'000	Computers KShs'000	Furniture fittings & equipment KShs'000	Leasehold improvements KShs'000	Total KShs'000
COST OR VALUATION						
At 1 January	710,468	52,885	208,389	892,589	3,472	1,867,803
Additions	4,881	713	16,319	32,698	-	54,611
Elimination on disposals	-	(9,903)	-	-	-	(9,903)
Gain on revaluation	28,316	-	-	-	-	28,316
Elimination of depreciation charge on revaluation	(24,129)	-	-	-	-	(24,129)
Foreign exchange differences on translation	(2,845)	2,663	15,920	(11,996)	310	4,052
At 31 December	716,691	46,358	240,628	913,291	3,782	1,920,750
ACCUMULATED DEPRECIATION						
At 1 January	-	38,982	173,110	450,587	386	663,065
Charge for the year (note 8)	24,129	8,691	24,064	120,515	379	177,777
Foreign exchange differences on translation	-	943	(3,551)	(11,450)	(386)	(14,444)
Eliminated on disposal	-	(9,903)	-	-	-	(9,903)
Elimination on revaluation	(24,129)	-	-	-	-	(24,129)
At 31 December	-	38,713	193,623	559,652	379	792,366
CARRYING AMOUNT						
At 31 December	716,691	7,645	47,005	353,639	3,404	1,128,384

There are no property and equipment pledged as security for liabilities. There are no contractual commitments for the acquisition of property and equipment., except for CIC Plaza South Sudan which is under finance lease.

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

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

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

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

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

An independent valuation of the buildings in Kenya was carried out at 31 December 2018 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 2018 by registered valuers, Kenval Realtors Limited on open market value basis. The fair value of property and equipment are assessed every year.

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

(b) PROPERTY AND EQUIPMENT – COMPANY

2018	Motor vehicles KShs'000	Computers KShs'000	Furniture fittings & Equipment KShs'000	Total KShs'000
COST OR VALUATION				
At 1 January 2018	16,907	20,588	59,144	96,639
Additions	-	5,182	6,157	11,339
At 31 December 2018	16,907	25,770	65,301	107,978
ACCUMULATED DEPRECIATION				
At 1 January 2018	12,681	6,134	24,223	43,038
Charge for the year	4,226	6,270	7,839	18,335
At 31 December 2018	16,907	12,404	32,062	61,373
CARRYING AMOUNT				
At 31 December 2018	-	13,366	33,239	46,605

2017	Motor vehicles KShs'000	Computers KShs'000	KShs'000 Furniture fittings & Equipment KShs'000	Total KShs'000
COST OR VALUATION				
At 1 January 2017	16,907	15,514	59,032	91,453
Additions	-	5,074	113	5,187
At 31 December 2017	16,907	20,588	59,145	96,640
ACCUMULATED DEPRECIATION				
At 1 January 2017	8,454	2,005	15,614	26,073
Charge for the year (note8)	4,227	4,129	8,609	16,965
At 31 December 2017	12,681	6,134	24,223	43,038
CARRYING AMOUNT				
At 31 December 2017	4,226	14,454	34,922	53,602

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

14. INVESTMENT PROPERTIES

(a) GROUP

	CIC plaza in Kenya and South Sudan KShs'000	Kiambu Land KShs'000	Land KShs'000	Total KShs'000
At 1 January 2017	1,836,288	2,600,000	1,615,000	6,051,288
Additions	4,897	33,578	-	38,475
Foreign exchange differences on translation	64,864	-	-	64,864
Fair value (loss)/gains (note 6)	(16,566)	466,422	82,000	531,856
At 31 December 2017	1,889,483	3,100,000	1,697,000	6,686,483
At 1 January 2018	1,889,483	3,100,000	1,697,000	6,686,483
Additions	-	8,242	-	8,242
Foreign exchange differences on translation	(4,674)	-	-	(4,674)
Fair value gains (note 6)	14,666	491,758	35,000	541,424
At 31 December 2018	1,899,475	3,600,000	1,732,000	7,231,475

(b) COMPANY

	2018 KShs'000	2017 KShs'000
KAMITI LAND		
At 1 January	3,100,000	2,600,000
Additions	8,242	33,578
Fair value gains (note 6)	491,758	466,422
At 31 December	3,600,000	3,100,000

There are no contractual commitments in respect of the investment properties.

Net rental income on CIC Plaza arising from operating lease arrangements has been disclosed in note 5 to the financial statements.

All investment properties except for CIC Plaza in South Sudan, were re-valued by Crystal Valuers Limited, registered valuers as at 31 December 2018 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 2018 by registered valuers, Kenval Realtors Ltd on open market value basis. In arriving at the value of the investment property, the valuers 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, Kiambu 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 and a willing buyer;
b) a reasonable period within which to negotiate the sale by taking into account the nature of the property;
c) values will remain static throughout the period;
d) the property will be freely exposed to the market within reasonable publicity;
e) no account is taken of an individual bid by a special purchaser.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

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

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	211,700,479
	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.

Refer to note 56 for additional fair value disclosures.

15. INTANGIBLE ASSETS

(a) GROUP

	2018 Computer Software Total KShs'000	Work in progress*	Goodwill KShs'000	2018 Total KShs'000
COST				
At 1 January	274,875		98,148	373,023
Additions	13,685	101,220	-	114,905
Foreign exchange differences on translation	190	-	-	190
At 31 December	288,750	101,220	98,148	488,118
ACCUMULATED AMORTISATION				
At 1 January	201,766		-	201,766
Charge for the year (note 8)	36,907		-	36,907
Foreign exchange differences on translation	184	-	-	184
At 31 December	238,857	-	-	238,857
CARRYING AMOUNT				
At 31 December	49,893	101,220	98,148	249,261

**work in progress relates to the underwriting and financial reporting software which is currently under implementation.*

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

15. INTANGIBLE ASSETS *(continued)*

(b) COMPANY

	Computer software KShs'000	Goodwill KShs'000	2017 Total KShs'000
COST			
At 1 January	219,329	-	219,329
Additions	48,840	-	48,840
Work in progress	1,691	-	1,691
Acquisition through business combination		98,148	98,148
Foreign exchange differences on translation	5,015	-	5,015
At 31 December	274,875	98,148	373,023
ACCUMULATED AMORTISATION			
At 1 January	151,083	-	151,083
Charge for the year (note 8)	45,011	-	45,011
Foreign exchange differences on translation	5,672	-	5,672
At 31 December	201,766	-	201,766
CARRYING AMOUNT			
At 31 December	73,109	98,148	171,257

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The Group performed its annual impairment test as at 31 December 2018. The Group considers the relationship between its probable market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2018, the market capitalisation of the Group was above the book value of its equity, indicating that there was no potential impairment of goodwill. In addition, the insurance industry in the country remains stable.

The Group allocated this goodwill to the cash-generating units (CGUs) expected to benefit from the synergies of the combination. These include CIC Africa Life Insurance Cooperatives Limited and CIC Africa General Insurance Cooperatives Limited. The allocation was based on the contribution of each of the CGUs to the gross premiums earned. In this regard, the general business generates, an average of 75% of the total gross premiums of the business, while the life business generates, an average 25% of the gross premium earned. An assessment was made for the impairment of the cash-generating units and the goodwill allocated to those units by comparing the carrying amount of each of the units including the carrying amount of the goodwill allocated to each of these units with the recoverable amount of each of the units. The recoverable amount of each of the two units exceeded the carrying amount of each of the units and the allocated goodwill and hence both units and the allocated goodwill were regarded as not impaired. Consequently, no impairment losses were recognised. Goodwill is monitored by management at the level of the two operating segments.

For the 2018 reporting period, the recoverable amounts of the cash generating units (CGUs) were determined based on value-in-use calculations which require the use of assumptions as discussed below. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

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

15. INTANGIBLE ASSETS *(continued)*

	General	Life
Gross premiums growth:		
- year 1	33%	19%
- year 2	38%	24%
- year 3	43%	29%
- year 4	46%	34%
- year 5	38%	34%
Long term growth rate (industry average)	27%	34%
Reinsurance premiums growth	20%	8%
Benefits paid	52%	16%
Discount rate	30%	32%
Commission and selling costs	18%	18%
Commissions earned	30%	30%
Investment income	10%	10%

Management determined the values assigned to each of the above key assumptions as follows:

Gross premium growth	Average growth premium based on market expectation and in line with industry trend and experience
Long term growth rate	Based on industry average. The rates are consistent with forecasts included in industry reports.
Reinsurance premiums growth	Based on industry average. The rates are consistent with forecasts included in industry reports.
Benefits paid	Based on industry average. The rates are consistent with forecasts included in industry reports.
Discount rate which	Reflect specific risks relating to the relevant segments and the countries in they operate
Commission and selling costs	Based on management expectation and industry average
Investment income	Based on management expectation and industry average, and the level of investment expected to be maintained.
Commissions earned	This is based on historical experience and management expectations.

(b) COMPANY	Computer software KShs'000	Work in progress	Total 2018 KShs'000	2017 KShs'000
COST				
At 1 January	26,036	-	26,036	25,320
Additions	-	22,565	22,565	716
At 31 December	26,036	22,565	48,601	26,036
ACCUMULATED AMORTISATION				
At 1 January	11,419	-	11,419	5,073
Charge for the year (note 8)	6,509	-	6,509	6,346
At 31 December	17,928	-	17,928	11,419
CARRYING AMOUNT				
At 31 December	8,108	22,565	30,673	14,617

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

16. DEFERRED TAXATION

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

(a) GROUP

	Net deferred tax asset/(liability) 2018 KShs'000	2017 KShs'000
CIC Asset Management Limited	5,883	2,146
CIC General Insurance Limited	405,058	392,125
CIC Life Assurance Limited	(495,824)	(473,809)
CIC Insurance Group Limited – Company	330,192	245,344
	245,309	165,806
Classified as:		
Deferred tax asset	741,133	639,615
Deferred tax liability	(495,824)	(473,809)

(b) COMPANY

2018	At 1 January KShs'000	Recognized in Profit or loss KShs'000	2017 KShs'000 At 31 December KShs'000
Arising from:			
Unutilised tax losses	370,502	106,573	477,075
Deferred tax on capital gains	(125,158)	(26,679)	(151,837)
Accelerated capital allowance on motor vehicle and equipment	-	4,772	4,772
Provision for doubtful receivables	-	182	182
Net deferred tax asset	245,344	84,848	330,192
2017			
Arising from:			
Unutilised tax losses	248,906	121,596	370,502
Deferred tax on capital gains	(101,837)	(23,321)	(125,158)
Net deferred tax asset	147,069	98,275	245,344

Directors believe the company will make adequate future taxable profits to offset the tax losses carried forward. This opinion is based on projected profits from a real estate project.

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

17. INVESTMENT IN ASSOCIATE

The investment in Takaful Insurance of Africa Limited represents 22% (2017 – 22%) of the issued ordinary share capital the associate, which is a limited liability company incorporated and domiciled in Kenya. Its principal activities are transaction of general insurance and life insurance business., The company, whose financial year end is 31 December, is not listed on any securities exchange.

The table below summarizes the changes in the investment in associate;

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
At 1 January	137,924	182,610	138,400	183,132
Share of profit after taxation for Takaful Insurance of Africa Limited	8,793	46	-	-
(Dilution)/Investment in CIC Africa Co-operatives Insurance Limited	-	(44,732)	-	(44,732)
At 31 December	146,717	137,924	138,400	138,400

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

	2018 KShs'000	2017 KShs'000
Current assets	1,000,786	1,159,611
Non- current assets	775,689	813,834
Current liabilities	753,119	779,336
Non- current liabilities	578,198	512,804
Equity	445,158	681,305
Cash and cash equivalents	84,259	211,293
Net earned premiums	660,909	529,325
Investment and other income	156,957	177,051
Net claims and policy holder benefits payable	(314,356)	(206,630)
Operating and commissions expense	(463,544)	(499,535)
Profit from continuing operations for the year	39,966	211
Group's share of profit of associate	8,793	46
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 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. There are no significant restrictions on the ability of associate to transfer funds to the entity in the form of cash dividend made by the group.

