2012 ANNUAL REPORT & FINANCIAL STATEMENTS

CIC INSURANCE GROUP LTD

We keep our word

Our Mission :

To provide financial security for the people through the co-operative spirit.

Our Vision :

To be a world class provider of insurance and other financial services through the co-operative spirit

Our Values:

Integrity I Teamwork

Productivity I Fairness I Dynamism

Our Customer Value Proposition:

Fastest Service I Fairest Price

Friendliest Relationships I Service of the Highest Quality

CIC INSURANCE GROUP LIMITED

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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CIC INSURANCE GROUP LIMITED

CORPORATE INFORMATION

DIRECTORS	J. A. Magomere	– Group Chairman
	Rev. P N Kagane	– Group Vice Chairman
	N. C. Kuria	– Group Chief Executive Officer
	P. N. Kipkirui	
	G. O. Owuor	
	M. O. Wambia	
	J. N. Njoroge	
	J. M. Mutuku	
	G. Mabishi	
	S. G. Kaimenyi	
	V. Leseya	
	R. M. Githaiga	

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

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

SENIOR MANAGEMENT

Nelson C Kuria	Group Chief Executive Officer	B.A. Economics
Kenneth M Kimani	Managing Director - CIC General Insurance Ltd.	MBA, Bsc. Business Administration, ACII
David K. Ronoh	Managing Director -CIC Life Assurance Ltd	MSc., B.Ed. Stat, PGD (Actuarial Science)
Peter M. Mwaura	Managing Director- CIC Asset Management Ltd	BSc. (IBA), Dip. in Co-op Management
Gail A. Odongo	Group Company Secretary/Chief Legal Officer	MBA, LLB, CPS(K)
Joel K. Gatune	Group Finance & Investment Manager	MBA, B.A. Econ, CPA(K), CPS(K), ACIArb
Muyesu K. Luvai	Group Chief Internal Auditor	B.Com, CPA(K)
Michael M. Mugo	Group Marketing Manager	MBA, B.A. Ed, Co-op Management
Rose M. Wanjohi	Group Human Resources Manager	MSc., B.Com, Higher National Dip. in HRM
Stanley Kitur	Group ICT Manager	MBA, B.Com, PGD (Computer Science)
Richard Nyakenogo	Divisional Manager - Co-operatives	MBA, B.Com, Dip. (Co-op Management)
Henry Njerenga	Assistant General Manager -Town Office	Advanced Dip. (Business Management)
Milka N. Kinyua	Assistant General Manager -CIC General Insurance	MBA, B.Ed. Arts, ACCII
Jackson K. Kionga	Assistant General Manager -CIC Life Assurance	B.B.A, ACII

COMPANY SECRETARY
G.Odongo - Group Company Secretary/Chief Legal Officer

AUDITORS
Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P.O. Box 40092 - 00100,
Nairobi.

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

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

NOTICE OF THE 35TH ANNUAL GENERAL MEETING OF CIC INSURANCE GROUP LIMITED

NOTICE IS HEREBY GIVEN that the 35th ANNUAL GENERAL MEETING OF CIC INSURANCE GROUP LIMITED will be held at the Amphitheatre, Kenyatta International Conference Centre, Harambee Avenue, Nairobi on Friday 24th May, 2013 from 10.00 a.m. when the following business will be transacted:-

ORDINARY BUSINESS

1. To table the proxies and note the presence of a quorum.

2. To read the notice convening the meeting.

3. To confirm the Minutes of the 34th Annual General Meeting held on the 4th day of May, 2012.

4. To receive, consider and if thought fit, adopt the Annual Report and Financial Statements for the year ended 31st December, 2012 together with the Directors' and Auditors thereon.

5. To declare a dividend.

6. To elect Directors:

    a. Rev. Peterson Kagane retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible, offers himself for re-election as Director.

    b. Rosemary Githaiga retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible, offers herself for re-election as Director.

    c. Stella Kaimenyi retires by rotation in accordance with Article 125 of the Company's Articles of Association, and being eligible, offers herself for re-election as Director.

7. To authorize the Board to fix the remuneration of the Directors.
8. Pursuant to sections 142 and 160(1) of the Companies Act (Cap 486) Laws of Kenya, notice is hereby given to the members to consider and if deem fit, pass the following resolution:

That Ernst & Young be appointed Auditors of the Company in place of the retiring auditors, Deloitte & Touche, in accordance with the Insurance Act and Regulations, to hold office until the next General Meeting at which accounts are laid before the company and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

9. To consider and, if thought fit, pass the following resolutions:

As Special Resolutions

a) The Articles of Association be and are hereby altered in Article 122 by deleting the second sentence reading "*The minutes of every such Meeting shall be read at the next Meeting of the Company, of the Directors or of the Committee of Directors, as the case may be, and, after being amended or corrected if necessary, approved by the meeting, shall be signed by the Chairman of the meeting and, once so signed, shall be prima facie evidence of the matters stated therein.*" and substituting it with the following new sentence:

> "The minutes of every such meeting of the Company shall be presented and read at the next meeting of the Board of Directors, and the minutes of meetings of the Directors and Committee at the next meeting of the Directors or of the Committee as the case may be, and, after being amended or corrected if necessary and approved by the meeting, shall be signed by the Chairman of the meeting and, once so signed, shall be prima facie evidence of the matters stated therein."

b) The Articles of Association be and are hereby altered by adding a new Article 174, titled "**Unclaimed Assets**" and stating as follows:

> "The Company may, if required by law, deliver or pay to any prescribed regulatory authority any unclaimed assets including but not limited to shares in the Company presumed to be abandoned or unclaimed in law and any dividends or interest thereon remaining unclaimed beyond prescribed statutory periods. Upon such delivery or payment, the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the owner or holder or his or her estate, for the relevant unclaimed assets."

As Ordinary Resolutions

c) **THAT** subject to making applications for and obtaining all necessary consents, approvals, authorizations and permissions required for conduct of insurance business in South Sudan, the Company be and is hereby authorized to establish a joint venture company for conduct of insurance business in South Sudan in collaboration with the Co-operative Bank of South Sudan and to acquire, by way of subscription or otherwise, 69% of the issued share capital of the said joint venture company.

d) **THAT** to enable the Company widen its existing markets for insurance business through offering insurance services to co-operatives in Uganda and subject to making applications for and obtaining all necessary consents, approvals, authorizations and permissions required for conduct of insurance business in Uganda, the Company be and is hereby authorized to establish a joint venture company in collaboration with Uganda Co-operatives Savings and Credit Union to conduct insurance business in Uganda.

e) THAT the Board of Directors is hereby mandated to make all necessary filings, registrations and appointments and take all actions and make all applications and prepare all documentations and returns consequent upon and to effect these resolutions.

ANY OTHER BUSINESS

10. Any other business of which notice will have been duly received. .

By Order of the Board

Gail Odongo
Group Company Secretary & Chief Legal Officer
15th April, 2013.

Note 1: A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy (which is available at the Registrar's office or on the Company's website) must be duly completed by the member and must either be lodged with the Registrar at Co-operative Bank of Kenya Limited, Nairobi or be posted to Shares Registrar – Co-operative Bank of Kenya Limited, P. O. Box 48231 – 00100 Nairobi, so as to reach the Registrar not later than 11.00 a.m. on Wednesday 22nd May, 2013.

Note 2: Registration of members and proxies for the Annual General Meeting will commence at 8.00 am on 24th May 2013. Members and proxies should carry their national ID cards and a copy of a relevant Central Depository and Settlement Corporation (CDSC) account statement for ease of registration process. A copy of the notice and financial statements are available from the Company website www.cic.co.ke.

Note 3: Subject to the approval of shareholders, the Board of Directors has resolved to recommend to members at the forthcoming Annual General Meeting a dividend for the year ended 31st December 2012 of KES 0.10/= per share being the payment for the shares post-split as at the close of the register on 28th May, 2013 and the dividend payment date on 28th June, 2013.

PROFILES FOR CIC INSURANCE GROUP LIMITED DIRECTORS

JAPHETH ANAVILA MAGOMERE, OGW,
Group Chairman

Japheth Anavila Magomere, aged 62, is the Chairman of the Board. He joined the Board in 1988 and is the Director representing Nairobi Province Private Sector based Societies. He has been the Chairman of Board since 2004. Mr. Magomere is also a Board Member of several schools. He has been a delegate of Co-operative Holdings (the anchor shareholder of Co-operative Bank) since 1986 and is a member of the Institute of Directors of Kenya.
He serves as the Vice Chairman of Co-operative Alliance of Kenya [formerly Kenya National Federation of Co-operatives (KNFC)].

He is the current Chairman of the National Council for Ushirika Day Celebrations. He was honoured with the Order of the Grand Warrior of Kenya (OGW) in 2009. He is also a board member of the International Co-operative Alliance (ICA), Africa.

REV. PETERSON NJUE KAGANE,
Group Vice- Chairman

Rev. Peterson Njue Kagane, aged 54, joined the Board in 2007. He holds a Bachelor of Divinity and a Diploma in Theology. He is the Director representing Eastern Province based Societies.

Rev. Kagane is the Vicar General and the Provost of St. Paul's Cathedral and the ACK Diocese of Embu. He is also the Chairman of St. Agnes Girls Secondary School and the Scouts Centre Embu. He is a member of the Institute of Directors of Kenya.

MRS. ROSEMARY M. GITHAIGA,
Director

Rosemary Majala Githaiga, aged 50, joined the Board in 2010. She is the Company Secretary of the Co-operative Bank of Kenya Limited Group, - which comprises Co-op bank, two wholly owned subsidiaries, - Co-optrust Investment Services Limited and Co-operative Consultancy Services Limited, and the stock broking firm of Kingdom Securities Limited in which the bank has majority shareholding. As Company Secretary, she has responsibility for overall provision of legal counsel and company secretarial services, security services, compliance, and ICT risk and control services to the Group.

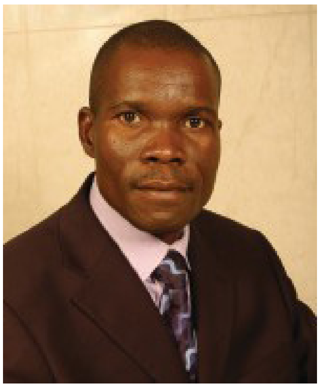
She is also the Trust Secretary of the Co-operative Bank Foundation under which she has responsibility for the school fees bursary programme for over 1,300 needy and bright students. She has over 22 years' experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison and Mathews Advocates.

JOSHUAH NJOGU NJOROGE,
Director

Joshuah Njogu Njoroge, aged 66, is trained in Executive International and Domestic Banking. He is a retired senior Central Bank official and a Director representing K.Unity SACCO. He has been a Board Member since 2006 and is the Chairman Limuru Dairy FCS Limited. Mr. Njoroge is the Chairman Limuru Milk Processors Limited, the Chairman of K. Unity SACCO and the Diocesan Treasurer ACK Diocese of Mt. Kenya South. Mr. Njoroge is also a Delegate of Co-operative Holdings (the anchor shareholder of Co-operative Bank) and a Member of the Institute of Directors of Kenya.

MS. GRACE KULOLA MABISHI
Director

Ms. Grace Mabishi, aged 52, joined the board in 2012 as an independent Director. She is the head of Internal Audit at KCA University, where she has worked in various capacities since 2008. She has over 23 years' experience in Audit, Accountancy, Taxation, Secretarial and Consultancy services. She holds a CPA (K) and a Bachelor of Commerce Degree, accounting option from Nairobi University. Ms. Mabishi has oversight over minority interest.



MICHAEL ONDINYA WAMBIA,
Director.

Michael Ondinya Wambia, aged 45, joined the Board in 2008. He is the Director representing Western Province based societies and is the Treasurer of Busia and Teso Teachers SACCO. He is a teacher by profession.

PETER KIPKIRUI NYIGEI,
Director

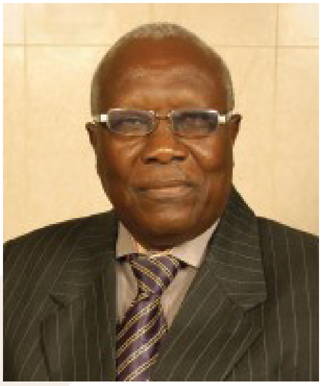
Peter Kipkirui Nyigei, aged 61, joined the Board in 2009. He is the Director representing Rift Valley Province based societies and is a director of Kipsigis Teachers SACCO. Mr. Kipkirui is a retired teacher and educationist Principal. He has equally served as a Programme Officer, Bomet Diocese. He is a member of the Institute of Directors of Kenya

MS. VERONICAH SOILA LESEYA
Director

Ms. Veronicah Leseya, aged 38, joined CIC in 2012 as an independent Director. She currently heads the admission and benefits administration Department at Local Authority Provident Fund (LAPFUND). She has over 14 years working experience in pension, group life and medical servicing. She holds a Bachelor of Arts from Nairobi University and a Diploma in Insurance (AIIK), and is pursuing an Executive Masters in Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT). She is a member of the Institute of Directors, Insurance Institute of Kenya and the Kenya Institute of Management. Ms. Leseya has oversight over minority interest.

GORDON ONDIEK OWUOR,
Director

Gordon Ondiek Owuor, aged 57, joined the Board in 2006. He is the Director representing Nyanza based societies. Mr. Owuor is the Chairman Chemelil SACCO, a member of the Nyanza Provincial Co-operative Development Team and an Associate Member Institute of Directors of Kenya. He previously worked with the East African Fresh Water Fisheries Research Organization and currently works at Chemelil Sugar Company. He holds an executive Diploma in Financial Management.



JONAH MAKAU MUTUKU,
Director

Jonah Makau Mutuku, aged 66, joined the Board in 2008. He is the Director representing Coast and North Eastern Province based Societies and is the Chairman of Mombasa Teachers SACCO. He is a retired teacher and serves as the Vicar's Warden ACK Miritini Church. Mr. Mutuku is a Delegate of Co-operative Holdings (the anchor shareholder of Co-operative Bank).

STELLA GATIRITHU KAIMENYI, HSC,
Director

Stella Gatirithu Kaimenyi, aged 59, as an independent Director, joined the Board in 2010. She represents the Permanent Secretary in the Ministry of Co-operative Development and Marketing. Mrs. Kaimenyi holds a Bachelor of Science Degree, Agriculture from the University of Nairobi and Master of Science Degree, Management and Organizational Development. She is currently the Senior Deputy Commissioner for Co-operative Development and Head of Governance and Ethics Department at the Ministry's Headquarters. She has worked in various senior positions at the Ministry and has over 27 years of experience.

NELSON CHEGE KURIA, OGW, MBS,
GROUP CHIEF EXECUTIVE OFFICER (GCEO)

Mr. Nelson Kuria, aged 58, obtained a Bachelor of Arts Degree in Economics from the University of Nairobi in 1979. Since then he has undergone extensive training in Strategic Management. Mr. Kuria has a total of 31 years working experience most of which have been in the insurance industry after a stint of 3 years in development banking.

He joined the insurance industry through the then Kenya National Assurance Company in 1982 where he worked for 12 years up to December 1993. In 1994, he worked briefly for a private insurance company after which he became a consultant and Investors agent.

He joined CIC in 1998 as Chief Manager in charge of Business Development and Strategy and was promoted to General Manager in 2000, and Managing Director/ CEO in July 2001. He is a member of the Board and the immediate past chairman of the Association of Kenya Insurers (AKI). Mr. Kuria represents AKI in the board of the Federation of Kenyan Employers- where he is currently Deputy Chairman, and the board of Kenya Reinsurers Corporation. He is a member of the Institute of Directors of Kenya and a member of other boards as follows: Trustee – Higher Education Loans Board Retirement Benefits Scheme, Board Member- Life Ministry Kenya, Board Member – International Co-operative & Mutual Insurance Federation (ICMIF) – UK, Chairman – Board of Governors – Nyandarua High School.

He has been given State Honors: Order of the Grand Warrior of Kenya (OGW) in 2005 and Moran of the Order of the Burning Spear (MBS) in 2011. He was also awarded the Life-time achievement award by the Association of Kenyan Insurers in 2012.

MS. GAIL ODONGO
Group Company Secretary

Ms. Odongo, aged 40, is the Group Company Secretary/ Chief Legal Officer. 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 12 years of experience in various capacities and industries ranging from Audit, Banking and Finance, Insurance and Legal. Ms. Odongo joined CIC in 2011.

SENIOR MANAGEMENT TEAM

NAME	TITLE
STANDING FROM THE LEFT	
MICHAEL MUGO	GROUP MARKETING MANAGER
JACK KIONGA	ASST GM CIC LIFE ASSURANCE
HENRY NJERENGA	ASST GM TOWN OFFICE
MUYESU LUVAI	CHIEF INTERNAL AUDITOR
RICHARD NYAKENOGO	DIVISIONAL MANAGER-COOPERATIVES
PETER MWAURA	MD-CIC ASSET MANAGEMENT
ROSE WANJOHI	GROUP HUMAN RESOURCES MANAGER
JOEL K. GATUNE	GROUP FINANCE & INVESTMENT MANAGER
MILCAH KINYUA	ASST GM CIC GENERAL INSURANCE
STANLEY KITUR	GROUP ICT MANAGER
SEATED FROM THE LEFT	
GAIL ODONGO	GROUP COMPANY SECRETARY/CHIEF LEGAL OFFICER
DAVID RONOH	MD-CIC LIFE ASSURANCE
NELSON C. KURIA	GROUP CEO
KENNETH KIMANI	MD-CIC GENERAL INSURANCE

GROUP CHAIRMAN'S STATEMENT

"We are committed to regional expansion. To this end, we plan to commence operations in South Sudan by the second half of the year and thereafter commence operations in Uganda towards the end of 2013."

It gives me great pleasure to present to you the Group's Annual report and financial statements for the year ended 31st December 2012.

