2012 ANNUAL REPORT
& FINANCIAL STATEMENTS

CIC LIFE ASSURANCE 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 | Teamwork

Productivity | Fairness | Dynamism

Our Customer Value Proposition:

Fastest Service | Fairest Price

Friendliest Relationships | Service of the Highest Quality

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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 LIFE ASSURANCE LIMITED

NOTICE IS HEREBY GIVEN that the 35th ANNUAL GENERAL MEETING OF CIC INSURANCE GROUP LIMITED will be held at the Amphitheatrne, 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."

a) 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

b) 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.

c) 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.

d) 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

1. 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.

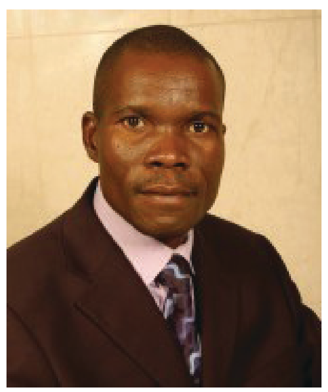
She is also the Trust Secretary of the Co-operative Bank Foundation under which she has responsibility for the school fees bursary programme for over 1,300 needy and bright students. She has over 22 years' experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison and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

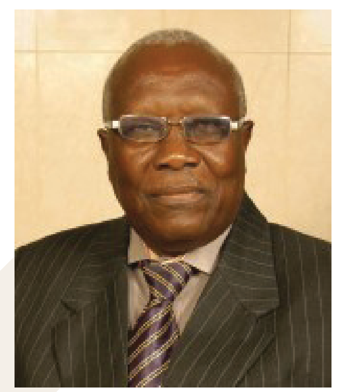
Peter Kipkirui Nyigei, aged 61, joined the Board in 2009. He is the Director representing Rift Valley Province based societies and is a director of Kipsigis Teachers SACCO. Mr. Kipkirui is a retired teacher and educationist Principal. He has equally served as a Programme Officer, Bomet Diocese. He is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

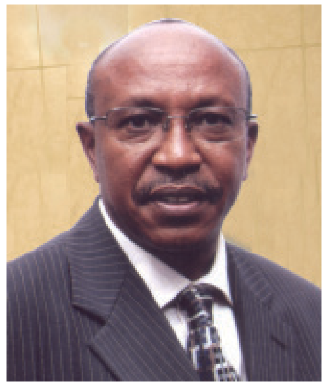
- Access to external financial resources
- Positive public image and better management
- Improved liquidity of the Group's shares as well as the scope for diversification by the initial shareholders of the Group.

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



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

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2012, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activity of the company is the transaction of life insurance business. The company also invests in securities, properties, mortgages and loans.

INCORPORATION

The company was registered on 29 July 2009 and remained dormant until 1 January 2012 when the company took over the long term insurance business of the holding company, following the receipt of a trading licence from the Insurance Regulatory Authority and the approval from the Ministry of Finance in August 2011 for the parent company, CIC Insurance Group Limited, to demerge in line with international and world class best practices. The holding company therefore transferred a majority of its long term assets and liabilities to the company as disclosed in note 33 of these financial statements.

The details of the transfer are disclosed in note 33 and the transfer has been recognised in these financial statements at 1 January 2012. The company did not trade during the period from incorporation in 2009 until 1 January 2012 when the company commenced the underwriting of short term insurance business. These are therefore the first financial statements to be prepared for the company.

RESULTS

Total	Sh'000
Profit before taxation	297,697
Taxation charge	
	———
Profit for the year	297,697
	========

DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh 70 million (2011 – Nil).

DIRECTORS

The current directors are as shown on page 2.

AUDITORS

Deloitte & Touche were appointed during the year and 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

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 company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

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 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 judgements 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 company and of its 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 will not remain a going concern for at least the next twelve months from the date of this statement.

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Director	Director

March 2013

I have conducted an actuarial valuation of the long term insurance business of CIC Life Assurance Limited as at

31 December 2012.

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

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

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

In my opinion, the long term insurance business of the company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance business did not exceed the amount of funds of the long term insurance business at 31 December 2012.