The are no commitments relating to the associate.

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

18. INVESTMENT IN SUBSIDIARIES

(a) COMPANY

	2018 KShs'000	2017 KShs'000
CIC Asset Management Limited: 15,550,000 ordinary shares of KShs 20 each at cost	311,000	311,000
CIC General Insurance Limited: 85,000,000 ordinary shares of KShs 20 each at cost	1,700,000	1,700,000
CIC Life Assurance Limited: 40,000,000 ordinary shares of KShs 20 each at cost	800,000	800,000
CIC Africa Insurance (South Sudan) Limited 690,000 ordinary shares of USD 5 each at cost (1 KShs =USD 0.93)	319,962	319,962
CIC Africa Co-operatives Insurance (Malawi) Limited 789,977 ordinary shares of MK 1,000 each at cost (1KShs = MK 7)	186,124	113,882
CIC Africa (Uganda) Limited 720,093 (2017: 714,994) ordinary shares of UShs 10,000 each at cost (1Kshs = UShs 30)	283,792	283,789
	3,600,878	3,528,633

(b) 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	319,961	South Sudan	Underwriting general and life insurance business.	69%
CIC Africa Co-operatives Insurance (Malawi) Limited	186,124	Malawi	Underwriting general and life insurance business.	85%
CIC Africa (Uganda) Limited	283,792	Uganda	Underwriting general and life insurance business.	100%

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

19. CORPORATE BONDS

The credit quality of each corporate bond is assessed and is acceptable within the parameters used to measure and monitor credit risk.

	2018 KShs'000	2017 KShs'000
Kenya Electricity Generating Company PLC	5,644	11,259
UAP Holdings Limited	32,989	32,978
CIC Insurance Group PLC	16,301	16,295
Real People Kenya Limited	22,340	22,332
East African Breweries Limited	115,750	115,707
Centum Investment Company PLC	78,658	78,632
Chase Bank Limited	155,504	155,504
Housing Finance Company Limited	23,220	23,212
Family Bank Limited	20,528	20,520
Jamii Bora Bank Limited	51,904	52,532
ABC Bank Limited	122,486	122,527
Condabc Bank Limited	21,169	21,162
Consolidated Bank Limited	416	-
NIC Group Kenya Limited	9,734	-
Platinum Credit Limited	2,015	-
I&M Bank Limited	(157,313)	-
Adjustment on adoption of IFRS 9	722	-
Allowance for expected credit losses (note 8(d)		
	522,067	672,660
The movement in the corporate bonds is as follows:		
At 1 January	672,660	614,124
Additions	11,599	113,106
Maturities	(5,518)	(54,888)
Accrued interest on corporate bond (note 5)	-	2,296
Amortisation of corporate bond	(83)	-
Fair value loss (note 6)	-	(1,978)
Adjustment on adoption of IFRS 9	(157,313)	-
Allowance for expected credit losses (note 8(d)	722	-
At 31 December	522,067	672,660
Maturity analysis		
Within 1 year	-	-
In 1-5 years	-	-
In over 5 years	522,067	672,660
	522,067	672,660

An analysis of changes in the gross carrying amount and corresponding ECL allowances in corporate bonds has been disclosed in note 55(b). The are no asset held under lien.

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

20. GOVERNMENT SECURITIES CLASSIFIED AS HELD TO MATURITY

	2018 KShs '000	2017 KShs '000
GROUP		
At 1 January	1,412,690	930,739
Reclassification from Government securities available for sale	-	320,000
Additions	446,540	222,220
Discount (note 5)	168	(14,969)
Maturities	(75,000)	(45,300)
At 31 December	1,784,398	1,412,690
Maturity analysis		
Within 1 year	192,066	36,871
In 1-5 years	1,286,506	945,672
In over 5 years	305,826	430,147
	1,784,398	1,412,690

Government securities at amortised cost relates to treasury bonds held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Kenyan Insurance Act.

21. LOAN RECEIVABLES

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

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

(a) MORTGAGE LOANS

	2018 KShs '000	2017 KShs '000
(i) GROUP		
At 1 January	392,728	475,267
Loans advanced	7,382	51,550
Loan repayments	(181,730)	(126,475)
Impairment of staff loans		(7,614)
Adjustment on adoption of IFRS 9	4,091	-
Allowance expected credit losses (note 8(d))	(3,523)	-
At 31 December	218,948	392,728
Maturity profile:		
Within 1 year	4,124	6,663
In 1-5 years	32,756	45,281
In over 5 years	182,068	340,784
	218,948	392,728
(ii) COMPANY		
At 1 January	44,844	86,283
Loan repayments	(9,664)	(41,439)
At 31 December	34,280	44,844
Maturity profile:		
Within 1 year	1,697	1,390
In 1-5 years	8,128	7,348
In over 5 years	24,455	36,106
	34,280	44,844

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

21. LOANS RECEIVABLES *(continued)*

(b) OTHER LOANS

	2018 KShs '000	2017 KShs '000
(i) GROUP		
Staff loans	93,145	297,895
Policy loans	305,411	131,161
	398,556	429,056
Movement:		
At 1 January	429,056	502,471
Loans advanced	170,987	151,064
Loan repayments	(212,472)	(200,520)
Impairment of staff loans		(23,959)
Adjustment on adoption of IFRS 9	13,728	
Allowance expected credit losses (note 8)	(2,743)	-
At 31 December	398,556	429,056
Maturity profile:		
Within 1 year	3,617	9,975
In 1-5 years	332,373	291,128
In over 5 years	62,566	127,953
Subtotal (a)	218,948	392,728
Subtotal (b)	398,556	429,056
	617,504	821,784
(ii) COMPANY		
At 1 January	29,080	44,176
Loans advanced	894	-
Loan repayments	(29,080)	(15,096)
At 31 December	894	29,080
Maturity profile:		
Within 1 year	78	6,005
In 1-5 years	816	2,419
In over 5 years	-	20,656
At 31 December	894	29,080
Subtotal (a)	34,280	44,844
Subtotal (b)	894	29,080
	35,174	73,924

An analysis of changes in the gross carrying amount and corresponding ECL allowances in loans has been disclosed in note 55(a).

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

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GOVERNMENT SECURITIES

(a) GROUP

	2018 KShs'000	2017 KShs'000
At 1 January	5,005,009	3,981,758
Additions	2,241,606	2,782,736
Disposals	(1,490,425)	(1,386,363)
Reclassified government securities in prior periods*	-	(320,000)
Fair value loss on government securities reclassified securities in prior periods (note 5)	(11,222)	(1,814)
Fair value gain /(loss) through OCI	96,528	(51,308)
At 31 December	5,841,496	5,005,009
Maturity analysis		
Within 1 year	-	-
In 1-5 years	-	-
In over 5 years	5,841,496	5,005,009
	5,841,496	5,005,009

(b) COMPANY

	2018 KShs'000	2017 KShs'000
At 1 January	35,113	33,089
Disposals	(35,113)	-
Fair value gain through OCI	-	2,024
At 31 December	-	35,113

*This relates to the reclassification of government securities classified as available for sale to government securities classified as held to maturity These assets are not held under lien.

An analysis of changes in the gross carrying amount and corresponding ECL allowances debt instruments at fair value through OCI and at amortised cost has been disclosed in note 55(b).

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

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – UNQOUTED EQUITY INSTRUMENTS

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

The shares held in Co-op Holding Co-operative Society Limited were acquired before the initial public offer (IPO) in 2009 and are not listed at the Nairobi Securities Exchange (NSE). These shares are not available to the public market, they can only be sold to other members of the Co-operative sector 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 or KShs 13.70 per shareholders agreement. In the current year the shares have been valued at KShs 9.60 which represents their fair value. In 2018, the Group received NIL dividends from its FVOCI equities. The Group did not dispose of or derecognise any FVOCI equity instruments in 2018.

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 KShs'000	2017 KShs'000
At 1 January	1,240,619	910,652
Additions	411,730	484,152
Disposal	(78,540)	(219,282)
Fair value (loss)/gain (note 6)	(244,388)	65,097
At 31 December	1,329,421	1,240,619

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

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

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

(a) GROUP

	2018 KShs'000	2017 KShs'000
DEPOSITS	13,818	14,379
CIC Sacco Society Limited	-	1,216,595
CIC Unit Trust Scheme – Collective Investment Scheme		
COMMERCIAL PAPERS:		
Nakumatt Holdings Limited	71,001	71,001
Long Horn Publishers Limited	29,820	5,291
Crown Paints Kenya Limited	50,765	49,710
Platinum Credit Limited	-	9,207
	165,404	1,366,183
Less: Allowance for expected credit losses	(71,387)	(71,001)
	94,017	1,295,182
Maturity analysis		
Maturing within three months	-	
Maturing after 3 months	94,403	1,257,172
Adjustment on adoption of IFRS 9	(604)	38,010
Allowance for expected credit losses (note 8(d))	218	-
Total deposits and commercial papers	94,017	1,295,182
Movement:		
At 1 January	1,295,182	1,667,942
Additions	9,413	1,003,330
Transfers on adoption of IFRS 9(note 25 (c))	(1,216,595)	-
Maturities	(1,546)	(1,095,764)
Transfer to deposits with financial institutions (note 31(a))	-	(293,612)
Adjustment on adoption of IFRS 9	(604)	(71,001)
Allowance for expected credit losses (note 8(a))	218	
Interest on deposits and commercial papers	7,949	84,287
At 31 December	94,017	1,295,182

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

25. FINANCIAL ASSETS AT AMORTISED COST - DEPOSITS AND COMMERCIAL PAPERS *(continued)*

(b) COMPANY

	2018 KShs'000	2017 KShs'000
DEPOSITS		
CIC Unit Trust Scheme – Collective Investment Scheme	-	888
COMMERCIAL PAPERS:		
Nakumatt Holdings Limited	-	59,832
	-	60,720
Less: Impairment losses	--	(59,832)
	-	888
Maturity analysis		
Maturing within three months	-	888
Maturing after 3 months	-	-
Total deposits and commercial papers	-	888
Movement:		
At 1 January	888	92,392
Additions	-	-
Maturities	(888)	(38,673)
Allowance for expected credit losses	-	(59,832)
Interest on deposits and commercial papers (note 5)	-	7,001
At 31 December	-	888

An analysis of changes in the gross carrying amount and corresponding ECL allowances in deposits and commercial paper has been disclosed in note 55(b).

(c) INVESTMENTS IN COLLECTIVE INVESTMENT SCHEMES THROUGH PROFIT OR LOSS

	2018 KShs '000	2017 KShs '000
At 1 January		
Transfers on adoption of IFRS 9(note 25 (a))	1,216,595	-
Additions	321,862	-
Maturities	(517,223)	-
Fair value gain on investments in collective investment schemes (note 6)	4,743	-
At 31 December	1,025,977	-

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

26. DEFERRED ACQUISITION COSTS

	2018 KShs '000	2017 KShs '000
At 1 January	592,713	473,033
New acquisition costs	215,076	198,791
Amortization charge	(280,079)	(79,111)
At 31 December	527,710	592,713

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

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.

	2018 KShs '000	2017 KShs '000
1 January	1,527,331	1,421,193
Gross written premiums	16,627,384	14,886,887
Provision for doubtful premiums*	(1,344,067)	(1,256,686)
Payments received	(15,183,222)	(13,524,063)
31 December	1,627,426	1,527,331
Past due but not impaired		
1-30 Days	513,533	684,256
31-60 Days	322,118	392,933
61-90 Days	253,292	304,853
91-120 Days	345,799	60,757
Over 120 days	192,684	84,532
Total	1,627,426	1,527,331

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

	2018 KShs '000	2017 KShs '000
At 1 January	1,256,686	726,917
Increase in provisions (note 8(a))	87,381	529,769
At 31 December	1,344,067	1,256,686

(b) RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

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

	2018 KShs'000	2017 KShs'000
1 January	1,429,216	944,172
Increase in claims paid that have reinsurance recoveries	1,373,263	1,565,197
Reinsurance recoveries receipts	(900,240)	(1,080,153)
31 December	1,902,239	1,429,216

(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.