OPERATING ENVIRONMENT

The economic environment in 2012 in Kenya was characterised by high interest rates with the 91 day Treasury bill rate being 20.6% at the beginning of the year. However, this rate declined in subsequent months to close at 8.3% by the end of the year. The inflation rate also decreased from a high of 18.3% in January to close the year at 3.2%. The Kenya Shilling strengthened marginally with the average exchange rate to the US Dollar reducing from 86.34 in January 2012 to close the year at 85.99. The Nairobi Securities Exchange 20 share price index appreciated by 28.2% during the year. Inspite of the forementioned challenges, the Kenyan economy was forecasted to grow by 4.5% in the year 2012 compared to 4.4% in 2011.

GROUP'S PERFORMANCE

For the third year running the Group has continued to perform exceptionally well both in volume of business and profitability. In the years 2010, 2011 and 2012 growth in volume of insurance business of 58%, 48% and 34% respectively, surpassed by far, that of the competition and the industry average. The split between Life and General Business into separate companies and Issuance of a CMA license to CIC Asset Management Limited to sell unit trusts is expected to further enhance the Group's revenue generation. This growth is expected to translate to improved market share and profitability.

In the year under review, the Group's gross premiums increased by 34% from Ksh. 6.7 billion to Ksh. 9.0 billion. Profit before tax increased by 110% from Ksh. 787 million to Ksh. 1.65 billion. Similarly, total assets increased by 27% from Ksh. 11.1 billion to Ksh 14.1 billion while the shareholders equity increased by 27% from Ksh. 4.3 billion to Ksh. 5.5 billion.

Following a review of the performance, the Board of Directors resolved to recommend to shareholders a first and final dividend of Ksh. 0.10 per share (2011 – Ksh. 0.09 per share).

CIC GENERAL INSURANCE PERFORMANCE

With the demerger which was effective January 2012, this was the first year of operation of CIC General Insurance Company. The company wrote gross premiums of Ksh. 6.6 billion. The investment and other income was Ksh. 708 million while the claims paid, commissions and expenses amounted to Ksh. 4.8 billion. This resulted in a profit before tax of Ksh. 930 million and a profit after tax of Ksh. 675 million. The total assets amounted to Ksh. 8.6 billion while the total equity stood at Ksh. 2.4 billion.

CIC LIFE ASSURANCE PERFORMANCE

With the demerger which was effective January 2012, this was the first year of operation of CIC Life Assurance Company. The company wrote gross premiums of Ksh. 2.5 billion. The investment and other income was Ksh. 370 million while the policy-holders' benefits paid, commissions and expenses amounted to Ksh. 2.4 billion. This resulted in a profit before tax of Ksh. 298 million. The total assets amounted to Ksh. 4.1 billion while the total equity stood at Ksh. 1.7 billion.

CIC ASSET MANAGEMENT

The Subsidiary operated for a full year in 2012 as the Capital Markets Authority granted us the license to sell unit trusts in May 2011. The company's investment income increased by 143% to Ksh. 56 million while the management fee income recorded an increase of 1075% to Ksh.31 million. The operating and other expenses increased to Ksh. 79 million resulting in a profit before tax of Ksh. 7.6 million. The company deals in unit trusts and fund management.

DIVERSIFICATION AND TECHNOLOGY

We have embarked on diversifying our operations with a view of tapping into the lucrative real estate sector and entry into the regional market. We have also increased our participation in the Micro-insurance sector through use of mobile technology. Investment in these initiatives will improve the Group's prospects for growth.

DEMERGER OF INSURANCE BUSINESS

The Group demerged effective 1 January 2012. The Group now comprises of three trading arms i.e. CIC General Insurance Company Limited, CIC Life Assurance Company Limited and CIC Asset Management Limited. The CIC Insurance Group (Holding company) will concentrate on corporate strategic issues and investment in both local and regional expansion to enhance growth opportunities. CIC Asset Management's principal activities include selling of unit trusts, fund management and advisory services in respect of investment of the Group's funds. We believe our shareholders will benefit from this latest addition to the Group.

LISTING

The Group listed at the Nairobi Securities Exchange by way of introduction on 18th July 2012. Some of the benefits that accrue from the listing include:

- Access to external financial resources
- Positive public image and better management
- Improved liquidity of the Group's shares as well as the scope for diversification by the initial shareholders of the Group.

FUTURE OUTLOOK

We are committed to regional expansion. To this end, we plan to commence operations in South Sudan by the second half of the year and thereafter commence operations in Uganda towards the end of 2013. As part of this preparation, we have carried out a review of our Information Technology Systems to ensure that we have adequate systems to facilitate our strategy for regional expansion. We have also carried out initial feasibility studies and have identified strategic partners in readiness for these ventures. We similarly continue to launch innovative products and distribution channels.

The Group has also embarked on diversifying its operations with a view of tapping into the lucrative real estate sector. To this end, we have acquired 512 acres of land in Kajiado County on which we plan to develop residential houses by 2015. We have also increased our participation in the micro-insurance sector through use of mobile technology. We believe that the future of the Group is certainly bright.

I take this opportunity to thank my colleagues in the Board for their invaluable support and contribution. Further, I wish to thank the Group Chief Executive Officer and his team for their drive, initiative and application.

In conclusion, I thank the shareholders, intermediaries, clients, Co-operative societies and all stakeholders for their contribution to our success. We have the confidence that with your support, we shall make this Group a success story.

Japheth A Magomere, OGW

GROUP CHAIRMAN

GROUP CHIEF EXECUTIVE'S STATEMENT

"We are focused to strategically position our Group as the best in the industry and we believe ICT will play a major role in the achievement of this goal."

The year 2012 was a great year for us in terms of growth both in volume of business and profitability despite the depressed state of the economy. We made a major milestone with our profit before tax exceeding the Ksh. 1 billion mark to stand at Ksh. 1.65 billion.

The gross premiums written increased by 34% from Ksh. 6.7 billion to Ksh. 9.0 billion. Investment and other income increased by 167% from Ksh. 525 million to Ksh. 1.4 billion. The operation costs rose by 30% to Ksh. 1.9 billion, largely driven by the high inflation and reorganization costs. Our profit before tax improved by 110% from Ksh. 787 million to Ksh. 1.65 billion as a result of increased business and higher investment income. Total assets increased by 27% from Ksh. 11.1 billion to Ksh. 14.1 billion while the total equity increased by 27% from Ksh. 4.3 billion to Ksh. 5.5 billion.

The above factors reflect on the efforts made by each member of staff, management, directors and shareholders. I am confident that with great team work, perfect knowledge of the market, prudent practices and high professionalism by the entire workforce, we will take the Group to a greater level of prosperity.

INVESTMENTS

We acquired 512 acres of land in Isinya, Kajiado County in addition to the 200 acre piece of on Kamiti Road, Kiambu County. Plans are underway to carry out initial developments on one of the properties. We have made good progress in the construction of the CIC Plaza phase 2. The Twin tower 12-floor office block should be complete by the end of June 2013.

STRATEGIC PARTNESHIPS

As part of our planned expansion programme, we are currently holding discussions with prospective partners both nationally and internationally. Some of the international partners are already assisting us in staff capacity building and are even ready to commit financial resources in case of viable business opportunities. This in our view is the fastest and most effective method to achieve growth. We will continuously give updates as and when we identify good prospects.

REGIONAL EXPANSION

The group plans to expand to South Sudan and Uganda in the course of the year and later venture into Tanzania and Malawi. This is aimed at sustaining the growth momentum of the Group.

FOCUS ON DEVELOPMENT OF MICRO INSURANCE

The Group is a leading player in micro-insurance which is the next frontier of growth in the insurance industry. We have developed strategic alliances with Micro-Finance Institutions, Banks, Churches and Small and Medium Enterprises to accelerate the growth in this sector.

NEW PRODUCTS

We are focused on development and promotion of new products such as Agriculture and Livestock, Occupational Pension Schemes and Annuities, Funeral insurance and Micro-health insurance.

RISK MANAGEMENT

We continue to work towards a strong risk management framework. This framework will enable us to among other things identify and manage significant risks affecting our business, determine our risk appetite and make independent risk/return decisions.

We have undertaken risk management training which we believe will assist the Board and Management in improving the control and coordination of risk taking across the Group.

SERVICE DELIVERY AND PRODUCT INNOVATION

In line with our core values of innovation and dynamism, the Group has continued to roll out additional products. In order to remain competitive, we have embraced modern information technology as a way of enhancing efficiency and creating alternative distribution as the market continues to be more competitive. To this end, our M-Bima platform which leverages on the mobile money transfer is being replicated in a number of lines of business. We have also implemented web-enabled distribution platforms such as the Diaspora and other technology-based applications such as the smart card in medical line of business. We continue to use digital and social media for promotion and marketing purposes.

We commissioned an ICT Consultancy with Ernest & Young during the year to rationalize our ICT strategy. This entailed the following among others:

- Assessment of the Group's short-term and long-term strategic vision and deriving the ICT requirements to support it
- Carrying out an independent assessment of the adequacy of the existing systems infrastructure in meeting the needs of our business
- Reviewing and development of an aligned ICT strategy clearly indicating the desired ICT vision, application and infrastructure landscape for the Group
- Recommendation of areas of prioritization based on the best practice and experiences from the financial sector
- Assessment of the ICT organization and processes against best practices
- Development of an implementation roadmap towards the realization of the desired ICT vision, indicating dependencies, priorities, schedules and required resources in the short-term and long-term.

The development of the new ICT strategy will enable us to be more effective in realizing our short -term and long-term strategic objectives.

We are focused to strategically position our Group as the best in the industry and we believe ICT will play a major role in the achievement of this goal. We are also targeting the micro-insurance market which is diverse and geographically spread out making it imperative to employ technology in order to tap into this growth sector.

Customers are becoming sophisticated, technologically savvy and very demanding on efficient service delivery. Consequently, we must continually implement new ICT initiatives in order to keep up with such trends.

EMPLOYEE DEVELOPMENT

We recognise that our employees are critical in realizing our strategic objectives. We've continued to offer specialized training and development opportunities to all cadres of employees in a bid to equip them with the requisite skills and competencies.

As a way of entrenching a performance management system and culture in the Group, CIC has adopted the Balanced Score Card tool of measuring employee performance. The Balanced Score Card is a strategic planning and management system that is used to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

CIC will also adopt the 360-degree evaluation process. With this approach, performance feedback is provided by subordinates, peers and supervisors. The goal of this participative evaluation is to improve the Group Performance System to support the pursuit of overall strategic growth.

SUPERIOR PERFORMANCE

The group has adopted a holistic approach to business execution aimed at delivering superior business performance by using the mission leadership tool with effect from January 2013. We believe that the tool will lead to increased business performance and sustainable growth year after year. It will also help to embed clarity and strategy alignment throughout the Group. Through the dashboard, all managers are able to view their performance against targets. Monthly meetings are consequently held to review the performance. We believe that through the mission leadership and analysis, the Group will benefit from timely reporting and corrective action to guarantee superior performance.

DIASPORA

We continue to develop products and services that will meet the needs of Kenyans in the Diaspora. To this end, various meetings have been held between our team and the Diaspora leaders to determine their needs and consequently develop products that meet those needs. The Diaspora operations are wholly online on a web platform.

INDUSTRY RECOGNITION

The Group remains dedicated to its customers through offering innovative insurance and financial solutions. This has made the Group become a leading Insurance and Financial service provider in the country. In 2012, the Group's leadership position was supported by the awards garnered. These include:

THINK BUSINESS INSURANCE AWARDS

- Winner – Claims Settlement Award of the Year
- Winner – Socially Responsible Corporate of the Year

- Runner- up in the following categories:
    - Medical Insurer of the Year
    - Customer Service Award
    - Life Insurer of the Year
    - Marketing Initiative of the Year

ASSOCIATION OF INSURANCE BROKERS AWARD

- Winner - Brokers Relation Award

COMPUTER SOCIETY OF KENYA AWARDS

- Winner – Outstanding Innovation in Insurance in 2012

FUTURE OUTLOOK

The insurance industry is becoming even more competitive with a number of new entrants. Given the impact that this is likely to have on our performance, we shall continue to work extra hard to deliver on the promises we make particularly to our customers and shareholders. We shall also endeavour to achieve greater operational efficiency so as to improve our competitiveness and profitability.

With the elections held in March 2013 having been successfully concluded, we see great opportunities ahead and we expect to benefit significantly from the high investments that are projected to accrue from high investor confidence.

We also see emerging opportunities in the counties as a result of the implementation of devolution and we continue to position ourselves appropriately in readiness for these opportunities.

Finally, I would like to thank our intermediaries, Co-operative societies, customers, various strategic partners, management and the Board for playing a significant role in making 2012 a truly successful year.

Nelson C. Kuria, OGW, MBS
GROUP MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE

CIC Insurance Group Limited is a company listed at the Nairobi Securities Exchange (NSE), regulated by the NSE Regulations, committed to the standard of world class corporate governance practice as set by the Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA) and by itself in accordance with international best practice. In line with this, the Company undertook the divestiture of the life and general business of CIC Insurance to CIC General Insurance Limited and CIC Life Assurance Limited respectively.

The Board of Directors is responsible for the long-term strategic direction that will ensure the profitable growth of the company whilst being accountable to the shareholders for legal compliance and maintenance of the highest corporate governance standards and business ethics. The Board formulates policies and strategies that enhance transparency and accountability and seek to conform to set guidelines on Corporate Governance practices provided by the CMA and the IRA. The Company operates under a wide regulatory and legal control and supervisory framework.

The Board of Directors, duly cognizant of its role in safeguarding shareholders' assets and ensuring a favorable return on investment, reaffirms its commitment to upholding policies and strategies that enhance transparency and accountability as part of the company's continuing listing obligations and as advocated by the aforementioned CMA guidelines for public listed companies in Kenya.

Board of Directors

The current board consists of twelve directors of whom eleven are non-executive directors except for the Group Chief Executive Officer who is executive. Notably, seven members of the Board are elected from the co-operative movement and represent the strategic and majority shareholder in the group being Co-operative Insurance Society Limited. The Board composition draws on a good mix of skills, experience and competencies in various fields. The non-executive directors are appointed by the shareholders for a three-year term and are bound by the Company's Code of Conduct.

The Directors maintain effective overall control over strategic, financial, operational, policy and compliance issues. Accurate, appropriate and timely information is provided to the Board to enable it to fulfill this role. The Chairman is responsible for managing the Board and providing leadership to the company, while the Group Chief Executive Officer is responsible to the Board for running the business in accordance with instructions given by the Board and implementing Board's decisions. Nonetheless, the Board retains responsibility for establishing and maintaining the company's comprehensive internal control of financial, operational, and compliance issues so that its objectives of increased growth in profitability and shareholder value are realized.

The company maintains a policy of open communication between the Board and management ensuring the Board is fully informed about all major matters concerning the company and the industry. The Board and management interact on a regular basis allowing the directors to contribute their knowledge particularly in relating the company's target market to the company's operations.
Members of the Company's senior management attend board meetings by invitation to ensure informed and efficient decision making by the Board. In addition, the Board invites third party professionals to attend meetings and provide opinions and advice as necessary to enable the Board to discharge its fiduciary mandate.

Board Meetings

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

Board Committees

The Board has created three committees which meet regularly under clearly defined and materially delegated terms of reference set out by the Board. The Committees operate under clearly defined mandates which spell out their responsibilities, scope of authority and procedures for reporting to the Board. The Committees have access to company information and are authorized to obtain independent professional advice on matters within their scope.

Audit and Risk Committee

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

Audit and Risk Committee Members:

- Grace Mabishi - Committee Chairperson
- Joseph Nyagah
- Peter Nyigei

Finance and Investment Committee

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

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

Finance and Investment Committee members:

- Rev. Peterson Kagane - Committee Chairman
- Cornelius Ashira
- Joshuah Njoroge
- Rosemary Githaiga
- Edwin Otieno

Governance and Human Resource Committee

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

Governance and Human Resource Committee members:

- Stella Kaimenyi - Chairlady
- Japheth Magomere
- Gordon Owuor
- Harrison Githae
- Jonah Mutuku

Attendance at the Meetings

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

Table 1

Directors	Board Meeting		Governance and Human Resource Committee		Finance and Investment Committee		Audit and Risk Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Japheth Magomere (Chairman)	5	5	6	6	6	6	3	2
Rev. Peterson N Kagane (Vice-Chairman)	5	5			6	6		
Joshuah Njoroge	5	5			6	6		
Gordon Owuor	5	5	6	6				
Michael Wambia	5	5					3	3
Jonah Mutuku	5	5	6	2				
Peter Nyigei	5	5					3	3
Stella Kaimenyi	5	5	6	6				
Rosemary Majala	5	5			6	5		
Grace Mabishi	5	5					3	3
Veronicah Leseya	5	5						
Nelson Kuria	5	5	6	6	6	6	3	3

Notes: (a) Number of meetings convened during year when the Director was a member
(b) Number of Meetings attended by the Director during the year

Internal Controls

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

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

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

Business Ethics

The company is committed to adherence to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. A formal code of ethics has been implemented to guide management, employees and other stakeholders on acceptable behavior when conducting business.