	2018 KShs'000	2017 KShs'000
1 January	132,403	116,575
claim recoveries	124,973	21,356
Utilised during the year	(12,329)	(5,528)
31 December	245,047	132,403

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

28. REINSURERS' SHARE OF LIABILITIES AND RESERVES

	2018 KShs'000	2017 KShs'000
Reinsurers' share of:		
- General insurance contract liabilities	1,054,279	967,033
- Life assurance contract liabilities	90,824	96,122
	1,145,103	1,063,155
- Reinsurers share of actuarial value of policyholder reserve (note 45)	494,532	498,033
- Unearned premium and unexpired risks (note 47)	506,971	691,381
Total	2,146,606	2,252,569

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

29. OTHER RECEIVABLES

(a) GROUP	2018 KShs'000	2017 KShs'000
Staff advances	15,231	13,380
Other receivables	69,491	168,545
Receivable from custodian	2,131	-
Rent receivable	61,913	19,816
Medical fund administration scheme	34,736	1,303
Motor vehicle benefits recoverable	7,882	10,961
Receivable from Mavuno fund manager	15,419	-
Prepayments	24,785	35,645
Adjustments on adoption of IFRS 9	(727)	-
Allowance for expected credit losses (note 8(d))	(2,169)	-
	228,692	249,650

(b) COMPANY		
Other receivables	2,701	-
Prepayment	6,304	732
Interest receivable on government securities	-	340
	9,005	1,072

An analysis of changes in the gross carrying amount and corresponding ECL allowances in other receivables has been disclosed in note 55(b).

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

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

30. RELATED PARTIES

The ultimate parent company is Co-operative Insurance Society Limited. The Group has various related parties, most of whom are related by virtue of being the investor, and partly due to common directorships. The provisions for expected credit losses made on related party balances during the year was Kshs. 265,000 (2017: nil). The amounts due from related parties are non- interest bearing and the balances are not secured. There were no commitments made between the Group and any related party.

	2018 KShs'000	2017 KShs'000
Due from related companies:		
Co-operative Insurance Society Limited	43,743	16,718
CIC Foundation	19,209	1,775
CIC Africa Co-operatives Insurance (Malawi) Limited	438	-
CIC Unit Trusts	39,873	27,393
Expected credit losses (note 8(d))	(265)	-
	102,998	45,886

(a) Transaction with related parties during the year

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

	2018 KShs'000	2017 KShs'000
Receipts* from related party		
CIC Foundation	-	14,234
CIC Unit Trust Scheme	-	80,223
Payments* to related party		
Co-operative Insurance Society Limited	27,025	-
CIC Foundation	17,432	4,379
CIC Africa Co-operatives Insurance Limited Malawi	438	-
CIC Unit Trust Scheme	12,480	78,243

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

(b) Key management and director's remuneration

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

	2017 KShs'000	2016 KShs'000
Short-term employment benefits:		
Directors		
- Directors 'emoluments – Fees	40,656	52,540
- Others (travel and accommodation)	31,373	54,112
Key management staff*:		
Salaries	229,369	276,663
Leave allowance	3,467	4,449
Car allowance	15,308	72,586
National Social Security Fund (NSSF)	69	53
Contribution to defined contribution scheme	17,560	13,796
	337,802	474,199

**Included in Kenya management staff is salary and allowances of KShs 74.8 million (2017: KShs 73 million) paid to Group chief executive officer, who is also a director.*

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

30. RELATED PARTIES *(continued)*

COMPANY	2018 KShs'000	2017 KShs'000
Due from related company:		
Co-operative Insurance Society Limited	43,743	16,718
CIC Asset Management Limited	34,827	51,400
CIC General Insurance Limited	-	161,313
CIC Africa (Uganda) Limited	329,174	280,392
CIC Africa Co-operatives Insurance (Malawi) Limited	438	13,777
CIC Africa Insurance (SS) Limited	18,677	12,134
CIC Foundation	17,412	1,774
	444,271	537,508
Due to related company:		
CIC Life Assurance Limited	107,793	181,574
CIC General Insurance Limited	8,742	-
	116,535	181,574

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

(a) Transaction with related parties during the year

	2018 KShs'000	2017 KShs'000
Receipts from related party		
CIC Asset Management Limited	16,573	31,488
CIC General Insurance Limited	161,313	1,574,453
CIC Africa (Uganda) Limited	-	180,232
CIC Africa Co-operatives Insurance (Malawi) Limited	13,339	38,210
CIC Africa Insurance (SS) Limited	-	17,892
CIC Foundation	-	14,234
CIC Life Assurance Limited	-	20,700
Payments to related party		
CIC Asset Management Limited	-	36,480
CIC General Insurance Limited	-	1,375,491
CIC Africa (Uganda) Limited	48,782	199,378
CIC Africa Co-operatives Insurance Limited	-	70,012
CIC Africa Insurance (SS) Limited	6,545	15,485
CIC Foundation	17,432	4,379
CIC Life Assurance Limited	-	33,552
Co-operative Insurance Society Limited	27,205	-

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

The Group and its subsidiaries did not advance loans to the directors in the year ended 31 December 2018 and 31 December 2017.

(c) Key management personnel remuneration

The remuneration of directors and other members of key management during the year were as follows:	2018 KShs'000	2017 KShs'000
Directors 'emoluments – fees	235,000	235,000

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

31. DEPOSITS WITH FINANCIAL INSTITUTIONS

(a) GROUP

	2018 KShs'000	2017 KShs'000
The Co-operative Bank of Kenya Limited	2,942,666	3,188,849
Housing Finance Company of Kenya Limited	23,073	122,291
Bank of Africa Limited	-	26,062
EFC Uganda Limited	3,241	-
Pride Microfinance Limited	19,225	-
Gulf African Bank Limited	228,254	118,165
KCB Bank Kenya Limited*	850,155	566,494
Development Bank of Kenya Limited	48,018	27,726
Nico Asset Managers Limited	60,703	12,320
Equity Bank of Kenya Limited	104,559	11,509
ABC Bank Kenya Limited	-	8,490
Transnational Bank Limited	-	52,714
Family Bank Limited	-	82,525
Jamii Bora Bank Limited	-	20,073
Commercial Bank of Africa Limited	-	1,581
Barclays Bank of Uganda Limited	-	159,818
Imperial Bank of Kenya Limited	26,851	28,453
Nedbank Limited (Malawi)	52,459	47,683
Credit Bank Limited	106,105	74,093
FTB Bank Limited	27,160	-
Spire Bank Limited	-	59,110
Victoria Commercial Bank Limited	97,507	203,578
Kenya Women Finance Trust Limited	87,526	18,180
NIC Bank Kenya Limited	424,388	34,846
CDH Asset Management	41,669	
UBA Bank Limited	164,633	-
	5,308,192	4,864,560
Impairment	-	(28,453)
Adjustment of adoption of IFRS 9	(56,317)	-
Expected credit losses (note 8(d))	2,113	-
Net deposits	5,253,988	4,836,107
Maturity analysis:		
Maturing within three months	3,866,788	2,613,879
Maturing after 3 months	1,387,200	2,222,228
	5,253,988	4,836,107

(b) COMPANY

	2018 KShs'000	2017 KShs'000
The Co-operative Bank of Kenya Limited	1,366,178	1,849,624
Maturity analysis:		
Maturing within 3 months	1,366,178	1,849,624
Maturing after 3 months	-	-
	1,366,178	1,849,624

** Except for deposits with KCB Bank Limited, which are held as collateral for staff loans, all the other deposits are available for use by the Group and have no lien conditions attached to them.*
The carrying amounts disclosed above reasonably approximate fair values at the reporting date.
An analysis of changes in the gross carrying amount and corresponding ECL allowances in due from related parties has been disclosed in note 55(b).

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

32. SHARE CAPITAL

	2018		2017	
	Number of shares KShs'000	Share capital KShs'000	Number of shares KShs'000	Share capital KShs'000
Authorised ordinary shares of KShs 1 each (2018: 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

	2018 KShs'000	2017 KShs'000
At 1 January and at 31 December	162,179	162,179

Share premium arose out of private placement at a cost of KShs.22.50 which was KShs. 2.50 above the nominal value of 20/- (2011) - Share premium of 598,102,000 subsequently there was a capitalization of share premium through issuance of bonus shares 435,923,000 shares of KShs 1 each

34. STATUTORY RESERVE

The statutory reserve represents the surplus on the life assurance business which is not distributable as dividends as per the requirements of the Kenyan Insurance Act, 2015.

Transfer from statutory reserve relates to the proportion of the life assurance business surplus which is distributable as dividends and therefore transferred to retained earnings. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated surplus of the long-term business.

35. CONTINGENCY RESERVE

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

36. REVALUATION SURPLUS

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

37. FOREIGN CURRENCY TRANSLATION RESERVE

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

38. FAIR VALUE RESERVE

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

39. RETAINED EARNINGS

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

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

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

40. NON-CONTROLLING INTEREST

	2018 KShs'000	2017 KShs'000
At 1 January	74,568	138,960
Profit for the year	10,169	(11,012)
Other comprehensive income for the year	(98,681)	(57,214)
Total comprehensive income for the year	(88,512)	(68,226)
Additional Investment by minority interest	-	15,560
Acquired through business combination	-	(11,726)
At 31 December	(13,944)	74,568

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

	South Sudan		Malawi	
	2018	2017	2018	2017
Proportion of ownership held by NCI	31%	31%	15%	18%
Proportion of voting rights held by NCI	31%	31%	15%	18%
Accumulated balances of NCI (KShs '000)	(83,425)	84,268	(9,701)	(9,701)
Profit/(loss) accumulated to NCI (KShs '000)	(83,425)	73,227	(13,535)	(13,535)
Dividends paid to NCI in the year (KShs '000)	-	-	-	-

Summarised financial information of the subsidiaries is provided below:

	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Total revenue	461,746	377,807	146,633	75,827
Profit for the year	46,094	10,007	(14,430)	(74,242)
Other comprehensive income	(315,208)	(182,731)	(399)	(950)
Total comprehensive income	(269,114)	(172,724)	(14,829)	(75,192)
Total non-current assets	347,556	359,007	7,038	14,575
Total current assets	431,524	231,928	202,233	94,631
Total non-current liabilities	-	-	-	-
Total current liabilities	242,875	109,240	157,331	122,824
Cash flows from operating activities	1,213	(46,593)	28,192	(25,604)
Cash flows from financing activities	(2,444)	(2,024)	74,951	77,878
Cash flows from investing activities	70,586	57,972	(1,139)	(80,859)

41. BORROWINGS - CORPORATE BOND

	2018 KShs'000	2017 KShs'000
At start of year	5,106,529	5,086,021
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)	23,385	20,508
At end of year	5,129,914	5,106,529

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.

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

42. OTHER PAYABLES

	2018 KShs'000	2017 KShs'000
(a) GROUP		
Sundry payables	550,402	472,693
Payroll creditors	63,307	45,851
Premiums received in advance	285,606	331,915
Staff annual leave pay provision	41,931	37,702
Rent deposits	28,101	27,577
Commissions payable	12,959	-
Finance lease obligation	32,441	34,026
	1,014,747	949,764
(b) COMPANY		
Sundry payables	19,811	26,480
Provision for auditor's remuneration	-	1,063
Withholding tax payable	876	1,456
	20,687	28,999

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

43. DIVIDENDS

In respect of the current year, the directors propose a first and final dividend of KShs 340M (2017: KShs 314M) which represents 13% (2017 – 12%) 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.

	2018 KShs'000	2017 KShs'000
At 1 January	34,607	34,607
Declared during the year	313,865	274,633
Paid during the year	(344,493)	(271,177)
Withholding tax paid	(3,979)	(3,456)
At 31 December	-	34,607

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

44. DEPOSIT ADMINISTRATION CONTRACTS

The group administers the funds of several retirement benefit schemes. The liability of the group to the schemes is measured at amortised cost and is included in the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the asset and liability in the statement of financial position and are not recognised as gross premium and investments income in the statement of profit or loss and other comprehensive income of the group. Assets under the deposit administration contracts are registered in the name of the administrator and have therefore been accounted as financial instruments in the statement of financial position.

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

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

45. ACTUARIAL VALUE OF POLICYHOLDER LIABILITIES

The actuarial valuation of the life fund was carried out by The Actuarial Services Company Limited, Actuaries and Consultants, as at 31 December 2018 and revealed actuarial liabilities of KShs 5,166,952 (2017: KShs 3,751,452). A transfer of KShs. 115,000,000 (2017: KShs 115,000,000) has been made to retained earnings based on the recommendation of the actuary.

	Ordinary Life KShs'000	Group Life KShs'000	Total Gross KShs'000	Reinsurance KShs'000	Net KShs'000
As at 1 January 2018	1,835,224	1,935,623	3,770,847	498,033	4,268,880
Actuarial adjustments	1,025,759	(124,186)	901,573	(3,501)	898,072
As at 31 December 2018	2,860,983	1,811,437	4,672,420	494,532	5,166,952
As at 1 January 2017	1,495,952	1,632,642	3,128,594	435,401	3,563,995
Actuarial adjustments	339,272	302,981	642,253	62,632	704,885
As at 31 December 2017	1,835,224	1,935,623	3,770,847	498,033	4,268,880

46. UNIT LINKED CONTRACTS

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

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

47. PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS

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

	Gross KShs '000	Reinsurance KShs '000	Net KShs '000
2018			
At 1 January	4,510,237	(691,381)	3,818,856
Gross written premiums	16,627,384	2,499,405	14,127,979
Gross earned premiums	(16,945,301)	(2,683,815)	(14,261,486)
(Decrease)/ Increase in the year (net)	(317,917)	184,410	(133,507)
At 31 December	4,192,320	(506,971)	3,685,349
2017			
At 1 January	3,959,542	(503,195)	3,456,347
Gross written premiums	14,886,887	2,429,381	12,457,506
Gross earned premiums	(14,336,192)	2,241,195	(12,094,997)
Increase/(decrease) in the year (net)	550,695	(188,186)	362,509
At 31 December	4,510,237	(691,381)	3,818,856

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

48. INSURANCE CONTRACTS LIABILITIES

Gross claims reported, claims handling expense liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation for general insurance. The expected recoveries at the end of 2017 and 2018 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 considering when the earliest material claim arose, factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year. .

2018	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	2018 KShs'000'	Total KShs'000'
Accident Year						
Estimated ultimate claims cost						
at end of accident year	4,410,961	4,538,520	5,855,649	4,568,583	5,535,775	24,909,488
one year later	4,738,575	5,969,581	6,628,190	6,195,376	-	23,531,722
two years later	6,348,218	6,563,367	6,915,435	-	-	19,827,020
three years later	6,399,196	6,780,597	-	-	-	13,179,793
four years later	6,889,835	-	-	-	-	6,889,835
Current estimate of cumulative claims	6,889,835	6,780,597	6,915,435	6,195,376	5,535,775	32,317,018
Less: cumulative payments to date	(6,456,534)	(6,060,679)	(6,434,601)	(5,517,236)	(3,921,603)	(28,390,653)
	433,301	719,918	480,834	678,140	1,614,172	3,926,365
Liability incurred but not reported claims (note 49)	-	-	-	-	-	1,315,706
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	5,242,071

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

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

48. INSURANCE CONTRACTS LIABILITIES *(continued)*

2017

Accident Year	2013 KShs'000'	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	Total KShs'000'
Estimated ultimate claims cost						
at end of accident year	3,886,436	4,410,961	4,538,520	7,792,024	5,377,985	26,005,926
one year later	4,311,453	4,738,575	5,969,581	6,628,190	-	21,647,799
two years later	4,347,712	6,348,218	6,563,367	-	-	17,259,297
three years later	5,239,957	6,399,196	-	-	-	11,639,153
four years later	5,545,718	-	-	-	-	5,545,718
Current estimate of cumulative claims	5,545,718	6,399,196	6,563,367	6,628,190	5,377,985	30,514,456
Less: cumulative payments to date	(5,277,827)	(6,160,260)	(5,813,251)	(6,044,430)	(3,788,625)	(27,084,393)
	267,891	238,936	750,116	583,760	1,589,360	3,430,063
Liability incurred but not reported claims (note 49)	-	-	-	-	1,267,794	1,267,794
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	4,697,857

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

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

48. INSURANCE CONTRACTS LIABILITIES *(continued)*

Net claims reported, claims handling expense liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2017 and 2018 are not material.

2018

Accident Year	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	2018 KShs'000'	Total KShs'000'
Estimated ultimate claims cost at end of accident year	4,834,742	4,657,587	3,286,055	4,492,266	4,552,877	21,823,527
One year later	345,987	389,403	260,047	285,075	-	1,280,512
Two years later	31,155	57,013	48,319	-	-	136,487
Three years later	14,104	23,175	-	-	-	37,279
Four years later	3,819	-	-	-	-	3,819
Current estimate of cumulative claims	5,229,807	5,127,178	3,594,421	4,777,341	4,552,877	23,281,624
Less: cumulative payments to date	(5,091,725)	(4,641,046)	(3,271,690)	4,319,468)	(3,176,434)	(20,500,363)
	138,082	486,132	322,731	457,873	1,376,443	2,781261
Liability incurred but not reported claims (note 49)	-	-	-	-	-	1,315,707
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	4,096,968

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

48. INSURANCE CONTRACTS LIABILITIES *(continued)*

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

2017

Accident Year	2013 KShs'000'	2014 KShs'000'	2015 KShs'000'	2016 KShs'000'	2017 KShs'000'	Total KShs'000'
Estimated ultimate claims cost						
at end of accident year	3,721,928	4,815,024	4,604,680	3,191,747	4,105,862	20,439,241
one year later	432,951	341,911	363,930	227,447	-	1,366,239
two years later	34,803	21,902	37,685	-	-	94,390
three years later	6,240	9,225	-	-	-	15,465
four years later	2,888	-	-	-	-	2,888
Current estimate of cumulative claims	4,198,810	5,188,062	5,006,295	3,419,194	4,105,862	21,918,223
Less: cumulative payments to date	(4,089,394)	(5,006,985)	(4,489,433)	(3,019,582)	(2,945,921)	(19,551,315)
	109,416	181,077	516,862	399,612	1,159,941	2,366,908
Liability incurred but not reported claims (note 49)	-	-	-	-	-	1,267,794
Total gross claims liabilities included in statement of financial position	-	-	-	-	-	3,634,702

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

48. INSURANCE CONTRACTS LIABILITIES *(continued)*

GROUP	2018 KShs'000	2017 KShs'000
Claims reported and claims handling expenses:		
At 1 January		
- General insurance	3,384,437	2,438,392
- Life assurance	250,265	210,878
	3,634,702	2,649,270
Claims incurred in the year (note 49)	9,245,671	7,856,468
Payments for claims and claims handling expenses (note 49)	(8,783,405)	(6,871,036)
At 31 December	4,096,968	3,634,702
Comprising:		
- General insurance	3,825,974	3,384,437
- Life assurance	270,994	250,265
At 31 December	4,096,968	3,634,702
Comprising:		
At 31 December:		
Gross amounts	5,242,071	4,697,857
Reinsurers share (note 28)	(1,145,103)	(1,063,155)
	4,096,968	3,634,702

Movement in insurance contract liabilities is shown in note 49.

49. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

2018	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
Notified claims	3,430,063	(1,063,155)	2,366,908
Incurred but not reported (note 48)	1,267,794	-	1,267,794
At 1 January	4,697,857	(1,063,155)	3,634,702
Payments for claims and claims handling expenses in the year	(9,736,515)	953,110	(8,783,405)
Claims incurred in the year	10,280,729	(1,035,058)	9,245,671
At 31 December	5,242,071	(1,145,103)	4,096,968
Notified claims	3,926,365	(1,145,103)	2,781,262
Incurred but not reported (note 48)	1,315,706	-	1,315,706
At 31 December	5,242,071	(1,145,103)	4,096,968

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

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

2017

	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
Notified claims	2,846,746	(912,462)	1,934,284
Incurred but not reported (note 48)	904,817	(189,831)	714,986
At 1 January	3,751,563	(1,102,293)	2,649,270
Payments for claims and claims handling expenses in the year	(8,900,071)	2,029,035	(6,871,036)
Claims incurred in the year	9,846,365	(1,989,897)	7,856,468
At 31 December	4,697,857	(1,063,155)	3,634,702
Notified claims	3,430,063	(1,063,155)	2,366,908
Incurred but not reported (note 48)	1,267,794	-	1,267,794
At 31 December	4,697,857	(1,063,155)	3,634,702

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

50. NOTES TO THE STATEMENT OF CASH FLOWS

GROUP

Reconciliation of profit before taxation to cash generated from operations:

CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	2018 KShs'000	2017 KShs'000
Profit before taxation		851,621	519,156
ECL* for corporate bond	8(d)	(722)	-
Fair value gain on Collective investment schemes		(4,743)	-
ECL on other receivables	8(d)	2,169	-
ECL on related party balances	8(d)	265	-
ECL on deposits with financial Institutions	8(d)	(2,113)	-
ECL on staff loans	8(d)	(3,523)	
ECL on for other loans	8(d)	9,789	
ECL on commercial paper	8(d)	(218)	
Interest income	5	(828,540)	(1,281,878)
Dividend income	5	(44,586)	(56,126)
Discount on government securities at amortised cost		(168)	14,969
Fair value loss realised on reclassification of government securities	5	11,222	1,814
Loss on disposal of property and equipment		-	462
Provision for staff loans	8	-	7,614
Provision for other loans	8	-	23,959
Provision of Nakumatt Holdings commercial paper	8	-	71,001
Provision for doubtful premium receivables	8	87,381	529,769
Interest expense	10	650,000	650,000
Depreciation on property and equipment	13	177,777	176,645
Fair value gains on revaluation on investment property	14	(541,424)	(531,856)
Amortisation of intangible assets	15	36,907	45,011
Share of profits of associate	17	(8,793)	(46)
Fair value loss on corporate bond	19	-	1,978
Accrued interest on corporate bond	19	83	(2,296)
Fair value (gain)/loss on equity investment at fair value through profit or loss	24	244,388	(65,097)
Amortisation of bond expenses	41	23,385	20,508
(Decrease)/increase in provision for unearned premium	47	(317,917)	550,695
Increase in insurance contracts liabilities	48	544,214	946,294
Working capital changes;			
Increase in receivables arising out of direct insurance arrangements		(187,476)	(635,907)
Increase in receivables arising out of reinsurance arrangements		(473,023)	(485,044)
(Decrease)/increase in reinsurance share of liabilities and reserves		105,963	(211,680)
(Increase)/decrease in other receivables		18,062	(5,386)
Increase in other payables		64,983	299,277
Increase in actuarial value of policyholder's liabilities		898,072	704,885
Increase in payables arising from reinsurance arrangement and other insurance bodies		112,644	15,828
Increase in deposits administration contracts		1,010,201	834,241
(Decrease)/increase in unit linked contracts		(62,372)	78,390
Decrease/(increase) in deferred acquisition costs		65,003	(119,680)
Movement in related parties in related party balances		(57,377)	102,146
Cash generated from operations		2,381,134	2,199,646

*ECL -Expected Credit Losses

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

51. CASH AND CASH EQUIVALENTS

	Notes	2018 KShs'000	2017 KShs'000
Cash and cash equivalents comprises of:			
GROUP			
Bank and cash balances		456,012	263,494
Deposits with banks maturing within 3 months	31	3,866,788	2,613,879
		4,322,800	2,877,373
COMPANY			
Bank and cash balances		1,146	4,872
Deposits with banks maturing within 3 months	31	1,319,524	1,849,624
		1,320,670	1,854,496

The are no assets held under lien.