Communication with Shareholders

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

Shareholding

1. Consolidated top ten Shareholders Schedule as at 31st December 2012

	NAME	NO. OF SHARES	%
1	CO-OPERATIVE INSURANCE SOCIETY LIMITED	1,619,534,420	74.10
2	GIDEON MAINA MURIUKI	78,052,120	3.57
3	STANDARD CHARTERED NOMINEES A/C 9389	15,500,000	0.71
4	NELSON CHEGE KURIA	12,597,000	0.58
5	WELTON WEDA	11,279,000	0.52
6	PETER MUTARURA MWAURA	10,386,280	0.48
7	NORMAN JAMES MUNENE NYAGAH	10,000,000	0.46
8	KENYA REINSURANCE CORPORATION LIMITED	9,000,000	0.41
9	WEDA WELTON & EMILY ACHIENG CHWEYA	7,400,000	0.34
10	MR DAVID KIPRUTO RONOH	6,879,160	0.31
	TOTAL	**1,780,627,980**	**81.47**

2.Top-ten CIS Shareholders Schedule as at 31st December 2012

	NAME	NO. OF SHARES	%
1	THE CO-OPERATIVE BANK OF KENYA LTD	578,380,600	35.71
2	CO-OPERATIVE BANK SAVINGS & CREDIT SOCIETY LTD	155,962,720	9.63
3	K-UNITY SAVINGS & CREDIT CO-OPERATIVE SOCIETY LTD	52,006,480	3.21
4	HARAMBEE CO-OPERATIVE SAVINGS & CREDIT SOCIETY LTD	29,361,900	1.81
5	EMBU FARMERS SAVINGS & CREDIT CO-OPERATIVE SOCIETY LTD	28,836,960	1.78
6	KIPSIGIS TEACHERS SAVINGS & CREDIT SOCIETY LTD	24,803,540	1.53
7	FEP CO-OPERATIVE SAVINGS & CREDIT SOCIETY LTD	24,000,000	1.48
8	BARINGO TEACHERS SAVINGS & CREDIT CO-OPERATIVE SOCIETY LTD	21,778,520	1.34
9	H & M SAVINGS & CREDIT CO-OPERATIVE SOCIETY LTD	20,610,000	1.27
10	KENYA POLICE STAFF CO-OPERATIVE SAVINGS & CREDIT SOCIETY LTD	19,768,920	1.22
	TOTAL	955,509,640	59.00

3. Directors Shareholding Schedule as at 31st December 2012

	NAME	NO. OF SHARES	%
1	JAPHETH A. MAGOMERE	560,000	0.03
2	REV. PETERSON N. KAGANE	200,000	0.01
3	CORNELIUS O. ASHIRA	140,000	0.01
4	GORDON O. OWUOR	220,000	0.01
5	JOSHUAH N. NJOROGE	600,000	0.03
6	JOSEPH P. NYAGAH	240,000	0.01
7	MICHAEL O. WAMBIA	30,000	0.00
8	JONAH M. MUTUKU	20,000	0.00
9	PETER K. NYIGEI	10,000	0.00
10	HARRISON H. GITHAE	210,000	0.01
11	VERONICAH LESEYA	0	0
12	EDWIN O. JOSEPH	370,340	0.02
13	SUSAN KASINGA	0	0
14	ROSEMARY MAJALA	2,058,000	0.09
15	GRACE MABISHI	0	0
16	STELLA KAIMENYI	300,000	0.01
17	PATRICK NYAGA	1,046,000	0.05
18	S.C. MUCHIRI	5,377,760	0.25
19	JULIUS RIUNGU	3,957,500	0.18
	TOTAL	15,339,600	0.71

4. Categorised Shareholding Distribution Schedule as at 31st December 2012

	SHAREHOLDING RANGE	NO. OF SHAREHOLDERS	NO. OF SHARES	%
1	1-500	505	142,270	0.01
2	501-5000	1199	2,595,320	0.12
3	5001-10,000	1481	14,083,620	0.65
4	10,001-100,000	2392	90,264,900	4.14
5	100,001-1,000,000	530	149,334,220	6.85
6	1,000,001-OVER	71	1,923,195,110	88.23
	TOTAL	6178	2,179,615,440	100.00

CIC CORPORATE SOCIAL RESPONSIBILITY

CIC changing lives of youth through "I'm A Co-operator" campaign

CIC Insurance Group believes there is no better way to create a lasting positive impact on the society than through targeted social responsibility programs. This is why as we address the needs of our members, we are cognizant of the fact that we have a duty to improve the general wellbeing of the community.

In line with one of CIC's strategic objective, which is to promote the welfare of women and youth, the Group through the CIC Foundation picked a Corporate Social Responsibility (CSR) initiative, dubbed "I'm a Cooperator" that targets the youth.

So far Ksh. 50 million has been invested in the "I'm A Co-operator campaign" to attract the youth to the Co-operative Movement and impart much needed leadership skills while promoting environmental conservation and cultural integration.

Through the project that is in its second phase, CIC Insurance Group believes it will make a distinct contribution to the advancement of the society by going beyond the core business of serving the interest of shareholders.

This unique CSR project aims at bridging the generation gap in Kenya's co-operative movement. The project which started in 2011 covers three core areas: Leadership, Ecology and Social Integration in the context of Co-operatives. The first phase covered the leadership theme while the second phase launched in partnership with KCA University and the African Biodiversity Conservation and Innovation Centre (ABCIC) in July last year is focusing on the Ecology theme.

Initiatives being implemented under the second phase are designed to popularize and address the youth unemployment problem while exploring the application of the co-operative model in this process with a view to re-vitalize the co-operative movement and promoting environmental conservation especially among the youth.

The expected outcomes include: the generation of information through research, improvement of livelihoods, enhanced environmental conservation, development of bio-based opportunities, capacity building and the formation of new youth co-operatives as well as strengthening of existing ones.

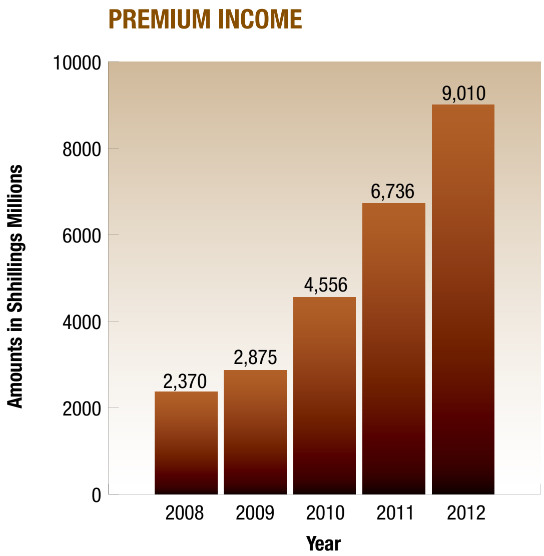
Through the "I'm A Co-operator" campaign, CIC Insurance Group will directly impact about 3,000 young people and a million more, indirectly.
The first phase of this initiative won the Best Corporate Social Responsibility Award during the 3rd Annual Insurance Awards in 2012. The award is a testimony to the relevance of the campaign to the society.

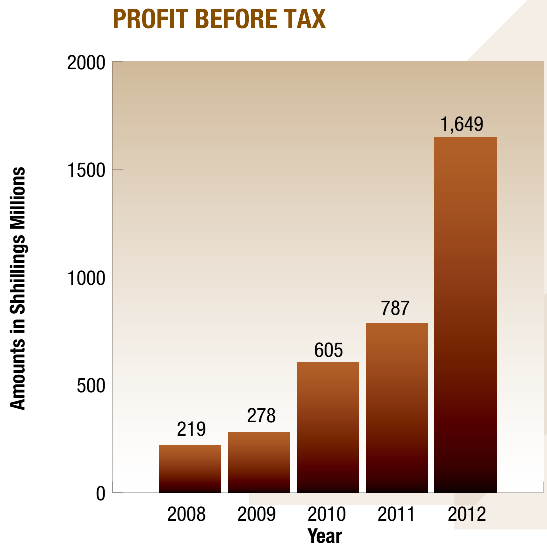
The Group CEO shares a word of advice with the youth.

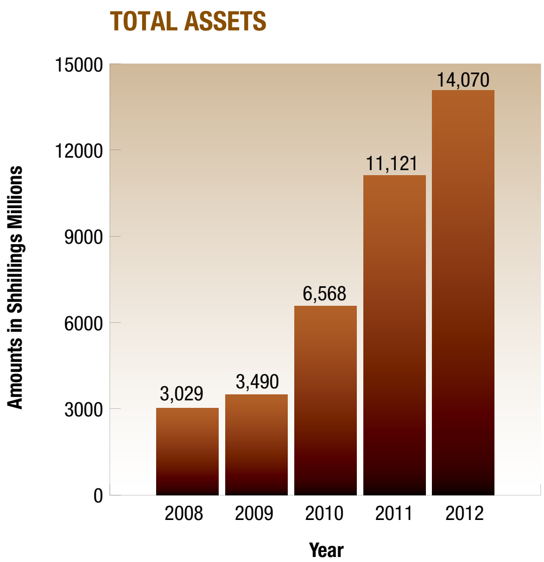
The Group CEO plants a tree during the launch of the 'I'm A Co-operator' phase 2 on Ecology

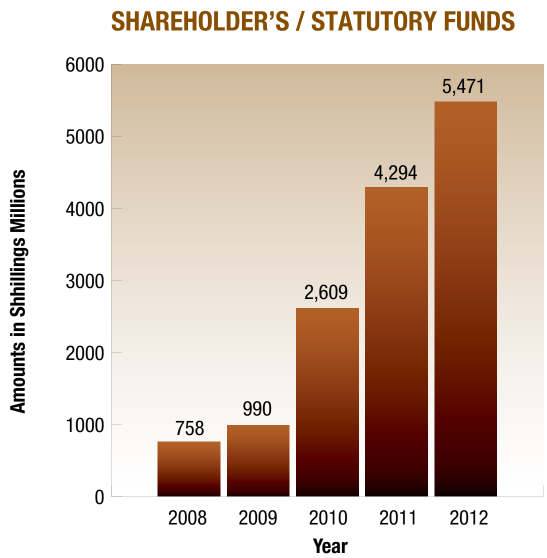
Students from KCA University perform a song during the launch

FIVE YEAR PERFORMANCE









FINANCIAL HIGHLIGHTS

- Gross Premiums Written increased by 34 % over 2011 to stand at Ksh 9.0 billion. This was mainly due to acquisition of new business
- Investment and other income grew by 169% to stand at Ksh 1.4 billion mainly due to the prevailing high interest rates and diversification through investment in property market
- Claims incurred grew by 47% to Ksh 4.6 billion. The overall loss ratio is however within the industry average.
- Commission expenses grew by 15% to Ksh 641 million, in line with the premium growth.
- Management expenses rose by 30% to Ksh 1.9 billion, largely driven by the high inflation environment and reorganization costs.
- Profit before tax increased by 110% to Ksh 1.65 billion mainly due improved underwriting results and higher investment income.
- Shareholders' funds increased by 27% from Ksh 4.3 billion to Ksh 5.5 billion.
- To sustain the growth momentum, the Group is pursuing expansion into the regional market, micro insurance, new channels of distribution and investment diversification strategies.

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the company and its subsidiaries is the transaction of general and life insurance business and fund management. The group also invests in securities, properties, mortgages and loans.

BUSINESS REORGANISATION

The company obtained approval from the Insurance Regulatory Authority and Ministry of Finance to reorganise its business through the registration of two new subsidiaries CIC General Insurance Limited and CIC Life Assurance Limited for the transaction of general and life insurance business respectively commencing 1 January 2012. The details of the transfer are disclosed in note 43 of these financial statements.

RESULTS

	Total
	Sh'000
Profit before taxation	1,649,591
Taxation charge	(261,390)
	_______
Profit for the year	1,388,201
	=======

DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh. 217,965,500 (2011: Sh. 196,169,000) which represents 10% of the paid up share capital (2011 – 9%).

DIRECTORS

The current directors are as shown on page 2.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap 486) and subject to approval by the Commissioner of Insurance under Section 56(4) of the Kenyan Insurance Act.

BY ORDER OF THE BOARD

SECRETARY

March 2013

Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure that the company and its subsidiaries keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.

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Director	Director

March 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CIC INSURANCE GROUP LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of CIC Insurance Group Limited and its subsidiaries, set out on pages 25 to 101, which comprise the consolidated and company statements of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the group and of the company as at 31 December 2012 and of the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CIC INSURANCE GROUP LIMITED(Continued)

Report on Other Legal Requirements

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

(a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

(b) in our opinion, proper books of account have been kept by the company so far as appears from our examination of those books; and

(c) the company's statement of financial position (balance sheet) is in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

2013

Nairobi

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 Sh'000	2011 Sh'000
Gross written premiums		9,009,893	6,735,721
Gross earned premiums	3	8,168,717	6,116,421
Less: Reinsurance premiums ceded		(880,537)	(772,125)
Net earned premiums		**7,288,180**	**5,344,296**
Commissions earned		201,282	150,681
Investment income	4	790,514	537,928
Other gains/(losses)	5	622,017	(12,865)
		1,613,813	675,744
Total income		**8,901,993**	**6,020,040**
Claims and policyholders' benefits payable	6	(4,644,801)	(3,149,844)
Commissions payable		(641,300)	(557,373)
Operating and other expenses	7	(1,956,564)	(1,505,793)
		(7,242,665)	**(5,213,010)**
Share of results of associate	14	(9,737)	(19,816)
Profit before taxation		1,649,591	787,214
Taxation charge	9	(261,390)	(203,000)
Profit for the year	**10(a)**	**1,388,201**	**584,214**
OTHER COMPREHENSIVE INCOME			
Surplus on revaluation of buildings	11	11,143	22,110
Fair value gain/(loss) on available-for -sale investments	16	3,639	(8,559)
Other comprehensive income for the year		**14,782**	**13,551**
Total comprehensive income for the year		**1,402,983**	**597,765**
Earnings per share (Sh.)	10(b)	0.64	0.40

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Notes	2012 Sh'000	2011 Sh'000
ASSETS			
Property and equipment	11(a)	349,185	314,759
Intangible assets	12	56,485	58,892
Investment properties	13(a)	2,554,472	1,306,744
Investment in associate	14	70,447	80,184
Available - for- sale investments	16(a)	19,844	16,205
Loans receivable -Mortgage loans	17(a)	240,869	206,664
- Other loans	18(a)	255,758	197,330
Equity investments	19(a)	203,377	144,710
Deferred taxation	20(a)	8,109	7,076
Deposits and commercial paper	21(a)	423,441	294,822
Receivables arising out of reinsurance arrangements	22	10,084	16,923
Receivables arising out of direct insurance arrangements	22	1,144,634	704,490
Taxation recoverable	9(c)	2,450	-
Due from related parties	35(a)	16,621	-
Reinsurers' share of liabilities and reserves	38(a)	1,965,437	1,644,658
Deferred acquisition costs	23(a)	319,930	193,506
Other receivables	24(a)	134,267	315,882
Government securities held to maturity	25(a)	2,101,355	2,491,569
Short term investments	26(a)	206,937	125,749
Deposits with financial institutions	27(a)	3,727,723	2,842,970
Cash and bank balances		258,126	157,663
Total assets		14,069,551	11,120,796
EQUITY			
Share capital	29	2,179,655	2,179,655
Share premium	30	598,102	598,102
Statutory reserve	31	849,115	651,418
Revaluation surplus	32	66,698	55,555
Fair value reserve	33	17,903	14,264
Retained earnings	34	1,759,487	795,148
Total equity		5,470,960	4,294,142
LIABILITIES			
Insurance contracts liabilities	36(a)	3,197,799	2,595,699
Provisions for unearned premium and unexpired risks	39(a)	3,092,113	2,158,409
Actuarial value of policyholder liabilities	40	1,650,108	1,273,183
Payables arising from reinsurance arrangements and insurance bodies		134,799	146,888
Other payables	41(a)	444,409	583,988
Dividend payable	42	2,357	2,357
Taxation payable	9(c)	77,006	66,130
Total liabilities		8,598,591	6,826,654
Total equity and liabilities		14,069,551	11,120,796

The financial statements on pages 25 to 101 were approved by the board of directors on 26th March 2013 and signed on its behalf by:

Director

Director

Director

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Notes	2012 Sh'000	2011 Sh'000
ASSETS			
Property and equipment	11(b)	-	314,759
Intangible assets	12	-	58,892
Investment properties	13(b)	1,200,000	1,306,744
Investment in associate	14	100,000	100,000
Investment in subsidiaries	15	1,711,000	311,000
Available - for- sale investments	16(b)	-	16,205
Loans receivable -Mortgage loans	17(b)	-	206,664
- Other loans	18(b)	39,018	197,330
Equity investments	19(b)	-	143,766
Deferred taxation	20(b)	6,800	7,076
Deposits and commercial paper	21(b)	-	294,822
Receivables arising out of reinsurance arrangements	22	-	16,923
Receivables arising out of direct insurance arrangements	22	-	704,490
Due from related party	35(b(i))	-	352
Reinsurers share of liabilities and reserves	38(b)	-	1,644,658
Deferred acquisition costs	23(b)	-	193,506
Taxation recoverable	9(c)	2,000	-
Other receivables	24(b)	13,225	314,930
Government securities held to maturity	25(b)	36,701	2,491,569
Short term investments	26(b)	-	125,749
Deposits with financial institutions	27(b)	-	2,508,027
Cash and bank balances		-	155,779
Total assets		3,108,744	11,113,241
EQUITY			
Share capital	29	2,179,655	2,179,655
Share premium	30	598,102	598,102
Statutory reserve	31	-	651,418
Revaluation surplus	32	55,555	55,555
Fair value reserve	33	14,264	14,264
Retained earnings	34	(14,265)	795,566
Total equity		2,833,311	4,294,560
LIABILITIES			
Insurance contracts liabilities	36	-	2,595,699
Provisions for unearned premium and unexpired risks	39	-	2,158,409
Actuarial value of policyholder liabilities	40	-	1,273,183
Payables arising from reinsurance arrangements and insurance bodies		-	146,888
Due to related parties	35(b(ii))	272,851	-
Other payables	41(b)	225	583,511
Dividend payable	42	2,357	2,357
Taxation payable	9(c)	-	58,634
Total liabilities		275,433	6,818,681
Total equity and liabilities		3,108,744	11,113,241

The financial statements on pages 25 to 101 were approved by the board of directors on March 2013 and signed on its behalf by:

Director Director Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital Sh'000	Share Premium Sh'000	Funds awaiting allotment of shares Sh'000	Statutory reserve Sh'000	Revaluation surplus Sh'000	Fair value reserve Sh'00	Retained earnings Sh'000	Total Sh'000
At 1 January 2011	**611,413**	**50,741**	**932,459**	**542,541**	**35,621**	**22,823**	**413,549**	**2,609,147**
Shares issued	739,390	443,754	-	-	-	-	-	1,183,144
Issue of shares from funds awaiting allotment of shares	828,852	103,607	(932,459)	-	-	-	-	-
Transfer of excess depreciation	-	-	-	2,176	(2,176)	-	-	-
Dividends paid - 2010	-	-	-	-	-	-	(95,914)	(95,914)
Profit for the year	-	-	-	106,701	-		477,513	584,214
Other comprehensive income for the year	-	-	-	-	22,110	(8,559)	-	13,551
Total comprehensive income/(loss) for the year	-	-	-	106,701	22,110	(8,559)	477,513	597,765
At 31 December 2011	**2,179,655**	**598,102**	**-**	**651,418**	**55,555**	**14,264**	**795,148**	**4,294,142**
At 1 January 2012	**2,179,655**	**598,102**	**-**	**651,418**	**55,555**	**14,264**	**795,148**	**4,294,142**
Transfer to retained earnings	-	-	-	(100,000)	-	-	100,000	-
Tax on transfer to retained earnings	-	-	-	-	-	-	(30,000)	(30,000)
Dividends paid - 2011	-	-	-	-	-	-	(196,165)	(196,165)
Profit for the year	-	-	-	297,697	-		1,090,504	1,388,201
Other comprehensive income for the year	-	-	-	-	11,143	3,639	-	14,782
Total comprehensive income for the year	**-**	**-**	**-**	**297,697**	**11,143**	**3,639**	**1,090,504**	**1,402,983**
At 31 December 2012	**2,179,655**	**598,102**	**-**	**849,115**	**66,698**	**17,903**	**1,759,487**	**5,470,960**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital Sh'000	Share premium Sh'000	Funds awaiting allotment of shares Sh'000	Statutory reserve Sh'000	Revaluation surplus Sh'000	Fair value reserve Sh'00	Retained Earnings Sh'000	Total Sh'000
At 1 January 2011	**611,413**	**50,741**	**932,459**	**542,541**	**35,621**	**22,823**	**412,118**	**2,607,716**
Shares issued	739,390	443,754	-	-	-	-	-	1,183,144
Issue of shares from funds awaiting allotment of shares	828,852	103,607	(932,459)	-	-	-	-	-
Transfer of excess depreciation	-	-	-	2,176	(2,176)	-	-	-
Dividends paid - 2010	-	-	-	-	-	-	(95,914)	(95,914)
Profit for the year	-	-	-	106,701	-	-	479,362	586,063
Other comprehensive income/(loss) for the year	-	-	-	-	22,110	(8,559)	-	13,551
Total comprehensive income for the year	-	-	**-**	**106,701**	**22,110**	**(8,559)**	**479,362**	**599,614**
At 31 December 2011	**2,179,655**	**598,102**	**-**	**651,418**	**55,555**	**14,264**	**795,566**	**4,294,560**
	========	=======	=======	=======	=======	=======	=======	========
At 1 January 2012	**2,179,655**	**598,102**	**-**	**651,418**	**55,555**	**14,264**	**795,566**	**4,294,560**
Transfer of statutory reserves to CIC Life Assurance Limited(note 43)	-	-	-	(651,418)				(651,418)
Deficit arising on transfer of assets and liabilities (note 43)	-	-	-	-			(1,037,423)	(1,037,423)
Dividends paid - 2011	-	-	-	-	-	-	(196,165)	(196,165)
Profit for the year	-	-	-	-	-	-	423,757	423,757
Other comprehensive income for the year	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	**-**	**-**	**-**	**-**	**423,757**	**423,757**
At 31 December 2012	**2,179,655**	**598,102**	**-**	**-**	**55,555**	**14,264**	**(14,265)**	**2,833,311**
	========	=======	=======	=======	=======	=======	=======	========

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 Sh'000	2011 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	44(a)	1,367,065	1,927,771
Taxation paid	9(c)	(283,997)	(201,541)
Net cash generated from operating activities		1,083,068	1,726,230
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	11(a)	(76,970)	(125,104)
Purchase of intangible assets	12(a)	(16,421)	(42,592)
Purchase of investment property	13(a)	(715,294)	(654,393)
Mortgage loans advanced	17(a)	(62,143)	(52,579)
Mortgage loans repaid	17(a)	27,938	25,915
Purchase of quoted shares	19(a)	(5,097)	(19,996)
Purchase of government securities	25(a)	(257,740)	(1,514,815)
Proceeds of maturity of government securities	25(a)	679,420	70,000
Purchase of short term investments	26(a)	(81,188)	(28,929)
Staff and policy loans advanced		(58,428)	(20,773)
Investment in deposits with non-financial institutions		(128,619)	(116,721)
Proceeds of disposal of equipment		2,384	358
Investment income	4	790,471	537,928
Movement in fixed deposits with financial institutions (excluding cash and cash equivalents)		(1,040,417)	(66,978)
Net cash used in investing activities		(942,104)	(2,008,679)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		-	1,183,144
Dividends paid	29	(196,165)	(93,557)
Net cash (used in)/generated from financing activities		(196,165)	1,089,587
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(55,201)	807,138
CASH AND CASH EQUIVALENTS AT 1 JANUARY		2,148,979	1,341,841
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44(b)	2,093,778	2,148,979

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1 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).

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 comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2012

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 19, Employee Benefits (2012)	1 January 2013
IAS 27, Separate Financial Statements (2012)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2012)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

- **IFRS 9, Financial Instruments**

  IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

  IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value.

Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

- **IFRS 9, Financial Instruments (Continued)**

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The directors anticipate that IFRS 9 will be adopted in the group's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the group's financial assets and financial liabilities.

However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- **IFRS 10: Consolidated Financial Statements**

IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the returns.

The standard is effective for annual periods beginning on or after 1 January 2013. The group will apply this amendment prospectively.

1 ACCOUNTING POLICIES (Continued)

- **IFRS 11: Joint Arrangements**

IFRS 11 replaces IAS 31 'Interests in Joint Ventures'. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

- **IFRS 11: Joint Arrangements (Continued)**

Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 'Investments in Associates and Joint Ventures (2012)'. Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted.

The standard is effective for annual periods beginning on or after 1 January 2013. The group will apply this amendment prospectively. The directors anticipate no material impact to the group's financial statements currently. However, the group would have to apply this standard to any such arrangements entered in the course of its expansion strategy.

- **IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

1 ACCOUNTING POLICIES (Continued)

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

The adoption of IFRS 12 in the group's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard would result in more extensive disclosures in the financial statements.

- **IFRS 13 Fair Value Measurements**

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

- **IFRS 13 Fair Value Measurements (Continued)**

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset or liability.

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

1 ACCOUNTING POLICIES (Continued)

However, the group is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

- **IAS 27 Separate Financial Statements (2012)**

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

The standard is effective for annual periods beginning on or after 1 January 2013. The Group will apply this amendment prospectively. The directors anticipate no material impact to the Group's financial statements.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

- **IAS 28 Investments in Associates and Joint Ventures (2012)**

This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

The standard is effective for annual periods beginning on or after 1 January 2013. The Group will apply this amendment prospectively. The directors, however, anticipate no material impact to the Group's financial statements.

- **Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**

Amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosure to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation.

The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

1 ACCOUNTING POLICIES (Continued)

The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The director's anticipate that the application of these amendments to IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future financial statements.

- **Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)**

These are amendments to IAS 1 Presentation of Financial Statements, revising the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income in either before tax or net of tax).

The above amendments are generally effective for annual periods beginning on or after 1 July 2013. The group will apply the amendments prospectively. The directors anticipate no material impact to the group's financial statements.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

- **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required. The directors anticipate that the application of this amendment may result in more disclosures being made with regard to offsetting of financial assets and financial liabilities in the future. The group will apply the amendments prospectively.

1 ACCOUNTING POLICIES (Continued)

Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- amendments to IAS 1 Presentation of Financial Statements;
- amendments to IAS 16 Property, Plant and Equipment; and
- amendments to IAS 32 Financial Instruments: Presentation.

<u>IAS 1 Presentation of Financial Statements</u>

The amendments to IAS 1 clarify that an entity is required to present a statement of financial position as at the beginning of the preceding period (third statement of financial position) only when the retrospective application of an accounting policy, restatement or reclassification has a material effect on the information in the third statement of financial position and that the related notes are not required to accompany the third statement of financial position.
The amendments also clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IAS 1. However, if additional comparative information is provided, the information should be presented in accordance with IFRSs, including related note disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

The directors anticipate that the amendments to IAS 1 will result in the group presenting a statement of financial position at the beginning of the preceding period (third statement of financial position) only when the restatement or reclassification has a material effect on the information in the financial statements.

IAS 16 Property, Plant and Equipment

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The directors do not anticipate that the amendments to IAS 16 will have a significant effect on the group's financial statements.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

<u>IAS 32 Financial Instruments: Presentation</u>

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

The directors anticipate that the amendments to IAS 32 will have no effect on the group's financial statements as the group has already adopted this treatment.

1 ACCOUNTING POLICIES (Continued)

(iii) Early adoption of standards

The group did not early-adopt new or amended standards in 2012.

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property, the carrying value of investment property and financial instruments at fair value, impaired assets at the recoverable amounts and actuarially determined liabilities at their present value.

Business reorganisation

In accounting for transfer of assets and liabilities transferred to the subsidiary companies under a reorganisation of the groups business, the Company recognises the assets and liabilities transferred at their carrying amounts in the company's books at the date of the transfer. The difference between the consideration paid or received in respect of net assets or net liabilities respectively and carrying amounts of assets and liabilities at the date of the transfer is dealt with through the statement of changes in equity.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The group financial statements reflect the result of the consolidation of the financial statements of the company and its subsidiaries, CIC General Insurance Limited, CIC Life Assurance Limited and CIC Asset Management Limited, details of which are disclosed in note 15, made up to 31 December.

Investment in associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the group's share of the profit or loss and other comprehensive income of the associate. When the group's share of losses of an associate exceeds the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate), the group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets,

1 ACCOUNTING POLICIES (Continued)

liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Investments in associates are accounted for at cost in the company's separate financial statements.

Income recognition

Premium income for general insurance business is recognised on the assumption of risks, and includes estimates of premiums due but not yet received less an allowance for cancellations and less unearned premiums. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the end of each reporting period, and are calculated using the 1/24th method on net written premiums. For marine business, unearned premiums at the end of each reporting period are calculated on the 6th basis of written premiums in the last quarter of the year.

Premiums for long term assurance business are recognised as revenue when they are received from the policyholders. Premiums are shown before deduction of commissions.

Commissions receivable are recognised as income in the period in which they are earned. To achieve this, a proportion of reinsurance commissions receivable is deferred and recognised as income over the term of the policy.

Interest income is recognised on a time proportion basis that takes into account the effective interest yield on the asset.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Rental income is recognised as income in the period in which it is earned.

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 1/24th method on net commissions. These commissions are recognised over the period in which the related revenues are earned.

Claims incurred

Claims incurred comprise claims paid and related expenses in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of the reporting period, but not settled at that date. 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 but subject to the minimum percentages set by the Commissioner of Insurance. Claims liability on long term contracts is determined through actuarial valuation which is carried out annually.

1 ACCOUNTING POLICIES (Continued)

Reinsurance contracts held

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

The benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

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

Receivables and payables related to insurance contracts and investment contracts

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

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

Taxation

Income tax expense represents the sum of the current taxation and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided for using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the end of each reporting period which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

1 ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment is stated at cost or revaluation less accumulated depreciation and accumulated impairment losses.

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.

Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit or loss for the year) and depreciation based on the asset's original cost is transferred from the revaluation surplus directly to the statutory reserve/retained earnings.

Depreciation is calculated on the reducing balance 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

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The impairment loss is recognised in profit or loss for the year.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on derecognition of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation (including property under construction for such purposes). They are treated as long-term investments and carried at fair value, representing market value determined annually, based on valuations by external independent valuers. Investment properties are not subject to depreciation. Changes in their carrying amount between each end of the reporting period are processed, net of deferred tax, through profit or loss for the year.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no further economic benefit is expected from its disposal. On the retirement or disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

1 ACCOUNTING POLICIES (Continued)

Properties under construction

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. Such properties are classified to the appropriate categories of when completed and ready for intended use.

Intangible assets

Intangible assets represent computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful economic life of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method is reviewed at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense is recognised in profit or loss.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognized.

Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to one of the companies in the group as a lessee. All other leases are classified as operating leases.

Payments made under operating leases are charged to profit or loss on the straight-line basis over the period of the lease.

Rental income from operating leases is charged to profit or loss for the year on the straight-line basis over the term of the relevant lease.

Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the end of the reporting period is recognised as an expense accrual.

Retirement benefit obligations

The group operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the group and employees.

The group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF).

1 ACCOUNTING POLICIES (Continued)

Contributions to this scheme are determined by local statute and are currently at Sh 200 per employee per month.
The group's contributions to the defined contribution scheme and NSSF are charged to profit or loss as they fall due.

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.

Segment reporting

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 company to comprise three business segments, general insurance business, Long term insurance business and other business, and one geographical segment, Kenya.

Financial instruments

A financial asset or liability is recognised when the group becomes party to the contractual provisions of the instrument. The group classifies its financial instruments into the following categories: Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Management determines the appropriate classification of its investments at initial recognition and re-evaluates this at the end of each reporting period.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling it in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the group intends to sell in the short term or those that it has designated as at fair value through profit or loss or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

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.

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.

1 ACCOUNTING POLICIES (Continued)

Purchases and sales of investments are recognised on trade date – the date on which the group commits to purchase or sell the asset. Investments 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. Investments 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.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the year in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as 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.

The fair values of quoted 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, reference to other instruments that are substantially the same, and discounted cash flow analysis.

Unquoted investments are classified as available-for-sale investments. They are shown at fair value unless their value cannot be reliably measured in which case when they are carried at cost less provision for impairment.

Impairment of financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial liabilities and equity instruments issued by the company

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

Classification as debt or equity

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

Financial liabilities

Financial liabilities are classified as other financial liabilities.

1 ACCOUNTING POLICIES (Continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. 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.

Derecognition of financial liabilities

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the statement of financial position.

Dividends

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

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

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

In the process of applying the group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the group's accounting policies are dealt with below:

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying techniques applied in the estimation of this liability is that the group's past claims 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.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (Continued)

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-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 conditions 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.

A margin for adverse deviation may also be included in the liability valuation. Outstanding claims are 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 the reporting period based on the group's experience but subject to the minimum percentages set by the Commissioner of Insurance.

Held -to-maturity financial assets

The group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the group evaluates its intention and ability to hold such assets to maturity. If the group fails to keep these financial assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost.

Impairment losses

At the end of each reporting period, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property and equipment

Critical estimates are made by the group's management, in determining depreciation rates for property and equipment.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of receivables.

3 SEGMENT INFORMATION

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

3 SEGMENT INFORMATION (Continued)

Measurement of operating segment profit or loss, assets and liabilities

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

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

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

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

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

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

	2012 Sh'000	2011 Sh'000
Gross earned premiums		
General insurance business		
Motor	2,949,339	2,389,455
Medical	1,362,762	519,012
Fire	403,751	302,762
Personal accident	173,238	145,961
Theft	369,876	310,527
Liability	106,661	9,366
Engineering	93,706	84,037
Others	256,613	199,889
	5,715,946	3,961,009
Life assurance business		
Ordinary life	350,154	286,798
Group life	2,102,617	1,868,614
	2,452,771	2,155,412
Total gross earned premiums	8,168,717	6,116,421

3 SEGMENT INFORMATION (Continued)

	2012 Sh'000	2011 Sh'000
Investment income:		
General insurance business		
Interest from Government securities held to maturity	113,172	153,220
Bank deposit interest	275,571	100,559
Interest on staff loan receivables	6,581	20,788
Dividend income	22,980	6,235
	418,304	280,802
Life assurance business		
Interest from Government securities held to maturity	112,284	120,988
Bank deposit interest	167,094	89,130
Interest on staff loan receivables	2,361	3,084
Dividend income	14,738	4,055
Rental income from investment properties	17,904	15,738
	314,381	232,995
Other business		
Interest from Government securities held to maturity	2,237	-
Interest receivable on fixed deposits	55,549	24,088
Dividend income	43	43
	57,829	24,131
Total investment income	790,514	537,928

3 SEGMENT INFORMATION (Continued)

Other disclosures:

	General Insurance business Sh'000	Life assurance business Sh'000	Other business Sh'000	Total 2012 Sh'000
31 December 2012				
Reportable segment profits	674,905	297,697	415,599	1,388,201
Reportable segment assets	8,248,708	4,031,406	1,772,816	14,052,930
Reportable segment liabilities	6,215,848	2,373,265	9,478	8,598,591
Commissions earned	170,496	-	30,786	201,282
Depreciation	19,671	29,901	272	49,844
Amortisation	5,920	12,908	-	18,828
Property and equipment additions	33,235	42,056	1,679	76,970
Intangible assets additions	6,965	9,456	-	16,421
Investment properties additions	702,547	12,747	-	715,294
	========	=======	=======	=======

Other disclosures (Continued):

	General Insurance business Sh'000	Life assurance business Sh'000	Other business Sh'000	Total 2012 Sh'000
31 December 2011				
Reportable segment profits	479,362	106,701	(1,849)	584,214
Reportable segment assets	7,276,042	3,506,034	338,370	11,120,796
Reportable segment liabilities	4,719,620	2,099,061	7,973	6,826,654
Commissions earned	148,061	-	2,620	150,681
Depreciation	17,636	28,202	-	45,838
Amortisation	5,572	14,059	-	19,631
Property and equipment additions	65,109	59,995	-	125,104
Intangible assets additions	12,727	29,865	-	42,592
Investment properties additions	234,893	-	-	234,893
	========	=======	=======	=======

4 INVESTMENT INCOME

	2012 Sh'000	2011 Sh'000
Interest from Government securities held to maturity	227,693	274,208
Bank deposit interest	498,214	213,777
Interest on staff loan receivables	8,942	23,872
Dividend income	37,761	10,333
Rental income from investment properties	17,904	15,738
	790,514	537,928
Investment income earned on financial assets, analysed by category of asset is as follows:		
Held to maturity investments	725,907	487,985
Fair value through profit or loss investments	37,761	10,333
Loans and receivables	8,942	23,872
	772,610	522,190
Investment income earned on non-financial assets	17,904	15,738
Total investment income	790,514	537,928

Fair value gains relating to financial assets classified as at fair value through profit or loss is included in other gains and losses in note 5.