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	2018 %	2017 %
Government securities	Fixed	12.75	12.50
Corporate bonds	Fixed	12.50	12.85
Mortgage loans	Fixed	6.00	6.00
Staff loans	Fixed	6.00	6.00
Policy loans	Fixed	8.00	8.00
Deposits with financial institutions	Fixed	10.50	12.78
Deposits and commercial papers	Fixed	12.65	12.78
Cash and cash equivalents	Fixed	7.00	7.50

53. CONTIGENCIES AND COMMITMENTS

(a). Legal proceedings and regulations

The group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the 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 Group and the company's compliance or lack of compliance with such regulations.

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

53. CONTIGENCIES AND COMMITMENTS *(continued)*

(b). Commitments, operating leases and bank guarantees

Commitments

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

	2018 KShs'000	2017 KShs'000
Committed but not contracted for	208,465	208,550

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:

	2018 KShs '000	2017 KShs '000
Within one year	109,916	116,209
After one year but not more than two years	132,801	254,971
After two year but not more than five years	-	-
Total operating lease rentals receivable	242,717	371,180

The group 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 group by entering into the leases.

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

	2018 KShs'000	2017 KShs'000
Within one year	62,256	56,420
After one year but not more than two years	171,872	206,714
After two year but not more than five years	-	-
Total operating lease rentals payable	234,128	263,134

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

53. CONTIGENCIES AND COMMITMENTS *(continued)*

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

Bank Guarantees

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

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

54. RISK MANAGEMENT FRAMEWORK

(a). Governance framework

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

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

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

(b). Capital management objectives, policies and approach

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

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

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

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

54. RISK MANAGEMENT FRAMEWORK *(continued)*

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

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

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

Approach to capital management

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

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

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

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

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

	2018 KShs'000	2017 KShs'000
Share capital	2,615,578	2,615,578
Share premium	162,179	162,179
Statutory reserve	1,100,931	1,102,608
Contingency reserve	21,017	9,435
Revaluation surplus	151,019	128,423
Translation reserve	(299,031)	(417,894)
Fair value deficit	(171,319)	(265,610)
Retained earnings	4,316,056	4,227,821
Equity attributable the owners of the parent	7,896,430	7,562,540
Non-controlling interest	(13,944)	74,568
Total equity	7,882,486	7,637,108

The Group had external borrowings at 31 December 2018 of KShs 5.1 billion (2017 - 5.1 billion).

54. RISK MANAGEMENT FRAMEWORK *(continued)*

(c). Regulatory framework

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

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

(d). Asset liability management (ALM) framework

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

The Group's ALM is:

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

55. INSURANCE AND FINANCIAL RISK

55.1 Insurance risk

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

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

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

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

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

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. . This includes group life and ordinary life premiums.

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

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

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

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

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

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

The group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims' handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the group to pursue third parties for payment of some or all costs. The group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the group.

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

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

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

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

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

31 December 2018

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF KShs'000	Investment contract liabilities KShs'000	Insurance contract without liabilities KShs'000	Total Insurance and investment contract liabilities KShs'000	IInsurance liabilities without KShs'000	Net liabilities KShs'000
Group life	-	-	308,017	308,017	84,891	223,126
Group credit	-	-	2,073,071	2,073,071	363,857	1,709,214
Endowment	1,291,201	-	-	1,291,201	-	1,291,201
Term assurance	-	-	63	63	-	63
Annuities	-	-	1,569,719	1,569,719	-	1,569,719
Total insurance liabilities (Note 45)	1,291,201	-	3,950,870	5,242,071	448,748	4,793,323
Unit linked (note 46)	-	474,554	-	474,554	-	474,554
Total	1,291,201	474,554	3,950,870	5,716,625	448,748	5,267,877

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

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

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.1 Insurance risk (continued)

1. Life insurance contracts (continued)

31 December 2017

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF KShs'000	Investment contract liabilities KShs'000	insurance liabilities KShs'000	Total Insurance contract and investment liabilities KShs'000	Insurance liabilities KShs'000	Net liabilities KShs'000
Group life	-	-	261,657	261,657	79,179	182,478
Group credit	-	-	2,152,605	2,152,605	418,854	1,733,751
Endowment	1,058,124	-	-	1,058,124	-	1,058,124
Term assurance	-	-	23,814	23,814	-	23,814
Annuities	-	-	753,285	753,285	-	753,285
Total insurance liabilities (Note 45)	1,058,124	-	3,191,361	4,249,485	498,033	3,751,452
Unit linked (note 46)	-	536,926	-	536,926	-	536,926
Total	1,058,124	536,926	3,191,361	4,786,411	498,033	4,288,378

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

Key Assumptions

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

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

- Mortality and morbidity rates

Assumptions are based on standard industry and national tables, according to the type of contract written. They reflect recent historical experience and are adjusted when appropriate to reflect the group's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type. An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.

- Longevity

Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the group's own risk experience. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type. An increase in longevity rates will lead to an increase in the number of annuity payments to be made, which will increase the expenditure and reduce profits for the shareholders.

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

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

1. Life insurance contracts (continued)

- Investment return

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

- Expenses

  Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate. An increase in the level of expenses would result in an increase in expenditure, thereby reducing profits for the shareholders.

- Lapse and surrender rates

  Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the group's experience and vary by product type, policy duration and sales trends. An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

- Discount rate

  Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the group's own risk exposure. A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

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

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

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*

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

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

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

1. Life insurance contracts (continued)

Sensitivities

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

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

Life insurance contracts

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

2. Non-life insurance contracts

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

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

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

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

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

2. Non-life insurance contracts (continued)

The group uses commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

The group has also Limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic.

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

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

	31 December 2018			31 December 2017		
	Gross liabilities KShs '000	Reinsurance of liabilities KShs '000	Net liabilities KShs '000	Gross liabilities KShs '000	Reinsurance of liabilities KShs '000	Net Liabilities KShs '000
Engineering	60,233	(39,722)	20,511	111,878	(57,550)	54,328
Fire	94,970	(38,831)	56,139	132,983	(50,978)	82,005
Liability	768,484	(636,973)	131,511	778,974	(662,418)	116,556
Marine	39,178	(2,082)	37,096	29,109	(318)	28,791
Motor	2,512,817	(248,328)	2,264,489	2,254,358	(159,127)	2,095,231
Medical	281,108	(2,811)	278,297	216,352	(2,164)	214,188
Others	596,976	(85,531)	511,445	589,229	(34,478)	554,751
Total	4,353,766	(1,054,278)	3,299,488	4,112,883	(967,033)	3,145,850

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.

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

3. Non-life insurance contracts (continued)

Sensitivities

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

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

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

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

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

The Group issues unit–linked investment policies in several 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.

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

a. Credit risk *(continued)*

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 Group's internal rating process

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

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

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

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

Significant increase in credit risk, default and cure

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

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

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

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

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

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

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

a. Credit risk *(continued)*

Credit risk exposure by credit rating

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

a) GROUP

	High grade	Standard grade	Past due but not impaired	Individually impaired	Total
Financial assets at amortised cost - Government securities	1,784,398	-	-	-	1,784,398
Financial Assets at amortised cos t- Corporate Bonds	522,067	-	-	-	522,067
Financial Assets at amortised cost -Loan and Receivables	599,982	-	17,522	-	617,504
Financial assets at fair value through OCI- Government securities	5,841,496	-	-	-	5,841,496
Financial assets at amortised cost -Deposits and commercial paper	23,016			-	23,016
Due from related party	102,998	-	-	-	102,998
Deposits with financial institutions	5,227,137	-	-	-	5,227,137
Other receivables	228,692	-	-	-	228,692
Cash and bank balances	456,012	-	-	-	456,012
General insurance business	14,785,798	-	17,522	-	14,803,320

a) COMPANY

	High grade	Standard grade	Past due but not impaired	Individually impaired	Total
Financial Assets at amortised cost -Loan and Receivables	35,174	-	-	-	35,174
Due from related party	444,271	-	-	-	444,271
Deposits with financial institutions	1,366,178	-	-	-	1,366,178
Other receivables	9,005				9,005
Cash and bank balances	1,146	-	-	-	1,146
	1,855,774	-	-	-	1,855,774

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

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk *(continued)*

Collaterals and other credit enhancements

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

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

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

The Group does not physically repose properties but engages its legal department in collaboration with external agents to recover funds to settle outstanding debt. Because of this practice, the properties or motor vehicles are not recorded in the balance sheet and not treated as non-current asset held for sale.
The fair values of the collaterals equal to the outstanding loan balances at the end of each financial reporting period since the Group is only interested in recovering the loan balance.

Impairment losses on financial investments subject to impairment assessment.

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

	STAGE 1	STAGE 2	STAGE 3	Total
Internal rating grade				
High grade	5,841,496	-	-	5,841,496
Standard grade	-	-	-	-
Total Gross Amount	5,841,496	-	-	5,841,496
ECL	-	-	-	-
Total Net Amount	5,841,496	-	-	5,841,496

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

2018	STAGE 1	STAGE 2	STAGE 3	Total
Fair value amount as at 1 January	5,005,009	-	-	5,005,009
New assets purchased	2,241,606	-	-	2,241,606
Assets matured	(1,490,425)	-	-	(1,490,425)
Changes in fair value	96,528	-	-	96,528
AFS interest reclassification	(11,222)			(11,222)
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	5,841,496	-	-	5,841,496

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk *(continued)*

*Debt instruments at amortised cost**

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

Details of the Group's grading system are explained above.

2018

a) Financial assets at amortised cost: Corporate bonds

Internal rating grade	STAGE 1	STAGE 2	STAGE 3	Total
Performing				
High grade	523,154	-	-	523,154
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	523,154	-	-	523,154
(ECL)/Write backs	(1,087)	-	-	(1,087)
Total Net Amount	522,067	-	-	522,067

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

a) GROUP	STAGE 1	STAGE 2	STAGE 3	Total
Gross carrying amount as at 1 January	672,660	-	-	672,660
New assets purchased	11,599	-	-	11,599
Assets matured	(5,518)	-	-	(5,518)
Accrued interest capitalised	-	-	-	-
Amortisation / Discount	(83)	-	-	(83)
Movement between 12m ECL and LTECL				
At 31 December	678,658	-	-	678,658

b) GROUP	STAGE 1	STAGE 2	STAGE 3	Total
ECL as at 1 January	1,809	-	-	1,809
New assets	(1,024)	-	-	(1,024)
Assets matured	302	-	-	302
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	1,087	-	-	1,087

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit ris *(continued)*

b) Financial assets at amortised cost: Government securities

Internal rating grade	STAGE 1	STAGE 2	STAGE 3	Total
Performing				
High grade	1,784,398	-	-	1,784,398
Standard grade	-	-	-	-
Past due but not impaired	-			-
	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	1,784,398	-	-	1,784,398
(ECL)/Write backs	-	-	-	-
Total Net Amount	1,784,398	-	-	1,784,398

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

c)

GROUP	STAGE 1	STAGE 2	STAGE 3	Total
Gross carrying amount as at 1 January	1,412,690	-	-	1,412,690
New assets purchased	446,540	-	-	446,540
	(75,000)	-	-	(75,000)
Assets matured	-	-	-	-
Accrued interest capitalised				
Amortisation / Discount	168	-	-	168
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	1,784,398	-	-	1,784,398

d)