5 OTHER GAINS/(LOSSES)

	2012 Sh'000	2011 Sh'000
Fair value gains on investment properties (note 13(a))	532,434	181,102
Fair value gain/(loss) on quoted equity investments at fair value through profit or loss (note 19(a))	53,570	(59,209)
Amortisation/discount on Government securities held to maturity	31,466	(113,410)
Loss on disposal of property and equipment	(1,459)	(29,014)
Miscellaneous income	6,006	7,666
	622,017	12,865

No other gains or losses have been recognised in respect of loans and receivables or held to maturity investments, other than as disclosed in this note and note 4 above and impairment losses recognised in respect of premium receivable (see note 7).

6 CLAIMS AND POLICYHOLDERS BENEFITS PAYABLE

Claims and policyholders benefits payable:		
- Gross	4,785,449	3,036,543
- Reinsurer's share	(517,573)	(279,218)
Actuarial adjustment of policy holder's liability	376,925	392,519
	4,644,801	3,149,844

7 OPERATING AND OTHER EXPENSES

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

Staff costs (note 8)	599,867	475,451
Auditors' remuneration	5,150	4,500
Directors' fees	32,242	13,571
Directors' emoluments	46,683	41,076
Depreciation (note 11(a))	49,844	45,838
Amortisation (note 12(a))	18,828	19,631
Impairment charge for doubtful premium receivables	38,494	12,708
Premium tax	77,983	54,420
Other	1,087,473	838,598
	1,956,564	1,505,793

8 STAFF COSTS

Staff costs include the following:

- Salaries	542,907	435,612
- Pension costs	43,449	30,570
- leave pay	13,511	9,269
	599,867	475,451

9 TAXATION

	2012 Sh'000	2011 Sh'000
a) Taxation charge		
Current tax at 30%	262,423	204,584
Deferred tax credit (note 20(a))	(1,033)	(1,584)
	261,390	203,000
	=======	========
b) Reconciliation of taxation expense to expected tax based on accounting profit		
Profit before taxation	1,649,591	787,214
Tax calculated at a tax rate of 30%	494,877	236,164
Tax effect of expenses not deductible for tax	27,518	34,038
Tax effect of income not subject to tax	(67,202)	(261,005)
Taxation charge for the year	261,390	203,000
	=======	=======

	GROUP		COMPANY	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
c) Taxation recoverable/(payable)				
At 1 January	(66,130)	(63,087)	(58,634)	(63,067)
Charge for the year	(262,423)	(204,584)	-	(196,679)
Charge on transfer to Retained earnings	(30,000)	-	-	-
Paid during the year	283,997	201,541	60,634	201,112
At 31 December	(74,556)	(66,130)	2,000	(58,634)
	========	========	========	========
Comprising:				
Taxation recoverable	2,450	-	2,000	-
Taxation payable	(77,006)	(66,130)	-	(58,634)
At 31 December	(74,556)	(66,130)	2,000	(58,634)
	========	========	========	========

10(a) PROFIT FOR THE YEAR

Profit for the year of Sh. 423,757,000 (2011 – Sh. 586,063,000) has been dealt with in the separate financial statements of the company, CIC Insurance Group Limited.

10(b) 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:

	2012	2011
Profit attributable to ordinary shareholders' (Sh'000)	1,388,538	584,214
	=======	=======
Weighted average number of shares (in thousands)	2,179,655	1,443,960
	=======	=======
Earnings per share (Sh) – Basic and diluted	0.64	0.40
	=======	=======

The prior year earnings per share has been restated due to the share split of 20:1 effected during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11(a) PROPERTY AND EQUIPMENT – GROUP

	Buildings Sh'000	Motor vehicles Sh'000	Computers Sh'000	Furniture fittings & equipment Sh'000	Total Sh'000
COST OR VALUATION					
At 1 January 2011	110,950	32,564	68,995	131,425	343,934
Additions	-	18,905	40,049	66,150	125,104
Disposals	-	-	-	(58,926)	(58,926)
Revaluation surplus	20,030	-	-	-	20,030
At 31 December 2011	130,980	51,469	109,044	138,649	430,142
At 1 January 2012	130,980	51,469	109,044	138,649	430,142
Additions	5,463	12,441	25,495	33,571	76,970
Disposals	-	(11,125)	-	-	(11,125)
Revaluation surplus	6,537	-	-	-	6,537-
At 31 December 2012	142,980	52,785	134,539	172,220	502,524
COMPRISING:					
Cost	-	52,785	134,539	172,220	359,544
Valuation – 2012	142,980	-	-	-	142,980
	142,980	52,785	134,539	172,220	502,524
DEPRECIATION					
At 1 January 2011	-	12,544	35,003	53,631	101,178
Charge for the year	3,275	9,732	18,510	14,321	45,838
Reversal on revaluation	(2,080)	-	-	-	(2,080)
Eliminated on disposals	-	-	-	(29,553)	(29,553)
At 31 December 2011	1,195	22,276	53,513	38,399	115,383
At 1 January 2012	1,195	22,276	53,513	38,399	115,383
Charge for the year	3,411	9,448	20,258	16,727	49,844
Eliminated on disposals	-	(7,282)	-	-	(7,282)
Reversal on revaluation	(4,606)	-	-	-	(4,606)
At 31 December 2012	-	24,442	73,771	55,126	153,339
NET BOOK VALUE					
At 31 December 2012	142,980	28,343	60,768	117,094	349,185
At 31 December 2011	129,785	29,193	55,531	100,250	314,759
NET BOOK VALUE - COST BASIS					
At 31 December 2012	72,239	28,343	60,768	117,094	278,444
At 31 December 2011	74,230	29,193	55,531	100,250	259,204

An independent valuation of the building was carried out at 31 December 2012 by Lloyd Masika 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.

11(b) PROPERTY AND EQUIPMENT – COMPANY

	Buildings Sh'000	Motor vehicles Sh'000	Computers Sh'000	Furniture fittings & equipment Sh'000	Total Sh'000
COST OR VALUATION					
At 1 January 2011	110,950	32,564	68,995	131,425	343,934
Additions	-	18,905	40,049	66,150	125,104
Disposals	-	-	-	(58,926)	(58,926)
Revaluation surplus	20,030	-	-	-	20,030
At 31 December 2011	130,980	51,469	109,044	138,649	430,142
At 1 January 2011	130,980	51,469	109,044	138,649	430,142
Transfer to CIC General Insurance Limited (note 43)	-	(14,349)	(38,992)	(70,157)	(123,498)
Transfer to CIC Life Assurance Limited (note 43)	(130,980)	(37,120)	(70,052)	(68,492)	(306,644)
At 31 December 2012	-	-	-	-	-
DEPRECIATION					
At 1 January 2011	-	12,544	35,003	53,631	101,178
Charge for the year	3,275	9,732	18,510	14,321	45,838
Reversal on revaluation	(2,080)	-	-	-	(2,080)
Eliminated on disposals	-	-	-	(29,553)	(29,553)
At 31 December 2011	1,195	22,276	53,513	38,399	115,383
At 1 January 2011	1,195	22,276	53,513	38,399	115,383
Transfer to CIC General Insurance Limited (note 43)	-	(4,748)	(17,560)	(19,120)	(41,428)
Transfer to CIC Life Assurance Limited (note 43)	(1,195)	(17,528)	(35,953)	(19,279)	(73,955)
At 31 December 2012	-	-	-	-	-
NET BOOK VALUE					
At 31 December 2011	129,785	29,193	55,531	100,250	314,759
NET BOOK VALUE - COST BASIS					
At 31 December 2012	-	-	-	-	-
At 31 December 2011	74,230	29,193	55,531	100,250	259,204

The assets were transferred to the subsidiaries CIC General Insurance Limited and CIC Life Assurance Limited during the year following a business reorganisation on 1 January 2012.

12 INTANGIBLE ASSETS

Computer software:

	GROUP Sh'000	COMPANY Sh'000
COST		
At 1 January 2011	107,388	107,388
Additions	42,592	42,592
At 31 December 2011	149,980	149,980
At 1 January 2012	149,980	149,980
Transfer to CIC General Insurance Limited (note 43)	-	(56,827)
Transfer to CIC Life Assurance Limited (note 43)	-	(93,153)
Additions	16,421	-
At 31 December 2012	166,401	-
AMORTISATION		
At 1 January 2011	71,457	71,457
Amortisation	19,631	19,631
At 31 December 2011	91,088	91,088
At 1 January 2011	91,088	91,088
Transfer to CIC General Insurance Limited (note 43)	-	(40,112)
Transfer to CIC Life Assurance Limited (note 43)	-	(50,976)
Amortisation	18,828	-
At 31 December 2012	109,916	-
NET BOOK VALUE		
At 31 December 2012	56,485	-
At 31 December 2011	58,892	58,892

The assets were transferred to the subsidiaries CIC General Insurance Limited and CIC Life Assurance Limited following a business reorganisation on 1 January 2012. (See note 43)

13 INVESTMENT PROPERTIES

(a) GROUP

	CIC plaza Sh'000	Kamiti Land Sh'000	Kajiado Land Sh'000	Work in progress Sh'000	Total Sh'000
At 1 January 2011	249,050	600,000	-	42,199	891,249
Additions	-	13,868	-	220,525	234,393
Fair value gain	44,970	136,132	-	-	181,102
At 31 December 2011	294,020	750,000	-	262,724	1,306,744
At 1 January 2012	294,020	750,000	-	262,724	1,306,744
Additions	12,747	-	432,819	269,728	715,294
Fair value gains (note 5)	15,253	450,000	67,181	-	532,434
At 31 December 2012	322,020	1,200,000	500,000	532,452	2,554,472

The movement in the year is as shown below:	2012 Sh'000	2011 Sh'000
At 1 January	1,306,744	891,249
Additions: Cash paid	715,294	654,393
Amount payable from 2010	-	(420,000)
Fair value gains (note 5)	532,434	181,102
At 31 December	2,554,472	1,306,744

CIC Plaza and Kajiado land were revalued by Lloyd Masika Limited, registered valuers, while the Kamiti Land was revalued by Crystal Valuers Limited, registered valuers, at 31 December 2012 on the basis of open market value.

(b) COMPANY

	CIC plaza Sh'000	Kamiti land Sh'000	Work in progress Sh'000	Total Sh'000
At 1 January 2011	249,050	600,000	42,199	891,249
Additions	-	13,868	220,525	234,393
Fair value gains	44,970	136,132	-	181,102
At 31 December 2011	294,020	750,000	262,724	1,306,744
At 1 January 2012	294,020	750,000	262,724	1,306,744
Transfer to CIC General Insurance Limited (note 43)	-	-	(262,724)	(262,724)
Transfer to CIC Life Assurance Limited (note 43)	(294,020)	-	-	(294,020)
Fair value gains	-	450,000	-	136,132
At 31 December 2012	-	1,200,000	-	1,200,000

14 INVESTMENT IN ASSOCIATE

	GROUP		COMPANY	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
Takaful Insurance of Africa Limited (Unquoted):				
At 1 January	80,184	100,000	100,000	100,000
Share of loss before taxation	(8,282)	(28,309)	-	- -
Share of taxation	1,455	8,493		
Share of loss for the year	(9,737)	(19,816)	-	-
Additions	-	-	-	-
At 31 December	70,447	80,184	100,000	100,000

The associated company commenced underwriting business in the year ended 31 December 2011.

The holding in Takaful Insurance of Africa Limited represents 24% (2011 – 26%) of the issued ordinary share capital. The associate is a limited liability company incorporated and domiciled in Kenya. Its principal activity is transaction of general insurance business and the financial year end is 31 December.

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

	2012 Sh'000	2011 Sh'000
Total assets	644,704	477,145
Total liabilities	355,128	214,875
Nets assets	289,574	262,270
Group's share of net assets of associate	68,927	68,122
Net earned premiums	273,828	44,946
Loss for the year	(34,800)	(76,332)
Group's share of loss of associate	(9,737)	(19,816)
Group's share of associate's contingent liabilities	Nil	Nil

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

15 INVESTMENT IN SUBSIDIARIES - COMPANY

	2012 Sh'000	2011 Sh'000
CIC Asset Management Limited: 550,000 ordinary shares of Sh 20 each at cost	311,000	311,000
CIC General Insurance Limited: 35,000,000 ordinary shares of Sh 20 each at cost	700,000	-
CIC Life Assurance Limited: 35,000,000 ordinary shares of Sh 20 each at cost	700,000	-
Total	1,711,000	311,000

Company	*Share capital Shs '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	700,000	Kenya	Underwriting general insurance business.	100%
CIC Life Assurance Limited	700,000	Kenya	Underwriting life assurance business.	100%

16(a) AVAILABLE -FOR - SALE INVESTMENTS – GROUP

2012	2011	
	Sh'000	Sh'000
Unquoted shares:		
Class 'B' Shares held in The Co-operative Bank of Kenya Limited	19,171	15,532
Shares held in Allnations, Inc. – at cost	673	673
	19,844	16,205
The movement in available-for-sale investments is as follows:		
At 1 January	16,205	24,764
Fair value gains/(losses)	3,639	(8,559)
At 31 December	19,844	16,205

The shares in The Co-operative Bank of Kenya Limited were acquired before the Banks initial public offer (IPO) in 2009.The Co-operative Bank of Kenya Limited shares are currently listed on the Nairobi Securities Exchange, however, there was an agreement for the shares held by corporation's pre IPO Shareholders' would not be traded for the first 5 years. These shares have been revalued in the current year at the market rates.

16(b) AVAILABLE -FOR - SALE INVESTMENTS – COMPANY

	2012 Sh'000	2011 Sh'000
Unquoted shares:		
Class 'B' Shares held in The Co-operative Bank of Kenya Limited	-	15,532
Shares held in Allnations, Inc. – at cost	-	673
	-	16,205
The movement in available-for-sale investments is as follows:		
At 1 January	16,205	24,764
Fair value (losses)/gains	-	(8,559)
Transfer to CIC General Insurance Limited (note 43)	(16,205)	-
At 31 December	-	16,205

17 LOANS RECEIVABLE

Mortgage loans:

(a) GROUP

	2012 Sh'000	2011 Sh'000
At 1 January	206,664	180,000
Loans advanced	62,143	52,579
Loan repayments	(27,938)	(25,915)
At 31 December	240,869	206,664
Maturity profile of mortgage loans:		
Within 1 year	1,581	984
In 1-5 years	12,125	15,577
In over 5 years	227,163	190,103
	240,869	206,664

(b) COMPANY

	2012 Sh'000	2011 Sh'000
At 1 January	206,664	180,000
Loans advanced	-	52,579
Loan repayments	-	(25,915)
Transfer to CIC General Insurance Limited (note 43)	(138,144)	-
Transfer to CIC Life Assurance Limited (note 43)	(68,520)	-
At 31 December	-	206,664
Maturity profile of mortgage loans:		
Within 1 year	-	984
In 1-5 years	-	15,577
In over 5 years	-	190,103
	-	206,664

18 LOANS RECEIVABLE

	2012 Sh'000	2011 Sh'000
Other loans:		
(a) GROUP		
Staff loans	219,522	179,939
Policy loans	36,236	17,391
	255,758	197,330
(b) COMPANY		
Staff loans	39,018	179,939
Policy loans	-	17,391
	39,018	197,330
Movement:		
At 1 January	197,330	176,557
Transfer to CIC General Insurance Limited (note 43)	(79,764)	-
Transfer to CIC Life Assurance Limited (note 43)	(117,566)	-
Loans advanced	45,834	89,868
Loan repayments	(6,816)	(69,095)
At 31 December	39,018	197,330

19 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) GROUP

	2012 Sh'000	2011 Sh'000
Quoted investments:		
At 1 January	144,710	183,923
Additions	5,097	19,996
Fair value gain/(loss) (note 5)	53,570	(59,209)
At 31 December	203,377	144,710

(b) COMPANY

	2012 Sh'000	2011 Sh'000
At 1 January	143,766	182,494
Transfer to CIC General Insurance Limited (note 43)	(81,583)	-
Transfer to CIC Life Assurance Limited (note 43)	(62,183)	-
Additions	-	19,996
Fair value loss	-	(58,724)
At 31 December	-	143,766

20 DEFERRED TAXATION

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2011: 30%).

	2012 Sh'000	2011 Sh'000
(a) GROUP		
The deferred tax asset is attributable to the following items:		
Excess depreciation over capital allowances on motor vehicles and equipment	98	4,555
Leave pay provision	1,211	2,521
Tax losses	6,800	-
Net deferred tax asset	8,109	7,076
The movement in the deferred tax account is as follows:		
At 1 January	7,076	5,492
Profit or loss credit – (note 9(a))	1,033	1,584
At 31 December	8,109	7,076
(b) COMPANY		
The deferred tax asset is attributable to the following items:		
Excess depreciation over capital allowances on motor vehicles and equipment	-	4,555
Leave pay provision	-	2,521
Tax losses	6,800	-
Net deferred tax asset	6,800	7,076
The movement in the deferred tax account is as follows:		
At 1 January	7,076	5,492
Profit or loss credit	(276)	1,584
At 31 December	6,800	7,076

21 DEPOSITS AND COMMERCIAL PAPER – HELD TO MATURITY

	2012 Sh'000	2011 Sh'000
(a) GROUP		
OTHER DEPOSITS		
Embu Farmers Co-operative Society Limited	23,610	22,007
K'Unity Finance Limited	24,338	22,543
CIC SACCO	42,458	42,458
CIC - Unit Trusts	235,201	114,026
COMMERCIAL PAPER:		
Nakumatt Holdings Limited	42,745	23,116
Car and General (Kenya) Limited	-	11,572
Kenya Electricity Generating Company Limited	34,891	39,100
TPS Serena Limited	20,198	20,000
Total deposits and commercial paper	423,441	294,822
Maturing within three months	42,745	11,558
Maturing after 3 months	380,696	283,264
Total deposits and commercial papers	423,441	294,822
(b) COMPANY		
OTHER DEPOSITS		
Embu Farmers Co-operative Society Limited	-	22,007
K'Unity Finance Limited	-	22,543
CIC SACCO	-	42,458
CIC - Unit Trusts	-	114,026
COMMERCIAL PAPER:		
Nakumatt Holdings Limited	-	23,116
Car and General (Kenya) Limited	-	11,572
Kenya Electricity Generating Company Limited	-	39,100
TPS Serena Limited	-	20,000
Total deposits and commercial paper	-	294,822
Movement:		
At 1 January	294,822	178,101
Transfer to CIC General Insurance Limited (note 43)	(185,604)	-
Transfer to CIC Life Assurance Limited (note 43)	(109,218)	-
Additions	-	116,721
At 31 December	-	294,822

22 DIRECT INSURANCE AND REINSURERS RECEIVABLES

Receivables arising out of direct insurance arrangements relate to premiums earned are as a result of risks underwritten but whose amounts have not been received as at year end. Receivables arising out of reinsurance arrangements relate to reinsurers portion of claims incurred which had not been recovered from reinsurers as at year end.

23 DEFERRED ACQUISITION COSTS

(a) GROUP

	Gross Shs Sh'000	Retrocession Shs Sh'000	Net Shs Sh'000
At 1 January 2011	126,560	6,799	119,761
Increase in the year	74,357	612	73,745
At 31 December 2011	200,917	7,411	193,506
	=======	=======	=======
At 1 January 2012	200,917	7,411	193,506
Increase in the year	142,859	16,435	126,424
At 31 December 2012	343,776	23,846	319,930
	=======	=======	=======

(b) COMPANY

	Gross Shs Sh'000	Retrocession Shs Sh'000	Net Shs Sh'000
At 1 January 2011	126,560	6,799	119,761
Increase in the year	74,357	612	73,745
At 31 December 2011	200,917	7,411	193,506
	=======	=======	=======
At 1 January 2012	200,917	7,411	193,506
Transfer to CIC General Insurance Limited (note 43)	(200,917)	(7,411)	(193,506)
At 31 December	-	-	-
	=======	=======	=======

24 OTHER RECEIVABLES

(a) GROUP

	2012 Sh'000	2011 Sh'000
Staff advances	16,684	8,654
Salvage recoveries	21,748	27,377
Other receivables	95,835	279,851
Total receivables	134,267	315,882
	=======	=======

24 OTHER RECEIVABLES (Continued)

(b) COMPANY

	2012 Sh'000	2011 Sh'000
Staff advances	-	8,654
Salvage recoveries	-	27,377
Other receivables	13,225	278,899
Total receivables	13,225	314,930

25 GOVERNMENT SECURITIES HELD TO MATURITY

(a) GROUP

	2012 Sh'000	2011 Sh'000
At 1 January	2,491,569	1,160,164
Additions	257,740	1,514,815
Maturities	(679,420)	(70,000)
Amortisation/discount	31,466	(113,410)
At 31 December	2,101,355	2,491,569
Treasury bills and bonds maturing		
- within 90 days	-	250,000
- after 90 days	2,101,355	2,241,569
At 31 December	2,101,355	2,491,569

(b) COMPANY

	2012 Sh'000	2011 Sh'000
At 1 January	2,491,569	1,160,164
Additions	-	1,514,815
Maturities	-	(70,000)
Amortisation/discount	(3,299)	(113,410)
Transfer to CIC General Insurance Limited (note 43)	(1,245,251)	-
Transfer to CIC Life Assurance Limited (note 43)	(1,206,318)	-
At 31 December	36,701	2,491,569
Treasury bills and bonds maturing		
- within 90 days	-	250,000
- after 90 days	36,701	2,241,569
At 31 December	36,701	2,491,569

Treasury bonds amounting to Sh 395 million (31 December 2011: Sh 375.3 million) are held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Insurance Act.

26 SHORT TERM INVESTMENTS

	2012 Sh'000	2011 Sh'000
(a) GROUP		
Policy holder deposits:		
At 1 January	125,749	96,820
Additions	81,188	28,929
At 31 December	206,937	125,749
(b) COMPANY		
Policy holder deposits:		
At 1 January	125,749	96,820
Additions	-	28,929
Transfer to CIC Life Assurance Limited (note 43)	(125,749)	-
At 31 December	-	125,749

Short term investments relate to policy holder deposits held with CIC Asset Management (formerly managed by African Alliance Asset Management Limited) for Mavuno Life product. This is a unit linked product whereby CIC Life Assurance Limited gets funds from investors and has engaged with CIC Asset Management to invest and manage the funds.

27 DEPOSITS WITH FINANCIAL INSTITUTIONS

	2012 Sh'000	2011 Sh'000
(a) GROUP		
The Co-operative Bank of Kenya Limited	876,043	786,123
Housing Finance Company of Kenya Limited	245,291	206,558
K-Rep Bank Limited	383,906	308,714
I & M Bank Limited	59,088	20,165
NIC Bank Limited	54,011	73,370
Bank of Africa Limited	107,741	25,862
Barclays Bank of Kenya Limited	15,759	15,613
PTA Bank	4,118	8,816
Consolidated Bank of Kenya Limited	408,437	206,258
Prime Bank Limited	86,766	21,020
Kenya Commercial Bank Limited	70,114	43,037
Fina Bank Limited	-	42,946
Development Bank of Kenya Limited	245,124	212,522
National Bank of Kenya Limited	99,890	176,821
Chase Bank Limited	372,425	283,751
ABC Bank Kenya Limited	461,516	339,091
Transnational Bank Limited	132,203	72,303
Family Bank Limited	22,509	-
Jamii Bora Bank Limited	82,782	-
	3,727,723	2,842,970

\27 DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

	2012 Sh'000	2011 Sh'000
(a) GROUP (Continued)		
Maturity analysis:		
Maturing within three months	1,835,652	1,991,316
Maturing after 3 months	1,892,071	851,654
	3,727,723	2,842,970
(b) COMPANY		
The Co-operative Bank of Kenya Limited	-	596,844
Housing Finance Company of Kenya Limited	-	197,391
K-Rep Bank Limited	-	308,714
I & M Bank Limited	-	20,165
NIC Bank Limited	-	73,370
Bank of Africa Limited	-	25,862
Barclays Bank of Kenya Limited	-	15,613
PTA Bank	-	8,816
Consolidated Bank of Kenya Limited	-	206,258
Prime Bank Limited	-	21,020
Kenya Commercial Bank Limited	-	43,037
Fina Bank Limited	-	42,946
Development Bank of Kenya Limited	-	160,731
National Bank of Kenya Limited	-	146,243
Chase Bank Limited	-	281,483
ABC Bank Kenya Limited	-	287,231
Transnational Bank Limited	-	72,303
	-	2,508,027
Maturity analysis:		
Maturing within three months	-	1,989,049
Maturing after 3 months	-	518,978
	-	2,508,027
Movement:		
At 1 January	2,508,027	1,875,601
Transfer to CIC General Insurance Limited (note 43)	(1,466,503)	-
Transfer to CIC Life Assurance Limited (note 43)	(1,041,524)	-
Additions	-	632,426
At 31 December	-	2,508,027

28 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2012 %	2011 %
Government securities	12.00	12.00
Mortgage loans	4.00	4.00
Policy loans	4.00	4.00
Deposits with financial institutions	14.00	9.00
Other deposits and commercial papers	9.00	9.00
	=====	=====

29 SHARE CAPITAL

	31 December 2012		31 December 2011	
	Number of shares '000	Share capital Sh'000	Number of shares '000	Share capital Sh'000
Authorised ordinary shares of Sh 1 each (2011 Sh 20 each):				
At 1 January	150,000	3,000,000	60,000	1,200,000
Additions	-	-	90,000	1,800,000
At 31 December	150,000	3,000,000	150,000	3,000,000
	======	========	=======	========
Issued and fully paid up share capital:				
At 1 January	108,983	2,179,655	30,571	611,413
Additions	-	-	78,412	1,568,242
Increase due to share split	2,070,672	-	-	-
At 31 December	2,179,655	2,179,655	108,983	2,179,655
	=======	========	=======	=======

A share split of 20:1 was effected during the year.

30 SHARE PREMIUM

	2012 Sh'000	2011 Sh'000
Share premium	598,102	598,102
	=======	=======

The share premium relates to issue of shares through private placements at a cost of between Sh 22.50 and Sh 27.50 which is between Sh 2.50 to Sh 7.50 above the nominal value of Sh 20.

31 STATUTORY RESERVE

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

(b) Transfer from statutory reserve relates to the proportion of the life assurance business surplus which is distributable as dividends and therefore transferred to revenue reserve. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated profits of the Long term business.

32 REVALUATION SURPLUS

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

33 FAIR VALUE RESERVE

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

34 RETAINED EARNINGS

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

Retained earnings include fair value gains on revaluation of investment properties which are unrealised and whose distribution is subject to restrictions imposed by the Kenya Insurance Act. At 31 December 2012, the unrealised fair value gains on revaluation of investment properties amounted to Sh. 840,686,000 (2011 – Sh. 308,252,000).

35 RELATED PARTY BALANCES

	2012 Sh'000	2011 Sh'000
(a) GROUP		
Co-operative Insurance Services Limited	16,621	-
	======	======
(b) COMPANY		
(i) Due from:		
CIC Asset Management Limited	-	352
	======	======
(ii) Due to:		
CIC General Insurance Limited	270,851	-
CIC Life Assurance Limited	2,000	-
	272,851	-
	======	======

36 INSURANCE CONTRACTS LIABILITIES

	GROUP Sh'000	COMPANY Sh'000
Claims reported and claims handling expenses:		
At 1 January 2011		
- General insurance	619,988	619,988
- Life assurance	243,299	243,299
	863,287	863,287
Claims incurred in the year	2,862,599	2,862,599
Payments for claims and claims handling expenses	(2,481,559)	(2,481,559)
At 31 December 2011	1,244,327	1,244,327
Comprising:		
- General insurance	963,329	963,329
- Life assurance	280,998	280,998
At 31 December 2011	1,244,327	1,244,327
At 1 January 2012	1,244,327	1,244,327
Claims incurred in the year	4,496,071	-
Payments for claims and claims handling expenses	(4,122,221)	-
Transfer to CIC General Insurance Limited (note 43)	-	(963,329)
Transfer to CIC Life Assurance Limited (note 43)	-	(280,998)
At 31 December 2012	1,618,177	-
Comprising:		
- General insurance	963,329	-
- Life assurance	280,998	-
At 31 December 2012	1,618,177	-
Comprising:		
At 31 December 2012:		
Gross amounts	3,197,799	-
Reinsurers share (note 38)	(1,579,622)	-
	1,618,177	-
At 31 December 2011:		
Gross amounts	2,595,699	2,595,699
Reinsurers share (note 38)	(1,351,372)	(1,351,372)
	1,244,327	1,244,327

Movement in general insurance contract liabilities is shown in note 37.

37 MOVEMENTS IN GENERAL INSURANCE LIABILITIES AND REINSURANCE ASSETS

(a) GROUP

General (short term) insurance business

	Gross	Reinsurance	2012 Net	Gross	Reinsurance	2011 Net
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Notified claims	2,024,558	1,263,955	760,603	1,401,738	781,750	619,988
Incurred but not reported	202,726	-	202,726	144,835	-	144,835
At 1 January	2,227,284	1,263,955	963,329	1,401,738	781,750	619,988
Cash paid for claims settled in year	(3,122,968)	(289,377)	(2,833,591)	(1,746,187)	(191,801)	(1,554,386)
Increase in liabilities arising from:						
Current year claims	3,077,524	401,938	2,675,586	2,101,175	568,519	1,532,656
Prior year claims	637,297	110,167	527,130	470,558	105,487	365,071
At 31 December	2,819,137	1,486,683	1,332,454	2,227,284	1,263,955	963,329
Notified claims	2,570,565	1,486,683	1,083,882	2,024,558	1,263,955	760,603
Incurred but not reported	248,572	-	248,572	202,726	-	202,726
At 31 December	2,819,137	1,486,683	1,332,454	2,227,284	1,263,955	963,329

(b) COMPANY

	Gross	Reinsurance	2012 Net	Gross	Reinsurance	2011 Net
Notified claims	2,024,558	1,263,955	760,603	1,401,738	781,750	619,988
Incurred but not reported	202,726	-	202,726	144,835	-	144,835
At 1 January	2,227,284	1,263,955	963,329	1,401,738	781,750	619,988
Cash paid for claims settled in year	-	-	-	(1,746,187)	(191,801)	(1,554,386)
Increase in liabilities arising from:						
Current year claims	-	-	-	2,101,175	568,519	1,532,656
Prior year claims	-	-	-	470,558	105,487	365,071
Transfer to CIC General Insurance Limited (note 43)	(2,227,284)	(1,263,955)	(963,329)	-	-	-
At 31 December	-	-	-	2,227,284	1,263,955	963,329
Notified claims	-	-	-	2,024,558	1,263,955	760,603
Incurred but not reported	-	-	-	202,726	-	202,726
At 31 December	-	-	-	2,227,284	1,263,955	963,329

38 REINSURERS' SHARE OF INSURANCE LIABILITIES AND RESERVES

	2012 Sh'000	2011 Sh'000
(a) GROUP		
Reinsurers' share of:		
- General insurance contract liabilities	1,486,683	1,263,955
- Life assurance contract liabilities	92,939	87,417
Total (note 36)	1,579,622	1,351,372
- unearned premium and unexpired risks (note 39)	385,815	293,286
Total	1,965,437	1,644,658
(b) COMPANY		
Reinsurers' share of:		
- General insurance contract liabilities	-	1,263,955
- Life assurance contract liabilities	-	87,417
Total (note 36)	-	1,351,372
- unearned premiums and unexpired risks (note 39)	-	293,286
Total	-	1,644,658

Amounts due from reinsurers in respect of claims already paid by the company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the Statement of Financial Position. Movements in the above reinsurance assets are shown in notes 36 and 38.

39 PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS

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

(a) GROUP

	Gross	Reinsurance	2012 Net	Gross	Reinsurance	2011 Net
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	2,158,409	293,286	1,865,123	1,367,785	121,963	1,245,822
Increase in the year (net)	933,704	92,529	841,175	790,624	171,323	619,301
At 31 December	3,092,113	385,815	2,706,298	2,158,409	293,286	1,865,123

(b) COMPANY

	Gross	Reinsurance	2012 Net	Gross	Reinsurance	2011 Net
At 1 January	2,158,409	293,286	1,865,123	1,367,785	121,963	1,245,822
Increase in the year (net)	-	-	-	790,624	171,323	619,301
Transfer to CIC General Insurance Limited (note 43)	(2,158,409)	(293,286)	(1,865,123)	-	-	-
At 31 December	-	-	-	2,158,409	293,286	1,865,123

40 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 2012 and revealed an actuarial surplus of Sh. 943,032,275 (2011 - Sh. 659,655,163) before declaration of the interest and bonuses to policyholders. The Actuaries recommended a transfer from the life fund to the retained earnings for Sh. 100,000,000 (2011 – The actuaries did not recommend a transfer). The value of policyholder benefits at 31 December 2012 was Sh.1,833,128,563 including Sh 206,937,439 relating to the Mavuno Unit linked deposits included in note 41 (2011 – Sh. 1,273,183,000).

41 OTHER PAYABLES

	2012 Sh'000	2011 Sh'000
(a) GROUP		
Sundry payables	103,904	350,346
Advance premiums	124,401	95,616
Leave pay provision	5,267	8,404
Rent deposits	3,900	3,873
Mavuno unit linked deposits	206,937	125,749
	444,409	583,988
(b) COMPANY		
Sundry payables	225	349,869
Advance premium	-	95,616
Leave pay provision	-	8,404
Rent deposits	-	3,873
	225	583,511

42 DIVIDENDS

In respect of the current year, the directors propose a first and final dividend of Sh 217,965,500 (2011: Sh 196,169,000) which represents 10% of the paid up share capital (2011 – 9%) be paid to shareholders. This is subject to approval by shareholders at the Annual General Meeting and has not been included 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 of the individual shareholders.