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

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk *(continued)*

c) Financial Assets at amortised cost-Loan Receivables

Internal rating grade	STAGE 1	STAGE 2	STAGE 3	Total
Performing				
High grade	622,520	-	-	622,520
Standard grade	-	-	-	-
Past due but not impaired	17,522	-	-	17,522
Non-performing				
Individually impaired	-	-	-	-
Total Gross	640,042	-	-	640,042
(ECL)/Write backs	(22,538)	-	-	(22,538)
Total Net Amount	617,504	-	-	617,504

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

e) GROUP

	STAGE 1	STAGE 2	STAGE 3	Total
Gross carrying amount as at 1 January	821,784	-	-	821,784
New assets purchased	189,922	-	-	189,922
Assets matured	(371,664)	-	-	(371,664)
Accrued interest capitalised	-	-	-	-
Amortisation / Discount	-	-	-	-
Movement between 12m ECL and LTECL				
At 31 December	640,042	-	-	640,042

	STAGE 1	STAGE 2	STAGE 3	Total
ECL as at 1 January	16,272	-	-	16,272
New assets	8,883	-	-	8,883
Assets matured	(2,617)	-	-	(2,617)
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	22,538	-	-	22,538

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk *(continued)*

(a) COMPANY

Internal rating grade	STAGE 1	STAGE 2	STAGE 3	Total
Performing				
High grade	35,174	-	-	35,174
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	35,174	-	-	35,174
(ECL)/Write backs	-	-	-	-
Total Net Amount	35,174	-	-	35,174

b) COMPANY

	STAGE 1	STAGE 2	STAGE 3	Total
Gross carrying amount as at 1 January	115,363	-	-	115,363
New assets purchased	894	-	-	894
Assets matured	(81,083)	-	-	(81,083)
Accrued interest capitalised	-	-	-	-
Amortisation / Discount	-			-
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	35,174	-	-	35,174

	STAGE 1	STAGE 2	STAGE 3	Total
ECL as at 1 January	5	-	-	5
New assets	-	-	-	-
Assets matured	-	-	-	-
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	5	-	-	5

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk *(continued)*

iv) Deposits with financial institutions

Internal rating grade	STAGE 1	STAGE 2	STAGE 3	Total
Performing				
High grade	5,281,341	-	-	5,281,341
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	26,851	26,851
Total Gross	5,281,341	-	26,851	5,308,192
(ECL)/Write backs	(27,353)	-	(26,851)	(54,204)
Total Net Amount	5,253,988	-	-	5,253,988

	STAGE 1	STAGE 2	STAGE 3	Total
Gross carrying amount as at 1 January	2,222,228	-	-	2,222,228
New assets purchased	3,962,232	-	-	3,962,232
Assets matured	(876,268)	-	-	(876,268)
Accrued interest capitalised	-	-	-	-
Amortisation / Discount	-			
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	5,308,192	-	-	5,308,192

	STAGE 1	STAGE 2	STAGE 3	Total
ECL as at 1 January	29,466	-	26,851	56,317
New assets	(2,996)	-	-	(2,996)
Assets matured	883	-	-	883
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	27,353	-	26,851	54,204

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk *(continued)*

f) COMPANY

Internal rating grade

	STAGE 1	STAGE 2	STAGE 3	Total
Performing				
High grade	1,366,178	-	-	1,366,178
Standard grade	-	-	-	-
Past due but not impaired		-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	1,366,178	-	-	1,366,178
(ECL)/Write backs	-	-	-	-
Total Net Amount	1,366,178	-	-	1,366,178

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

g) COMPANY

	STAGE 1	STAGE 2	STAGE 3	Total
Gross carrying amount as at 1 January	1,849,624	-	-	1,849,624
New assets purchased	-			-
Assets matured	(483,446)	-	-	(483,446)
Accrued interest capitalized	-	-	-	-
Amortisation / Discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	1,366,178	-	-	1,366,178

h) COMPANY

	STAGE 1	STAGE 2	STAGE 3	Total
ECL as at 1 January	7,804	-	-	7,804
New assets	-	-	-	-
Assets matured	-	-	-	-
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	7,804	-	-	7,804

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk *(continued)*

v) Financial assets at amortised cost -Deposits and commercial paper

Internal rating grade	STAGE 1	STAGE 2	STAGE 3	Total
Performing				
High grade	94,403	-	-	94,403
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	94,403	-	-	94,403
(ECL)/Write backs	(386)	-	-	(386)
Total Net Amount	94,017	-	-	94,017

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

w) GROUP

	STAGE 1	STAGE 2	STAGE 3	Total
Gross carrying amount				
as at 1 January	1,295,182	-	-	1,295,182
Transfers				
New assets purchased	(1,216,981)	-	-	(1,216,981)
Assets matured	80,700	-	-	80,700
Accrued interest capitalised	(1,546)	-	-	(1,546)
Amortisation / Discount	7,949	-	-	7,949
Movement between	-	-	-	-
12m ECL and LTECL	-	-	-	-
At 31 December	165,404	-	-	165,404

x) GROUP

	STAGE 1	STAGE 2	STAGE 3	Total
ECL as at 1 January	604	-	-	604
New assets	(309)	-	-	(309)
Assets matured	91	-	-	91
Unwind of discount	-	-	-	-
Movement between				
12m ECL and LTECL	-	-	-	-
	386	-	-	386

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

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

a. Credit risk *(continued)*

y) Financial assets at amortised cost -Related parties

Internal rating grade	STAGE 1	STAGE 2	STAGE 3	Total
Performing				
High grade	103,263	-	-	103,263
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
Total Gross	103,263	-	-	103,263
(ECL)/Write backs	(265)	-	-	(265)
Total Net Amount	102,998	-	-	102,998

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

z) GROUP

	STAGE 1	STAGE 2	STAGE 3	Total
Gross carrying amount as at 1 January	45,886	-	-	45,886
New assets purchased	57,377	-	-	57,377
Assets matured	-	-	-	-
Accrued interest capitalised	-	-	-	-
Amortisation / Discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
At 31 December	103,263	-	-	103,263

aa) GROUP

	STAGE 1	STAGE 2	STAGE 3	Total
ECL as at 1 January	-	-	-	-
New assets	265	-	-	265
Assets matured	-	-	-	-
Unwind of discount	-	-	-	-
Movement between 12m ECL and LTECL	-	-	-	-
	265	-	-	265

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

55. INSURANCE AND FINANCIAL RISK *(continued)*
55.2 Financial risks (continued)

a. Credit risk *(continued)*

The table below indicates the maximum exposure of assets bearing credit risk:

	2018 KShs	2017 KShs
Corporate bonds at amortised cost	522,067	672,660
Government securities at amortised cost	1,784,398	1,412,690
Loans receivable	617,504	821,784
Government securities at fair value through OCI	5,841,496	5,005,009
Deposits and commercial paper	1,119,994	1,295,182
Receivables arising out of direct insurance arrangements	1,627,426	1,527,331
Receivables arising out of reinsurance arrangements	1,902,239	1,429,216
Other receivables	228,692	249,650
Due from related parties	102,998	45,886
Deposits with financial institutions	5,253,988	4,836,107
Cash and bank balances	438,294	263,494
Total	19,439,096	17,559,009

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

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

a. Credit risk *(continued)*

Short term business

Impaired financial assets

At 31 December 2018, there are impaired insurance assets of KShs 1.3 billion (2017: KShs 1.2 b 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 premium receivables is, as:

	2018 KShs '000	2017 KShs '000
At 1 January	1,256,686	726,917
Charge for the year	87,381	529,769
At 31 December	1,344,067	1,256,686

The loans receivables have collateral held on them of KShs 915 million (2017: KShs 977 million). No collateral is held in respect of the other receivables that are past due but not impaired.

Financial assets neither past due nor impaired

There were no financial assets that are neither impaired nor past due as at 31 December 2018.

b. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out–flows and expected reinsurance recoveries.

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

- A group liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the group. Compliance with the policy is monitored and exposures and breaches are reported to the group risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.
- Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- The group's catastrophe excess–of–loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

Maturity profiles

The following table summarises the maturity profile of the financial assets, financial liabilities and insurance contract liabilities of the group based on remaining undiscounted contractual obligations, including interest payable and receivable.

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

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

a. Credit risk *(continued)*

Short term business *(continued)*

Impaired financial assets *(continued)*

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.

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:

	31 December 2018				31 December 2017			
	6 months or on demand KShs '000	Between 6 months and 1 year KShs '000	More than 1 year KShs '000	Total KShs '000	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 at amortised cost- Corporate Bonds	-	-	548,170	548,170	-	-	726,473	726,473
Financial assets at amortised cost -Government securities	-	192,066	1,719,719	1,911,785	-	36,871	1,472,126	1,508,997
Financial assets at amortised cost -Loans receivable	4,465	4,465	615,877	624,807	6,377	6,377	825,210	837,965
Financial assets at fair value through other comprehensive income -Government securities	-	-	5,958,326	5,958,326	-	-	5,105,109	5,105,109
Financial assets at fair value through profit or loss -Equity instruments	1,329,421	-	-	1,329,421	1,240,619	-	-	1,240,619
Financial assets at amortised cost -Deposits and commercial paper	94,017	-	-	94,017	1,295,182	-	-	1,295,182
Investments in collective investment schemes at fair value through Profit or loss	1,025,977	-	-	1,025,977	-	-	-	-
Receivables arising out of direct insurance arrangements	1,627,426	-	-	1,627,426	1,527,331	-	-	1,527,331
Receivables arising out of reinsurance arrangements	1,902,239	-	-	1,902,239	1,429,216	-	-	1,429,216
Other receivables	228,692	-	-	228,692	249,650	-	-	249,650
Due from related parties	102,998	-	-	102,998	45,886	-	-	45,886
Deposits with financial institutions	5,253,988	-	-	5,253,988	4,836,107			4,836,107
Cash and cash equivalents	456,012	-	-	456,012	263,494	-	-	263,494
Total financial assets	12,025,235	196,531	8,842,092	21,063,858	10,893,862	43,248	8,128,919	19,066,029
Borrowings	-	5,129,914	-	5,129,914	-	-	5,756,529	5,756,529
Other payables	1,014,747	-	-	1,014,747	949,764	-	-	949,764
Payables arising from reinsurance arrangements and insurance bodies	245,047	-	-	245,047	132,403	-	-	132,403
Deposits administration contracts	116,177	116,177	2,891,762	3,124,116	98,678	98,678	1,974,056	2,171,412
Insurance contracts liabilities	229,064	229,064	5,399,333	5,857,461	191,389	191,389	4,444,531	4,827,309
Total financial liabilities	1,605,035	5,475,155	8,291,095	15,371,285	1,372,234	290,067	12,175,116	13,837,417
Net liquidity gap	10,420,200	(5,278,624)	550,997	5,692,573	9,521,628	(246,819)	(4,046,197)	5,228,612

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

- The group's market risk policy sets out the assessment and determination of what constitutes market risk for the group. Compliance with the policy is monitored and exposures and breaches are reported to the group risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with their expectations.
- The group stipulates diversification benchmarks by type of instrument, as the group is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

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

i). Currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates.

The Group's principal transactions are carried out in Kenya Shilling and its exposure to foreign exchange risk arise primarily with respect to US Dollar (USD), Uganda Shillings (UGSH) and Malawian Kwacha (MK).

The group's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities. This mitigates the foreign currency exchange rate risk for the overseas operations. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance contract liabilities are expected to be settled.

The group has no significant concentration of currency risk.

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

55. INSURANCE AND FINANCIAL RISK *(continued)*

55.2 Financial risks (continued)

c. Market Risk *(continued)*

I). 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 group's assets are not exposed to interest rate risk because the interest rates are contractually are fixed.

II). Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices (other than those arising from interest rate or foreign exchange rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss and available for sale investments. Exposure to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Securities Exchange Limited (NSE).

The Group has a defined investment policy which sets limits on the Group's exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

Investment management meetings are held monthly. At these meetings, senior managers meet to discuss investment return and concentration of the equity investments.