	2012 Sh'000	2011 Sh'000
At 1 January	2,357	-
Declared during the year	196,169	95,914
Paid during the year	(196,169)	(93,557)
At 31 December	2,357	2,357

43 BUSINESS REORGANISATION

Following approval by shareholders, the Insurance Regulatory Authority and Minister of Finance, the holding company, CIC Insurance Group Limited was reorganised and this resulted in the Company transferring the following assets and the related liabilities to CIC General Insurance Limited and CIC Life Assurance Limited, through a transfer at on 1 January 2012. The transfer has been recognised in these financial statements of the company as detailed below:

Transfer of assets and liabilities

	Note	CIC General Insurance Limited Sh'000	CIC Life Assurance Limited Sh'000	Total Sh'000
Assets				
Property and equipment	11(b)	82,070	232,689	314,759
Intangible assets	12(b)	16,715	42,177	58,892
Investment properties	13(b)	262,724	294,020	556,744
Available - for- sale investments	16(b)	16,205	-	16,205
Loans receivable -Mortgage loans	17(b)	138,144	68,520	206,664
- Other loans	18(b)	79,764	117,566	197,330
Equity investments	19(b)	81,583	62,183	143,766
Deposits and commercial paper	21(b)	185,604	109,218	294,822
Receivables arising out of reinsurance arrangements		12,070	4,853	16,923
Receivables arising out of direct insurance arrangements		678,968	25,522	704,490
Reinsurers share of liabilities and reserves		1,557,241	87,417	1,644,658
Deferred acquisition costs	23(b)	193,506	-	193,506
Other receivables		271,191	43,739	314,930
Due from related parties		-	352	352
Government securities held to maturity	25(b)	1,245,251	1,206,318	2,451,569
Short term investments	26(b)	-	125,749	125,749
Deposits with financial institutions	27(b)	1,466,503	1,041,524	2,508,027
Cash and bank balances		111,592	44,187	155,779
Total assets		6,399,131	3,506,034	9,905,165
Liabilities				
Surplus representing statutory reserve		-	651,418	651,418
Insurance contracts liabilities	37(b)	2,227,284	368,415	2,595,699
Unearned premiums reserve	39(b)	2,158,409	-	2,158,409
Actuarial value of policyholder liabilities	40	-	1,273,183	1,273,183
Payables arising from reinsurance arrangements and insurance bodies		78,570	68,318	- 146,888
Other payables		253,000	389,145	642,145
Total liabilities		4,717,263	2,750,479	7,467,742
Net assets transferred		**1,681,868**	**755,555**	**2,437,423**
Less: Issue of shares to CIC Insurance Group Limited		(700,000)	(700,000)	(1,400,000)
Deficit on the transfer of assets and liabilities		981,868	55,555	1,037,423

44 NOTES TO THE STATEMENT OF CASH FLOWS – GROUP

	2012 Sh'000	2011 Sh'000
a) Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	1,649,591	787,214
Adjustments for:		
Depreciation (note 11(a))	49,844	45,838
Amortisation of intangible assets (note 12(a))	18,828	19,631
Fair value gains on revaluation on investment property (note 13(a))	(532,434)	(181,102)
Investment income receivable (note 4)	(790,471)	(537,928)
Share of loss of associate (note 14)	9,737	19,816
Amortisation/discount on Government securities held to maturity (note 25(a))	(31,466)	113,410
(Gain)/loss on revaluation of quoted shares (note 19(a))	(53,570)	59,209
Loss on disposal of property and equipment (note 5)	1,459	29,015
Increase in deferred acquisition costs (note 23(a))	(126,424)	(73,745)
Increase in provision for unearned premiums (note 39(a))	933,704	790,624
Increase in outstanding claims provision	602,100	926,215
Working capital changes;		
Increase in receivables arising out of direct insurance arrangements	(440,144)	(34,427)
Decrease in receivables arising out of reinsurance arrangements	6,839	127,517
Increase in share of reinsurance liabilities and reserves	(320,779)	(716,498)
Decrease/ (increase) in other receivables	181,615	(84,871)
(Decrease)/increase in other payables	(139,579)	119,588
Actuarial value of policyholders liabilities	376,925	392,519
Movement in amounts due to reinsurers and other insurance bodies (net)	(12,089)	125,746
Movement in related party balances	(16,621)	-
Net cash generated from operations-(note 15)	1,367,065	1,927,771
	========	========
b) Cash and cash equivalents		
Bank and cash balances	258,126	157,663
Deposits with banks maturing within 3 months-(note 27(a))	1,835,652	1,991,316
	2,093,778	2,148,979
	========	========

45 CONTINGENT LIABILITIES

	2012 Sh'000	2011 Sh'000
Bank guarantees	108,867	42,621
	======	======

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 profits of the group.

46 CAPITAL COMMITMENTS

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

	2012 Sh'000	2011 Sh'000
Committed and contracted for	274,547	110,000
	======	=======
Committed but not contracted for	1,081,261	312,528
	=======	=======

47 OPERATING LEASE COMMITMENTS

Group as a lessee

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

	2012 Sh'000	2011 Sh'000
Not later one year	24,528	17,634
Later than 1 year but not later than 5 years	48,899	55,264
	73,427	72,898
	======	======

Group as a lessor

Net rental income earned during the year was Sh17,904,000 (2011: Sh 15,738,000). At the end of the reporting period, the group had contracted with tenants for the following future lease receivables:

	2012 Sh'000	2011 Sh'000
Not later one year	44,287	16,983
Later than 1 year but not later than 5 years	134,639	70,216
	178,926	87,199
	=======	=======

Leases are for a period of six years.

48 RELATED PARTIES

The group has various related parties, most of whom are related by virtue of being shareholders, and partly due to common directorships. The other related parties include staff of the company.

a) Transaction with related parties during the year

	2012 Sh'000	2011 Sh'000
The following transactions were carried out with related parties during the year:		
Net earned premium	735,639	769,565
Net claims incurred	365,060	138,522
Interest earned on bank deposits	282,090	27,645
	=======	=======

Transactions with related parties are in the ordinary course of business and on terms and conditions similar to those offered to other clients.

The company also transferred the assets and the related liabilities of the insurance businesses to it's subsidiaries CIC General Insurance Limited and CIC Life Assurance Limited as detailed in note 43.

b) Outstanding balances with related parties

	2012 Sh'000	2011 Sh'000
i) Term deposits and bank balances		
Fixed deposits	876,043	786,123
Cash balance	233,975	284,502
	1,110,018	1,070,625
	=======	=======
ii) Insurance balances		
Premiums receivable from related parties	62,204	49,910
	=======	=======
iii) Mortgage loans		
Mortgage receivable from related parties (note 17)	240,869	206,664
	=======	=======

Mortgage loan balances and movements thereon are in respect of loans extended to the company's officers at terms prescribed in the company policy.

c) Loans to directors of the company

The company did not advance loans to its directors in the year ended 31 December 2012 and 31 December 2011.

48 RELATED PARTIES (Continued)

d) Key management personnel remuneration

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

	2012 Sh'000	2011 Sh'000
Directors 'emoluments - fees	32,242	13,571
Others	46,683	41,076
Key management salaries and other short-term employment benefits	77,241	53,450
	156,166	108,097

49 RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's activities expose it to a variety of financial risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The group's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The disclosures below summarise the way the group manages key risks:

Insurance risk

The risk under any one insurance contract arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Insurance risk in the group arises from:

(a) Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
(b) Unexpected claims arising from a single source;
(c) Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
(d) Inadequate reinsurance protection or other risk transfer techniques; and
(e) Inadequate reserves

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a), (b) and (c) can be classified as the core insurance risk, (d) relates to reinsurance planning, while (e) is about reserving.

Core insurance risk

This risk is managed through:

- Diversification across a large portfolio of insurance contracts;
- Careful selection guided by a conservative underwriting philosophy;
- Continuous monitoring of the business performance per class and per client and corrective action taken as deemed appropriate;
- A minimum of one review of each policy at renewal to determine whether the risk remains within the acceptable criteria;
- Having a business acceptance criteria which is reviewed from time to time based on the experience and other developments; and
- Having a mechanism of identifying, quantifying and accumulating exposures to contain them within the set underwriting limits.

Reinsurance planning

Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the group. The bases of these purchase is underpinned by the group's experience, financial modelling by and exposure of the reinsurance broker.

The reinsurance is placed with providers who meet the group's counter party security requirements.

Claims reserving

The group's reserving policy is guided by the prudence concept. Estimates are made of the estimated cost of settling a claim based on the best available information on registration of a claim, and this is updated as and when additional information is obtained and annual reviews done to ensure that the reserves are adequate. Management is regularly provided with claims settlement reports to inform on the reserving performance.

Long term insurance contracts

Life insurance contracts offered by the group include term assurance, endowment, anticipated endowments, credit life insurance, group life insurance, group mortgage insurance and pension administration.

Term assurance contracts are conventional regular premium products where lump sum benefits are payable on death or permanent disability.

The endowments pay a sum assured either on death or maturity of the contract. The anticipated endowment pay a sum assured on death or maturity, but also have partial maturities payable to the client in regular installments during the contract based on survival. The endowments contracts have a surrender value. 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 discretionary participation features (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 when 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.

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Group credit life insurance is a contract that is provided to financial institutions that provides protection against death or permanent and total disability of a borrower. The contract pays a sum assured equivalent to the outstanding loan on death or permanent and total disability of the borrower. Group mortgage is a contract designed for long term borrowing to finance for assets such as houses, land or cars. The policy pays the outstanding loan in case of death or permanent and total disability of the borrower. Group life insurance is a contract that provides a life cover to a group of people and pays a sum assured on death. The most common group life cover is the employee group life which is taken up by the employer for its employees and it provides life insurance as a multiple of an employee's annual remuneration.

Pension administration provides an avenue for saving for clients. The group acts as a pension administrator and has appointed a fund manager to invest the pension fund. 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.

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
- 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 and geography, 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. Group wide reinsurance limits of Shs. 3,000,000 on any single life are in place.

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 quarterly 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 behaviour.

Key assumptions

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

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

Mortality and morbidity rates
Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides. 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 made, which will increase the expenditure and reduce profits for the shareholders.

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

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

Life assurance contracts sensitivity analysis

The actuarial assumptions used as at 31 December 2012 are unlikely to change significantly to result in material variation in actuarial liabilities. Shown in the table below are the sensitivities of the value of insurance liabilities disclosed in this note to various changes in assumptions used in the estimation of insurance liabilities. Each value is shown with only the indicated variable being changed and holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

	Policyholder's Liabilities (Net of Reinsurance)			
	31 December 2012		31 December 2011	
	Shs'000	% change	Shs'000	% change
Main basis	1,857,046	-	1,416,125	-
Expenses plus 10%	1,961,125	5.60%	1,509,152	6.57%
Mortality and other claims experience plus 10%	1,857,588	0.03%	1,416,271	0.01%
Interest rate less 1%	1,870,140	0.71%	1,423,084	0.49%
Expense inflation plus 1%	1,909,703	2.84%	1,463,191	3.32%
Withdrawals plus 10%	1,856,789	-0.01%	1,415,953	-0.01%
	========	=======	=======	=======

The group has not changed the processes used to manage its risks from previous years. The notes below explain how financial risks are managed using the categories utilised in the group's ALM framework.

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Insurance risk (Continued)

Short term insurance contracts

The group engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk. During the year, the group increased the portion of financial assets invested in debt securities to mitigate the impact of the volatility of equity prices experienced in recent years. An analysis of the group's financial assets and its short term insurance liabilities is presented below;

	2012 Sh'000	2011 Sh'000
Financial assets		
Debt securities held to maturity:		
- Government bonds and treasury bills	1,027,172	1,245,251
Equity securities:		
At fair value through profit or loss - listed securities	113,523	82,070
Available for sale -unlisted securities	19,844	16,205
Loans and receivables from insurance and reinsurance contracts	1,283,235	908,946
Fixed and other deposits	2,194,693	1,652,107
Cash and bank balances	196,372	111,592
Total	4,834,839	4,016,171
Short – term insurance liabilities		
Insurance contracts- short term	2,819,137	963,329
Less assets arising from reinsurance contracts held-short term	(1,486,683)	(12,070)
Total	1,332,454	951,259

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non interest bearing. However, due to the time value of money and the impact of interest rates on the level of bodily injury incurred by the group's policyholders (where a reduction of interest rate would normally produce a higher insurance liability), the group matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from the insurance contracts in force at the statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the statement of financial position date). The mean durations are:

	2012 Sh'000	2011 Sh'000
Net short term insurance liabilities- life risk	0.2 years	0.2 years
Net short term insurance liabilities-property risk	2.0 years	2.0 years
Net short term insurance liabilities-casualty risk	5.0 years	5.0 years
Financial assets (excluding equity securities)	3.0 years	3.0 years

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Insurance risk (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of short term insurance contracts as of 31 December 2012:

General insurance business

Financial assets	Carrying Amount 31.12.2012 Sh'000	No stated Maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	> 5 yrs Sh'000
Debt securities held to maturity:- Government bonds and treasury bills at fixed rate	1,027,172	-	120,000	75,000	20,000	-	812,172
Equity securities:							
At fair value through profit or loss - listed securities	113,523	113,523	-	-	-	-	-
Available for sale - unlisted securities	19,844	19,844	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	1,283,235		1,283,235				
Fixed and other deposits	2,194,693	24,286	2,116,965	4,118	8,067	-	41,257
Cash and bank balances	196,372	196,372	-	-	-	-	-
Total	4,834,839	354,025	3,520,200	79,118	28,067	-	853,429
Short term insurance liabilities:							
Insurance contracts-short term	2,819,137	2,819,137	-	-	-	-	-
Payables arising from reinsurance arrangements	124,361	124,361	-	-	-	-	-
Less assets arising from reinsurance contracts	(1,486,683)	(1,486,683)	-	-	-	-	-
Total	1,456,815	1,456,815	-	-	-	-	-
Difference in contractual cash flows	**3,378,024**	**(1,102,790)**	**3,520,200**	**79,118**	**28,067**	**-**	**853,429**

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Insurance risk (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of short-term insurance contracts as of 31 December 2011:

General insurance business

	Carrying Amount	No stated	Contractual cash flows (undiscounted)				
Financial assets	31.12.2011	Maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Debt securities held to maturity:- Government bonds and treasury bills at fixed rate	1,245,251	-	306,845	76,250	33,000	-	829,156
Equity securities:							
At fair value through profit or loss - listed securities	82,070	82,070	-	-	-	-	-
Available for sale - unlisted securities	16,205	16,205	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	908,946	-	714,811	23,773	23,773	22,935	123,654
Fixed and other deposits	1,652,107	-	1,652,107				
Cash and bank balances	111,592	-	111,592				
Total	4,016,171	98,275	2,785,355	100,023	56,773	22,935	952,810
Short term insurance liabilities:							
Insurance contracts-short term	963,329	-	963,329	-	-	-	-
Payables arising from reinsurance arrangements	78,570	-	78,570	-	-	-	-
Less assets arising from reinsurance contracts	(12,070)	-	(12,070)	-	-	-	-
Total	1,029,829	-	1,029,829	-	-	-	-
Difference in contractual cash flows	**2,986,342**	**98,275**	**1,755,526**	**100,023**	**56,773**	**22,935**	**952,810**
	========	======	=======	======	======	======	======

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Insurance risk (Continued)

Life assurance business

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of long-term insurance contracts as of 31 December 2012:

Financial assets	Carrying Amount 31.12.2012 Sh'000	No stated maturity Sh'000	Contractual cash flows (undiscounted) 0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	> 5 yrs Sh'000
Debt securities held to maturity:-Government bonds and treasury bills at fixed rate	1,037,482	-	120,000	75,000	-	20,000	822,482
Equity securities:							
At fair value through profit or loss - Listed securities	88,239	88,239	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	292,019	292,019	-	-	-	-	-
Fixed and other deposits	1,597,967	23,610	1,478,385	-	27,944	-	68,028
Cash and bank balances	61,512	61,512	-	-	-	-	-
Total	3,077,219	465,380	1,598,385	75,000	27,944	20,000	890,510
Long- term insurance liabilities:							
Insurance contracts -Long term	378,662	378,662	-	-	-	-	-
Payables arising from reinsurance arrangements	10,438	10,438	-	-	-	-	-
Less assets arising from reinsurance contracts	(10,084)	(10,084)	-	-	-	-	-
Total	379,016	379,016	-	-	-	-	-
Difference in contractual cash flows	**2,698,203**	**86,364**	**1,598,385**	**75,000**	**27,944**	**20,000**	**890,510**

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Insurance risk (Continued)

Life assurance business (Continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the group's ALM framework for management of long-term insurance contracts as of 31 December 2011:

Financial assets	Carrying Amount 31.12.2011 Sh'000	No stated maturity Sh'000	0-1 yr Sh'000	1-2 yrs Sh'000	2-3 yrs Sh'000	3-4 yrs Sh'000	> 5 yrs Sh'000
			Contractual cash flows (undiscounted)				
Debt securities held to maturity:-Government bonds and treasury bills at fixed rate	1,206,318	-	289,276	85,000	15,000	20,000	797,042
Equity securities: At fair value through profit or loss - Listed securities	62,183	62,183	-	-	-	-	-
Loans and receivables from insurance and reinsurance contracts	216,461	-	47,615	17,240	17,240	17,156	117,210
Fixed and other deposits	1,150,742	-	1,150,742	-	-	-	-
Cash and bank balances	44,187	-	44,187	-	-	-	-
Total	2,679,891	62,183	1,531,820	102,240	32,240	37,156	914,252
Long- term insurance liabilities:							
Insurance contracts -Long term	280,998	-	280,998	-	-	-	-
Payables arising from reinsurance arrangements	68,318	-	68,318	-	-	-	-
Less assets arising from reinsurance contracts	(4,853)	-	(4,853)	-	-	-	-
Total	344,463	-	344,463	-	-	-	-
Difference in contractual cash flows	**2,335,428**	**62,183**	**1,187,357**	**102,240**	**32,240**	**37,156**	**914,252**

Financial risk

The group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk (Continued)

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The group's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of 5% in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the group's overall exposure to interest rate sensitivities included in the group's ALM framework and its impact in the group's profit or loss by business.

An increase/decrease of 5% in interest yields would result in an increase/decrease of the profit for the year and equity by Sh 36,302,150 (2011: Sh 17,087,500).