Equity investment through profit or loss represent 96% (2017: 98%) of total equity investments. If equity market indices had increased/ decreased by 5%, with all other variables held constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by KShs 2,487,400 (2017: KShs 6,289,650).

c). Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

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

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. 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.

There were no transfers between Level 1 and level 2 during the year.

The table below shows an analysis of assets recorded at fair value by level of the fair value hierarchy, however, it does not include instruments whose fair value approximates the carrying amount.

31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amounts
Recurring fair value Measurements					
Corporate bonds	-	511,626	-	511,626	522,067
Equity investments classified:					
- at fair value through profit or loss	1,329,421	-	-	1,329,421	1,329,421
- as available for sale	-	18,212	-	18,212	18,212
Government securities classified as available for sale	5,841,496	-	-	5,841,496	5,841,496
Investments in collective investment schemes at fair value through Profit or loss	-	1,025,977	-	-	1,025,977
Government securities classified as held to maturity	1,784,398	-	-	1,784,398	1,784,398
Loans receivables	-	617,504	-	617,504	518,280
Deposits and commercial paper	-	1,295,182	-	1,295,182	
Owner occupied property and equipment	-	-	716,691	716,691	716,691
Investment properties	-	-	7,231,475	7,231,475	7,231,475
Total assets at fair value	8,955,315	7,948,166	19,346,005	18,988,017	7,948,166
Deposits administration contracts	-	-	3,124,116	3,124,116	3,124,116
Unit linked contracts	-	-	474,554	474,554	474,554
Total liabilities at fair value	-	-	3,598,670	3,598,670	3,598,670

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

56. FAIR VALUE MEASUREMENT *(continued)*

31 December 2017	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amounts
Recurring Fair Value Measurements					
Corporate bonds	-	517,154	155,506	672,660	672,660
Equity investments classified:					
- at fair value through profit or loss	1,240,619	-	-	1,240,619	1,240,619
- at fair value through OCI	-	20,449	-	20,449	20,449
Government securities available for sale	5,005,009	-	-	5,005,009	5,005,009
Government securities at amortised cost	1,384,436	-	-	1,384,436	1,412,690
Loans receivables	-	747,807	-	747,807	821,784
Deposits and commercial paper	-	1,295,182	-	1,295,182	1,295,182
Owner occupied property and equipment	-	-	710,468	710,468	710,468
Investment properties	-	-	6,686,483	6,686,483	6,686,483
Total assets at fair value	7,630,064	2,580,592	7,552,457	17,763,113	17,865,344
Deposits administration contracts	-	-	2,113,915	2,113,915	2,113,915
Unit linked contracts	-	-	536,926	536,926	536,926
Total liabilities at fair value	-	-	2,650,841	2,650,841	2,650,841

Valuation methods used in determining the fair value of assets and liabilities

Instrument	Applicable Level	Valuation methods	Inputs
Loans and receivables at amortised cost	2	Discounted cash flow model (DCF)	Average Market interest rates 13%
Corporate bonds at amortised cost	2	Discounted cash flow model (DCF)	Interest rates
Equity investments classified as fair value through OCI	2	Net Asset Value	Current unit price of underlying unitised assets and interest rates.
Investments in collective investment schemes at fair value through profit or loss	2	Net Asset Value	Current unit price of underlying unitised assets and interest rates.
Deposits and commercial paper	2	Net Asset Value and Discounted Cash Flow (DCF)	Current unit price of underlying unitised assets and interest rates.

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

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 2018 are as shown below.

Instrument	Level	Valuation basis	Rate	Significant unobservable Inputs	Sensitivity of input to the fair value
Investment properties	3	Discounted cash flow model (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in discount by 5% would decrease/(increase) fair value by KShs 334 million
		Discounted cash flow model (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in net annual rent by 5% would decrease/ (increase) fair value by KShs 167 million
		Discounted cash flow model (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in Annual rent growth rate by 5% would decrease/ (increase) fair value by KShs 67 million
Owner occupied property and equipment	3	Discounted Cash Flow (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in discount of 5% would decrease/(increase) fair value by KShs 18 million.
	3	Discounted Cash Flow (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in net annual rent by 5% would decrease/ (increase) fair value by KShs 10 million
	3	Discounted Cash Flow (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in Annual rent growth rate by 5% would decrease/ (increase) fair value by KShs 14 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 23.7 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 156.2 million.

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

57. GOING CONCERN STATUS OF THE SUBSIDIARIES

CIC Africa (Uganda) Limited
The subsidiary is technically insolvent. It reported a loss of KShs 177 million for the year ended 31 December 2018 (2017 - KShs 68 million). In addition, the subsidiary's accumulated losses stood at KShs. 521 million (2017 - KShs 336 million) as at 31 December 2018 while its total liabilities exceeded total assets by KShs 245 million (2017 – net asset position of KShs 76 million).

CIC Africa Co-operatives Insurance Limited
The subsidiary is technically insolvent. It reported a loss of KShs 14 million for the year ended 31 December 2018 (2017 - KShs 74 million).

The conditions detailed above, in respect of the three subsidiaries, cast significant doubt on their ability to continue as a going concern. However, the subsidiaries rely on the parent company for provision of working capital and their ability to continue as a going concern depends on the continued support they receive from the parent company. The parent company confirms its commitment to continue giving financial support to the subsidiaries, and it has issued an undertaking in this respect to the subsidiaries. The undertaking affirms the parent company commitment to continue providing sufficient financial support, if necessary, to enable the subsidiaries meet their financial obligations, as and when they fall due, and to ensure they continue trading into the foreseeable future.

Further, the directors have assessed business outlook of the subsidiaries, and they are confident that their financial performance will improve, and they will become profitable in the foreseeable future. The directors have no immediate plan to cease operations for any of the subsidiaries, and /or liquidate them.

Therefore, the directors believe the financial statements of the subsidiaries be prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the subsidiaries will have adequate resources to meet obligations as and when they fall due, and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

58. 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.

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

APPENDIX I

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

The revenue account was approved by the board of directors on 13th March, 2019 and was signed on its behalf by:

Japheth Magomere   Philip Lopokoiyit   Tom Gitogo

CIC GENERAL INSURANCE LIMITED
GLOSSARY OF INSURANCE TERMS
FOR THE YEAR ENDED 31 DECEMBER 2018

APPENDIX II

	C.A.R & Engin-eering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Com-mercial Shs.'000	Motor Pool Shs.'000	Medical insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Work men's Comp. Shs.'000	Misc. Accident Shs.'000	Micro solutions Shs.'000	Total 2018 Shs.'000
Gross premium written	223,527	95,399	731,172	98,665	113,042	2,329,735	2,410,848	-	2,862,964	277,941	506,909	373,239	161,556	25,136	10,210,133
Unearned premium transferred in	297,730	31,111	330,057	108,997	37,994	1,052,539	1,151,419	-	969,116	76,017	135,399	123,024	111,921	9,624	4,434,948
Unearned premium c/f	216,895	31,252	276,502	38,164	31,785	961,479	990,948	-	1,034,234	53,351	149,254	127,450	54,031	8,721	3,974,066
Gross earned premium	304,362	95,258	784,727	169,498	119,251	2,420,795	2,571,319	-	2,797,846	300,607	493,054	368,813	219,446	26,039	10,671,015
Reinsurance premium	(238,319)	(14,305)	(502,705)	(97,671)	(57,542)	(87,217)	(89,533)	-	(54,111)	(71,298)	(25,596)	(44,265)	(244,726)	(6,855)	(1,534,143)
Net earned premium	66,043	80,953	282,022	71,827	61,709	2,333,578	2,481,786	-	2,743,735	229,309	467,458	324,548	(25,280)	19,184	9,136,872
Gross claims paid	26,571	27,865	207,262	224,067	49,138	1,861,547	1,559,548	-	2,061,393	84,626	109,186	228,220	92,714	323,031	6,855,168
Outstanding claims c/f	60,233	6,165	88,805	768,484	39,178	1,285,853	1,224,872	2,092	281,108	77,156	125,563	304,883	83,365	5,837	4,353,594
Outstanding claims transferred in	111,878	14,514	118,469	778,974	29,109	1,149,967	1,102,298	2,092	216,352	89,733	82,097	275,515	53,407	88,478	4,112,883
Gross claims incurred	(25,074)	19,516	177,598	213,577	59,207	1,997,433	1,682,122	-	2,126,149	72,049	152,652	257,588	122,672	240,390	7,095,879
Recoveries	12,663	(303)	(82,934)	(152,199)	(8,218)	(212,174)	(209,259)	-	(52,337)	(33,654)	(13,637)	(48,165)	(122,203)	(150,000)	(1,072,420)
Net incurred Claims	(12,411)	19,213	94,664	61,378	50,989	1,785,259	1,472,863	-	2,073,812	38,395	139,015	209,423	469	90,390	6,023,459
Commission receivable	50,993	4,624	160,855	6,593	12,424	-	-	-	-	5,005	3,995	2,721	34,880	-	282,090
Commissions payable	59,012	17,804	192,083	32,697	23,613	292,219	321,757	-	241,740	56,977	91,659	72,267	24,604	3,180	1,429,612
Net commission	8,019	13,180	31,228	26,104	11,189	292,219	321,757	-	241,740	51,972	87,664	69,546	(10,276)	3,180	1,147,522
Management Expenses	34,736	28,003	104,453	15,204	45,136	444,129	566,013	-	227,260	105,202	180,916	76,176	49,874	7,404	1,884,506
Premium Tax	2,628	1,121	8,595	1,160	1,329	27,386	28,339	-	33,654	3,267	5,959	4,387	1,899	294	120,018
Total	37,364	29,124	113,048	16,364	46,465	471,515	594,352	-	260,914	108,469	186,875	80,563	51,773	7,698	2,004,524
Total claims expenses and commissions	(4,392)	32,393	125,892	87,482	62,178	2,077,478	1,794,620	-	2,315,552	90,367	226,679	278,969	(9,807)	93,570	7,170,981
Underwriting profit/(loss)	33,071	19,436	43,082	(32,019)	(46,934)	(215,415)	92,814	-	167,269	30,473	53,904	(34,984)	(67,246)	(82,084)	(38,633)

The revenue account was approved by the board of directors on 13th March, 2019 and was signed on its behalf by:

Japheth Magomere **Philip Lopokoiyit** **Tom Gitogo**

CIC GENERAL INSURANCE LIMITED
GLOSSARY OF INSURANCE TERMS
FOR THE YEAR ENDED 31 DECEMBER 2017

APPENDIX II

	C.A.R & Engin-eering Shs.'000	Fire Domestic Shs.'000	Fire Industrial Shs.'000	Liability Insurance Shs.'000	Marine & Transit Shs.'000	Motor Private Shs.'000	Motor Com-mercial Shs.'000	Motor Pool Shs.'000	Medical insurance Shs.'000	Personal Accident Shs.'000	Theft Insurance Shs.'000	Work men's Comp. Shs.'000	Misc. Accident Shs.'000	Micro solutions Shs.'000	Total 2017 Shs.'000
Gross premium written	351,105	91,456	734,460	214,651	132,239	2,390,466	2,517,109	-	2,257,659	336,679	458,488	348,290	271,954	36,552	10,141,108
Unearned premium transferred in	225,676	29,255	227,459	163,786	43,491	1,088,045	1,153,816	-	643,066	57,057	117,214	109,012	76,509	12,447	3,946,833
Unearned premium c/f	297,730	31,111	330,057	108,997	37,994	1,052,539	1,151,419	-	969,116	76,017	135,399	123,024	111,921	9,624	4,434,948
Gross earned premium	279,051	89,600	631,862	269,440	137,736	2,425,972	2,519,506	-	1,931,609	317,719	440,303	334,278	236,542	39,375	9,652,993
Reinsurance premium	(180,987)	(5,153)	(358,113)	(183,639)	(61,174)	(125,036)	(46,257)	-	(28,042)	(49,025)	(26,560)	(15,160)	(220,115)	(230)	(1,299,491)
Net earned premium	98,064	84,447	273,749	85,801	76,562	2,300,936	2,473,249	-	1,903,567	268,694	413,743	319,118	16,427	39,145	8,353,502
Gross claims paid	37,682	15,454	162,070	207,525	83,248	2,159,273	1,545,423	-	1,244,752	63,800	155,664	144,904	378,540	9,917	6,208,252
Outstanding claims c/f	111,878	14,514	118,469	778,974	29,109	1,149,967	1,102,298	2,092	216,352	89,733	82,097	275,515	140,532	1,353	4,112,883
Outstanding claims transferred in	92,964	15,290	78,421	741,851	54,994	1,072,714	971,542	2,092	89,788	41,831	90,256	137,203	22,200	1,353	3,412,499
Gross claims incurred	56,596	14,678	202,118	244,648	57,363	2,236,526	1,676,179	-	1,371,316	111,702	147,505	283,216	496,872	9,917	6,908,636
Recoveries	(37,693)	23	(94,232)	(154,994)	(35,804)	(244,281)	(208,982)	-	(12,567)	(21,921)	(22,787)	(98,620)	(359,795)	-	(1,291,653)
Net incurred Claims	18,903	14,701	107,886	89,654	21,559	1,992,245	1,467,197	-	1,358,749	89,781	124,718	184,596	137,077	9,917	5,616,983
Commission receivable	114,181	1,263	170,705	37,962	23,305	-	-	-	-	13,394	3,617	1,916	63,492	-	429,835
Commissions payable	55,484	16,817	156,755	40,357	20,170	282,598	319,527	-	196,784	60,117	81,473	64,531	22,125	7,058	1,323,796
Net commission	(58,697)	15,554	(13,950)	2,395	(3,135)	282,598	319,527	-	196,784	46,723	77,856	62,615	(41,367)	7,058	893,961
Management Expenses	41,787	33,687	125,656	18,290	54,298	534,284	680,910	-	273,392	126,557	217,641	91,639	59,996	8,907	2,267,044
Premium Tax	4,335	1,129	9,068	2,650	1,633	29,512	31,076	-	27,873	4,157	5,660	4,300	3,358	451	125,202
Total	46,122	34,816	134,724	20,940	55,931	563,796	711,986	-	301,265	130,714	223,301	95,939	63,354	9,358	2,392,246
Total claims expenses and commissions	(39,794)	30,255	93,936	92,049	18,424	2,274,843	1,786,724	-	1,555,533	136,504	202,574	247,211	95,710	16,975	6,510,944
Underwriting profit/(loss)	91,736	19,376	45,089	(27,188)	2,207	(537,703)	(25,461)	-	46,769	1,476	(12.132)	(24,032)	(142,637)	12,812	(549,688)

The revenue account was approved by the board of directors on 14th March, 2018 and was signed on its behalf by:

Japheth Magomere **Philip Lopokoiyit** **Tom Gitogo**

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 Group, 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.
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 FORTY FIRST (41ST) ANNUAL GENERAL MEETING OF THE CIC INSURANCE GROUP PLC WILL BE HELD AT THE HILTON HOTEL, ON 22ND MAY 2019 AT 10.00AM TO TRANSACT THE FOLLOWING BUSINESS:-

AGENDA

Ordinary Business

1. To table the proxies and note the presence of a quorum.

2. To read the notice convening the meeting.

3. To receive, consider and if thought fit, adopt the Annual Report and Financial Statements for the year ended 31st December, 2018 together with the Chairman's and Auditor's Report thereon.

4. To declare a first and final dividend of Kshs. 0.13 per share in respect of the year ended 31st December, 2018, to be paid on or before 31st May, 2019 to the shareholders appearing on the Register of Members at the close of business on 30th April, 2019.

5. Election of Directors:

   a. Rosemary Githaiga retires by rotation in accordance with Article 127 of the Company's Articles of Association, and being eligible offers herself for re-election.

   b. James Njue retires by rotation in accordance with Article 127 of the Company's Articles of Association, and being eligible offers himself for re-election.

   c. Jyoti Patel who was appointed as Director on the 1st of June 2018 retires this being the first Annual General Meeting to be held since her appointment and being eligible offers herself for re-election.

   d. Election of John Mbitu as Director nominated by Co-operative Insurance Society Limited, the majority Shareholder, in accordance with Article 131 of the Company's Articles of Association.

   e. Philip Lopokoiyit retires by rotation in accordance with Article 127 of the Company's Articles of Association, and though eligible does not offer himself for re-election as Director.

   f. To note the retirement of Directors Harrison Githae and Mary Mungai who have served their full tenures.

6. In accordance with the provisions of section 769 (1) of the Companies Act 2015, the following Directors, being members of the Audit Committee of the Board, be confirmed to continue to serve as members of the said Committee.

   a. Peter Nyigei
   b. Jyoti Patel
   c. Judith Oluoch
   d. Rosemary Sakaja

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

7. To approve the remuneration of Directors and the Directors' Remuneration Report for the year ended 31 December 2018.

8. To consider and if thought fit re-appoint Ernst & Young as Auditors of the Company, having expressed their willingness to continue in office as auditors of the company in accordance with section 721 (2) of the Companies Act, No 17 of 2015 and to authorize the directors to fix their remuneration.

Dated at Nairobi this 30th day of April 2019

By Order of the Board,

GAIL ODONGO
GROUP COMPANY SECRETARY AND CHIEF LEGAL OFFICER

NB:

1. In accordance with section 298(1) of the Companies Act 2015 every member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his behalf and the proxy need not be a member of the Company.

2. A proxy form is provided with this notice. Shareholders who do not purpose to be at the annual general meeting are requested to complete and return the form to custody at the Registrar, CIC Plaza II Mara Road P.O Box 59485-00200 Nairobi not later than 48 hours before the meeting.

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.

PROXY FORM

The forty first (41st) Annual General Meeting of CIC Insurance Group PLC to be held at The Hilton Hotel, on 22nd May 2019 at 10.00am.

I/We ______________________________ ID Number ______________________

Member/CDS Account Number ____

of (address) __________________________ Mobile Number ______________________

being a member(s) of CIC Insurance Group PLC and entitled to ________________ votes (shares)

hereby appoint

Name(s)____________________ ID Number __________ Mobile Number ____________

or

Name(s)____________________ ID Number __________ Mobile Number ____________

or, failing him, the duly appointed Chairman of the meeting to be my/our Proxy, to vote on my/our behalf the Annual General Meeting of the Company to be held at 10:00 a.m. on 22nd May 2019 at Hilton Hotel, Nairobi or at any adjournment thereof.

As witness to my/our hands this ________ day of ________________ 2019

Signature(s) ____________________________________

Notes

1. This Proxy is to be delivered to the Registrar of CIC Insurance Group PLC, CIC Plaza, Mara Road, and of P.O. Box 59485-00200 Nairobi or at any Co-operative Bank Branch from the date hereof until 10:00 a.m. on 20th May 2019 failing which it will be invalid.

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

NOTES

CIC OFFICES

KENYA

NAIROBI BRANCHES:

TOWN OFFICE
Reinsurance Plaza
Mezzanine Floor, Aga Khan Walk
Mobile: 0703 099 500
Tel: (020) 329 6000
townoffice@cic.co.ke

BURU BURU BRANCH
Vision Place, Ground Floor
Mumias Road
Mobile: 0703 099 564
buruburubranch@cic.co.ke

WESTLANDS BRANCH
Pamstech House
2nd Floor, Woodvale Grove
Mobile: 0703 099 727
westlandsbranch@cic.co.ke

OTHER OFFICES:

THIKA BRANCH
Thika Arcade, 6th Floor
Mobile: 0703 099 641
Kenyatta Highway
thika@cic.co.ke

KITENGELA BRANCH
Capital Center, 2nd Floor
Mobile: 0703 099 740
kitengela@cic.co.ke

NANYUKI BRANCH
Pearl Place, 1st Floor
Mobile: 0703 099 770
nanyuki@cic.co.ke

NAIVASHA BRANCH
Eagle Center, 1st Floor
Mbariu Kaniu Road
Mobile: 0703 099 763
naivasha@cic.co.ke

NYAHURURU BRANCH
Kimwa Centre, 2nd Floor
Kenyatta Avenue
Tel: (065) 203 2055
nyahururu@cic.co.ke

MACHAKOS BRANCH
ABC Imani Plaza, 2nd Floor
Tel: 0703 099 960
machakosbranch@cic.co.ke

KIAMBU BRANCH
Bishop Ranji Cathedral Plaza,
2nd & 3rd Floor
Tel: 0703 099 630
kiambu@cic.co.ke

NYERI BRANCH
Co-operative Union Building
3rd Floor,
Tel: 0703 099 680
nyeri@cic.co.ke

NAKURU BRANCH
Mache Plaza, 2nd Floor
Geoffrey Kamau Road
Tel: 0703 099 775
nakuru@cic.co.ke

KISUMU BRANCH
Wedco Centre, Mezzanine Floor
Oginga Odinga Road
Tel: 0703 099 600
kisumu@cic.co.ke

HOMABAY BRANCH
Cold Springs Plaza, Ground Floor
Mobile: (059) 212 2998
homabay@cic.co.ke

EMBU BRANCH
Sparko Building, 3rd Floor
above Family Bank
Tel: 0703 099 900
embubranch@cic.co.ke

MERU BRANCH
Bhatt Building, 1st Floor
Ghana Street
Tel: 0703 099 930
merubranch@cic.co.ke

KAKAMEGA BRANCH
Walia's Centre, Ground Floor
Tel: (056) 203 0242,
(056) 203 0850
kakamega@cic.co.ke

ELDORET BRANCH
Co-operative Building, 1st Floor
Ronald Ngala Street
Tel: 0703 099 660
eldoret@cic.co.ke

KISII BRANCH
Lengetia Place, 2nd Floor
Kisii-Kisumu Highway
Mobile: 0703 099 700,
0703 099 701
kisii@cic.co.ke

BUNGOMA BRANCH
Simali House, 1st Floor, Moi Avenue
Tel: (055) 203 0121
bungomabranch@cic.co.ke

KERICHO BRANCH
Imarisha Building, Ground Floor
Tel: 0703 099 650
kerichobranchstaff@cic.co.ke

KILIFI BRANCH
Al Madina Plaza, 1st Floor
Mobile: 0703 099 718
kilifibranch@cic.co.ke

MOMBASA BRANCH
Furaha Plaza
Ground Floor, Nkrumah Road
Tel: 0703 099 751
mombasabranch@cic.co.ke

KITALE BRANCH
Mega Center, 1st Floor
Mobile: 0703 099 951
kitale@cic.co.ke

BOMET BRANCH
Isenya Building, 2nd Floor
Mobile: 0703 099 650
bomet@cic.co.ke

REGIONAL OFFICES

CIC SOUTH SUDAN
CIC Plaza, Plot 714B-3K-South, Kololo
Mobile: +211 0954 280 280
info@ss.cicinsurancegroup.com

CIC UGANDA
AHA Building, 2 Floor, Lourdel Rd
Mobile: +256 200 900 100
uganda@ug.cicinsurancegroup.com

CIC MALAWI
Jash Building, Colby Road
Plot No 3/487
P.O. Box 882, Lilongwe
Mobile: +265(1) 751 026
malawi@mw.cicinsurancegroup.com

Keeping Our Word
Protecting Livelihoods

1968 - 2018

CIC INSURANCE GROUP PLC
KENYA • SOUTH SUDAN • UGANDA • MALAWI
CIC Plaza, Mara Road, Upperhill 020 282 3000, 0703099120
callc@cic.co.ke www.cic.co.ke @CICInsurance CICInsurance Group
GENERAL • LIFE • HEALTH •ASSET

CIC GROUP