(ii) Equity price risk

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. 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.

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.

Listed equity securities represent 91% (2011: 86%) 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 Sh 2,669,950 (2011: Sh 7,507,850) and equity would increase/decrease by Sh 10,157,300 (2011: Sh 8,284,439).

(iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The group primarily transacts in Kenya shillings and its assets and liabilities are denominated in the same currency. The group is therefore not exposed to currency risk.

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Credit risk

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from corporate bond issuers
- Cash and cash equivalents (including fixed deposits)

The group manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim, the group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of any contract.

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

The table below indicates the carrying amounts of assets bearing credit risk:

	2012 Sh'000	2011 Sh'000
General insurance business		
Debt securities held to maturity:		
- Government bonds and treasury bills	1,027,172	1,245,251
Loans and receivables from insurance and reinsurance contracts	1,283,235	908,946
Fixed and other deposits	2,194,693	1,652,107
Cash and bank balances	196,372	111,592
Total	4,701,472	3,917,896
Long term insurance business		
Financial assets		
Debt securities held to maturity:		
- Government bonds and treasury bills	1,037,482	1,206,318
Loans and receivables from insurance and reinsurance contracts	292,019	216,461
Fixed and other deposits	1,597,967	1,150,742
Cash and bank balances	61,512	44,187
Total	2,988,980	2,617,708

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Credit risk (Continued)

Other business		
Financial assets		
Debt securities held to maturity:		
- Government bonds and treasury bills	36,701	-
Loans	37,072	-
Fixed and other deposits	355,368	323,267
Cash and bank balances	242	1,884
Total	429,383	325,151

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the group. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs.

The analysis of financial assets past due and impaired is made up as follows:

At 31 December 2012	Fully performing	Past due	Impaired
	Sh'000	Sh'000	Sh'000
General insurance business			
Agents	454,165	111,201	34,831
Brokers	120,289	26,107	8,163
Direct	314,334	36,488	11,429
Total	888,788	173,796	54,423
Long term insurance business	82,050	-	-
At 31 December 2011			
General insurance business			
Agents	263,073	34,006	14,371
Brokers	153,153	56,379	11,496
Direct	138,503	33,854	2,874
Total	554,729	124,239	28,741
Long term insurance business	25,522	-	-

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The credit control department is actively following this debt. In addition, the group also owes most of the reinsurance debtors hence any default would be offset from the payables arising from reinsurance contracts.

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Credit risk (Continued)

The debt that is impaired has been fully provided for. However, debt collectors as well as management are following up on the impaired debt.

Management makes regular reviews to assess the degree of compliance with the group's procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the management.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the group is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

The table below provides a contractual maturity analysis of the group's financial liabilities:

General insurance business

	31 December 2012				31 December 2011			
	6 months or on demand	Between 6 months and 1 year	More than 1 year	**Total**	6 months or on demand	Between 6 months and 1 year	More than 1 year	**Total**
	Sh'000	Sh'000	Sh'000	**Sh'000**	Sh'000	Sh'000	Sh'000	**Sh'000**
Insurance contract liabilities	2,819,137	-	-	2,819,137	963,329	-	-	963,329
Payables arising from reinsurance Arrangements	124,361	-	-	124,361	78,570	-	-	78,570
Other payables	124,064	-	-	124,064	169,611	-	-	169,611
	=======	======	======	=======	=======	======	======	======

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk (Continued)

Long term insurance business

	31 December 2012				31 December 2011			
	6 months or on demand	Between 6 months and 1 year	More than 1 year	**Total**	6 months or on demand	Between 6 months and 1 year	More than 1 year	**Total**
	Sh'000	Sh'000	Sh'000	**Sh'000**	Sh'000	Sh'000	Sh'000	**Sh'000**
Insurance contract liabilities	378,662	-	-	378,662	280,998	-	-	280,998
Payables arising from reinsurance Arrangements	10,438	-	-	10,438	68,318	-	-	68,318
Other payables	106,286		206,938	313,224	389,145	-	-	389,145
	=======	======	======	=======	=======	======	======	======

(d) Fair value hierarchy

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

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

This hierarchy requires the use of observable market data when available. The group considers relevant and observable market prices in its valuations where possible.

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

49 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Fair value hierarchy (Continued)

GROUP

31 December 2012	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Fair value through profit or loss				
- Equity investments	203,377	-	-	203,146
Available for sale investments	19,844	-	-	19,844
	223,221	-	-	222,990
31 December 2011				
Fair value through profit or loss				
- Equity investments	144,710	-	-	144,710
Available for sale investments	16,205	-	-	16,205
	160,915	-	-	160,915

COMPANY

31 December 2011				
Fair value through profit or loss				
- Equity investments	143,766	-	-	143,766
Available for sale investments	16,205	-	-	16,205
	159,971	-	-	159,971

(e) Unit-linked contracts

For unit-linked contracts the company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest, price, currency or credit risk for the company on these contracts

50 CAPITAL RISK MANAGEMENT

The group maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the group's risk profile and the regulatory and market requirements of its business.

The group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

An important aspect of the group's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the group is focused on the creation of value for shareholders.

The group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The group considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The group manages as capital all items that are eligible to be treated as capital for regulatory purposes.
The group is regulated by the Kenya Insurance Regulatory Authority and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The group manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. The group has complied with all externally imposed capital requirements throughout the year.

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

	2012 Sh'000	2011 Sh'000
Share capital	2,179,655	2,179,655
Share premium	598,102	598,102
Statutory reserve	849,115	651,418
Revaluation surplus	66,698	55,555
Fair value reserve	17,903	14,264
Retained earnings	1,759,487	795,148
Total equity	**5,470,960**	**4,294,142**

The group had no external borrowings at 31 December 2012 and 31 December 2011.

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

50 CAPITAL RISK MANAGEMENT (Continued)

The Kenyan Insurance Acts require each insurance company to hold the minimum level of paid up capital as follows:

	2012 Sh'000
Composite insurance companies	450,000
General insurance companies	300,000
Long-term insurance companies	150,000
	========

Both subsidiaries were in compliance with the capital requirements as at 31 December 2012.

The subsidiary CIC Asset Management Limited is regulated by the Capital Markets Authority which prescribes a minimum share capital of Sh 10 Million. The other regulatory requirement is that working capital shall not fall below 20% of the minimum required share capital or three times minimum monthly operating costs, whichever is higher.

The subsidiary met the minimum capital requirement as detailed below:

	2012 Sh'000	2011 Sh'000
Minimum capital requirement	10,000	10,000
	=======	========
Capital held at 31 December:		
Share capital	311,000	11,000
Funds awaiting allotment of shares	-	300,000
Revenue reserve	20,977	19,398
	331,977	330,398
	=======	========
Working capital:		
Net working capital	325,737	329,454
20% of the minimum share capital	2,000	2,000
	=======	========

The capital structure of the subsidiary consists of, issued share capital and revenue reserves. The net working capital is above 20% of the minimum share capital. The subsidiary had no external financing at 31 December 2012 and 31 December 2011.

51 INCORPORATION

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

52 HOLDING COMPANY

The holding company is Co-operative Insurance Services Limited which is incorporated and domiciled in Kenya.

53 CURRENCY

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

APPENDIX I

CIC INSURANCE GROUP LIMITED

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2011 Sh'000	2011 Sh'000
Gross written premiums	-	6,735,721
Gross earned premiums	-	6,116,421
Less: Reinsurance premiums ceded	-	(772,125)
Net earned premiums	**-**	**5,344,296**
Commissions earned	-	148,061
Investment income	2,237	513,797
Other gains and losses	446,701	(12,380)
	448,938	**649,478**
Total income	**448,938**	**5,993,774**
Claims and policyholders benefits payable	-	(3,149,844)
Commissions payable	-	(557,373)
Operating and other expenses	(24,905)	(1,505,399)
	(24,905)	**(5,212,616)**
Profit before taxation	424,033	781,158
Taxation credit/(charge)	(276)	(195,095)
Profit for the year	**423,757**	**586,063**
OTHER COMPREHENSIVE INCOME		
Surplus on revaluation of buildings	-	22,110
Fair value gains on available for sale investments	-	(8,559)
Other comprehensive income for the year net of tax	-	13,551
Total comprehensive income for the year	**423,757**	**599,614**

APPENDIX II

CIC INSURANCE GROUP LIMITED

LONG TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	Ordinary Life Sh '000	Group life Sh '000	Total 2012 Sh '000	Total 2011 Sh '000
Gross premium written	350,154	2,102,617	2,452,771	2,155,412
Less: Reinsurance payable	(2,998)	(138,410)	(141,408)	(203,606)
Net premium income	347,156	1,964,207	2,311,363	1,951,806
Policyholders' benefits:				
Life and health claims	5,515	1,029,317	1,034,832	772,512
Maturities	79,273	-	79,273	79,954
Surrenders	11,807	-	11,807	7,133
Actuarial adjustment of policy holders liability	246,354	130,571	376,925	392,519
Net policyholders' benefits	342,949	1,159,888	1,502,837	1,252,118
Commissions paid	57,250	81,691	138,941	105,587
Expenses of management	80,888	657,554	738,442	674,829
Premium tax	2,989	-	2,989	2,281
Total expenses and commissions	141,127	739,245	880,372	779,697
Investment income	125,690	243,853	369,533	200,631
(Decrease)Increase in life fund before tax	(11,229)	308,926	297,697	120,622
Tax charge	-	-	-	(13,921)
(Decrease)/increase in life fund after tax	(11,229)	308,926	297,697	120,622
(Decrease)/increase in life fund for the year	(11,229)	308,926	297,697	106,701

The revenue account was approved by the board of directors on 26th March 2013 and was signed on its behalf by:

Director

Director

Director

APPENDIX III

CIC INSURANCE GROUP LIMITED

GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	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	Total 2012 Shs.'000	Total 2011 Shs.'000
Gross premium written	96,143	74,903	328,711	152,866	9,944	1,285,589	1,835,262	-	1,940,553	178,558	380,507	157,035	102,835	14,216	6,557,122	4,580,309
Unearned premium b/f	17,997	21,551	66,154	6,034	771	569,921	648,419	-	332,238	46,688	98,625	44,623	12,096	-	1,865,117	1,245,822
Unearned premium c/f	(20,434)	(27,433)	(60,135)	(52,239)	(1,460)	(571,884)	(817,968)	-	(910.027)	(52,006)	(109,255)	(66,072)	(17,380)	-	(2,706,293)	(1,865,122)
Gross earned premium	93,706	69,021	334,730	106,661	9,255	1,283,626	1,665,713	-	1,362,762	173,238	369,876	135,586	97,550	14,216	5,715,946	3,961,009
Reinsurance premium	(50,532)	(3,573)	(166,234)	(87,032)	(7,207)	(22,670)	(32,363)	-	(261,613)	(26,449)	(14,275)	(2,769)	(64,612)	-	(739,129)	(568,519)
Net earned premium	**43,174**	**65,449**	**168,497**	**19,629**	**2,048**	**1,260,956**	**1,633,350**	-	**1,101,151**	**146,791**	**355,602**	**132,817**	**33,139**	**14,216**	**4,976,817**	**3,392,490**
Gross claims Paid	18,545	9,289	15,566	3,484	56	918,309	743,907	-	843,940	73,734	93,620	33,888	18,499	-	2,772,837	1,554,382
Outstanding claims c/f	8,110	6,617	35,023	46,413	100	453,398	425,373	2,092	97,987	43,011	151,593	48,412	14,319	-	1,332,450	963,322
Outstanding claims b/f	(7,067)	(5,967)	(31,038)	(36,223)	(44)	(356,596)	(307,753)	(2,092)	(48,229)	(31,573)	(87,178)	(42,531)	(7,032)	-	(963,323)	(619,982)
Net claims incurred	**19,588**	**9,939**	**19,551**	**13,674**	**112**	**1,015,111**	**861,527**	**-**	**893,698**	**85,172**	**158,037**	**39,769**	**25,786**	-	**3,141,964**	**1,897,726**
Commission receivable	(21,741)	(844)	(68,917)	(242)	(1,924)	-	-	-	(58,495)	(5,547)	(2,522)	-	(10,263)		(170,496)	(148,061)
Commissions payable	18,081	11,676	50,257	5,819	1,088	113,206	152,308	-	49,832	24,418	50,046	21,254	2,876	1,495	502,359	454,786
Net commission	**(3,659)**	**10,833**	**(18,660)**	**5,577**	**(836)**	**113,206**	**152,308**	-	**(8,663)**	**18,871**	**47,524**	**21,254**	**(7,387)**	**1,495**	**331,863**	**306,725**
Management Expenses	15,161	11,812	51,837	24,107	1,568	204,239	289,440	-	306,025	28,158	60,005	24,674	16,217	2,241	1,035,574	773,869
Premium Tax	1,099	856	3,759	1,747	112	14,702	20,989	-	22,193	2,041	4,351	1,795	1,175	162	74,981	54,420
Total	**16,260**	**12,668**	**55,596**	**25,854**	**1,680**	**218,941**	**310,429**	-	**328,218**	**30,199**	**64,356**	**26,559**	**17,392**	**2,403**	**1,110,555**	**828,289**
Total claims expenses and commissions	**32,190**	**33,440**	**56,487**	**45,105**	**956**	**1,347,258**	**1,324,264**	-	**1,213,253**	**134,242**	**269,917**	**87,582**	**35,791**	**3,898**	**4,754,878**	**3,032,740**
Underwriting (loss)/profit	**10,985**	**32,008**	**112,009**	**(25,476)**	**1,093**	**(86,302)**	**309,086**	-	**(112,102)**	**12,549**	**85,685**	**45,237**	**(2,652)**	**10,318**	**392,435**	**359,750**

The revenue account was approved by the board of directors on 26th March 2013 and was signed on its behalf by:

Director

Director

Director

FORM OF PROXY

To:………………………………………………………..

The Group Company Secretary,
CIC Insurance Group Limited,
P.O Box 59485-00200
Nairobi.

I/WE……………………………………………………………………………………….Of P.O Box

……………………….……………………………………………………….. member/members

of CIC Insurance Group Limited appoint

…………………………………………………………………………………………………

or failing him/her, the chairman of the meeting as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 24th May 2013 at the Amphitheatre, Kenyatta International Conference Centre (KICC), or at any adjournment thereof.

As witness my/our hand/s this………………………………………………………………

Day of……………………………………………………………………………………2013

Signed:………………………………………………………………

NOTES:

1. If a member is unable to attend this meeting personally this Form of Proxy should be completed and returned to reach the Company's Registered Office not later than 2.30 p.m on 22 May 2013.
2. A person appointed as proxy need not be a member of the Company.
3. If the appointer is a corporation, this Form of Proxy must be under its Common Seal or under the hand of the officer or attorney duly authorised in that behalf.

NOTES

OUR CONTACTS

HEAD OFFICE
CIC PLAZA, Mara Road, Upper Hill.
Tel: 020-2823000, 0721-632713, 0735-750885
Email: callc@cic.co.ke

NYAHURURU
KIMWA CENTRE, 2ND FLOOR, Kenyatta Avenue
Tel: 065-2032055
Email: nyahururu@cic.co.ke

WESTLANDS
Pamstech house,
woodvale groove, 2nd floor.
Tel: 0724 533 348

TOWN OFFICE
RE-INSURANCE PLAZA, MEZZANINE FLOOR,
Aga-Khan Walk.
Tel: 020-3296000, 0734-209600, 0722-209600/1
Email: townoffice@cic.co.ke

ELDORET
CO-OPERATIVE BANK BUILDING, 1ST FLOOR,
Ronald Ngala Street
Tel: 053-2031490, 0737-155924, 0714-180003
Email: eldoret@cic.co.ke

MOMBASA
MOMBASA TRADE CENTRE, 7th FLOOR
Nkrumah Road
Tel: 041-2224129, 041-2220454
Email: mombasa@cic.co.ke

KAKAMEGA
WALIA'S CENTRE, GROUND FLOOR,
KISUMU-Kakamega Road
Tel: 056-30242, 056-30850
Email: kakamega@cic.co.ke

KISII
MAGSONS PLAZA, 2nd FLOOR,
Opposite KCB, Hospital Road
Tel: 058-31242 / 058 30232. CELL: 0725-987183
Email: kisii@cic.co.ke

MACHAKOS
IMANI PLAZA (ABC BUILDING), 2nd FLOOR
NGEI ROAD
Tel: 044-20349, 044-20367
Email: machakos@cic.co.ke

KISUMU
WEDCO CENTRE, MEZZANINE FLOOR.
OGINGA ODINGA ROAD
Tel: 057-2025063, 2021255, 2020616.
Email: kisumu@cic.co.ke

KIAMBU
BISHOP MAGUA HOUSE, 4TH FLOOR
Tel: 066-2022038/9, 0701-238226, 0734-080430
Email: kiambu@cic.co.ke

NAKURU
MACHE PLAZA, 2ND FLOOR,
Geoffrey Kamau Road
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Email: nakuru@cic.co.ke

THIKA
THIKA ARCADE, 6TH FLOOR,
Kenyatta Highway
Tel: 067-20209, 0701-238227, 0734-080445
Email: thika@cic.co.ke

EMBU
SPARKOS BUILDING, 3rd FLOOR, Opposite
Consolidated Bank,
Embu - Meru Highway
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BUNGOMA
BUNGOMA TEACHERS SACCO PLAZA,
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Hospital road
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Email: bungoma@cic.co.ke

NYERI
DISTRICT CO-OP UNION BUILDING,
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BURUBURU
VISION PLACE,GROUND FLOOR,
Mumias Road
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MERU
BHATT BUILDING, 1ST FLOOR,
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KERICHO
KIPSIGIS TEACHERS SACCO BLDG,
2ND FLOOR
MOI HIGHWAY
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Email: kericho@cic.co.ke

TOWARDS A PROSPEROUS
FUTURE TOGETHER

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