Name of Actuary ____________________

Signed ____________________

March 2013

NOTES TO THE FINANCIAL STATEMENTS

Report on the Financial Statements

We have audited the accompanying financial statements of CIC Life Assurance Limited, set out on pages 8 to 45, which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and 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 company'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 company'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 company as at 31 December 2012 and of its 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.

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) and statement of comprehensive income (profit and loss account) are in agreement with the books of account.

Certified Public Accountants (Kenya)

2013

Nairobi

NOTES TO THE FINANCIAL STATEMENTS

	Notes	2012	2011
		Sh'000	Sh'000
Gross written premiums		2,452,771	-
		=======	========
Gross earned premiums	3	2,452,771	-
Less: Reinsurance premiums ceded		(141,408)	-
Net earned premiums		2,311,363	-
Investment income	4	314,381	-
Other gains/(losses)	5	55,162	-
		369,543	-
Total income		**2,680,906**	-
Claims and policyholders' benefits payable	6	(1,502,837)	-
Commissions payable		(138,941)	-
Operating and other expenses	7	(741,431)	-
		(2,383,209)	-
Profit before taxation		297,697	-
Taxation charge	9	-	-
Profit for the year		297,697	-
OTHER COMPREHENSIVE INCOME			
Surplus on revaluation of buildings	11	11,143	-
Other comprehensive income for the year		11,143	-
Total comprehensive income for the year		**308,840**	-
		========	========

NOTES TO THE FINANCIAL STATEMENTS

	Notes 2012	2011 Sh'000	Sh'000
ASSETS			
Investment properties	10	322,020	-
Property and equipment	11	252,144	-
Intangible assets	12	38,725	-
Loans receivable -Mortgage loans	13	65,347	-
- Other loans	14	134,538	-
Equity investments	15	88,239	-
Deposits and commercial paper	16	139,176	-
Due from related party	27(a)	29,156	10,000
Receivables arising out of reinsurance arrangements	17	10,084	-
Receivables arising out of direct insurance arrangements	17	82,050	-
Reinsurers share of liabilities and reserves	29	92,939	-
Other receivables	18	41,422	-
Government securities held to maturity	19	1,037,482	-
Short term investments	20	206,937	-
Deposits with financial institutions	21	1,458,791	-
Cash and bank balances		61,512	-
Total assets		4,060,562	10,000
		========	========
EQUITY			
Share capital	23	700,000	10,000
Statutory reserve	24	849,115	-
Revaluation surplus	25	11,143	-
Retained earnings	26	125,555	-
Total equity		1,685,813	10,000
LIABILITIES			
Insurance contracts liabilities	28	378,662	-
Actuarial value of policyholder liabilities	30	1,650,108	-
Payables arising from reinsurance arrangements and insurance bodies		10,438	-
Due to related party	27(b)	1,484	-
Other payables	31	313,224	-
Taxation payable	9(c)	20,833	-
Total liabilities		2,374,749	-
Total equity and liabilities		4,060,562	10,000
		========	========

The financial statements on pages 8 to 45 were approved and authorised for issue by the board of directors on March 2013 and signed on its behalf by:

Director   Director   Principal Officer

NOTES TO THE FINANCIAL STATEMENTS

Share	Statutory capital Sh'000	Revaluation reserve Sh'000	Retained surplus Sh'000	earnings Sh'000	Total Sh'000
At 1 January 2011	-	-	-	-	-
Shares issued (note 23)	10,000	-	-	-	10,000
31 December 2011	10,000	-	-	-	10,000
At 1 January 2012	10,000	-	-	-	10,000
Shares issued (note 23)	690,000	-	-	-	690,000
Surplus arising on transfer of assets (note 33)	-	651,418	-	55,555	706,973
Transfer from statutory reserve (note 30)	-	(100,000)	-	100,000	-
Tax charged on transfer to general reserve (note 9(c))	-	-	-	(30,000)	(30,000)
Profit for the year	-	297,697	-		297,697
Other comprehensive income for the year	-	-	11,143	-	11,143
Total comprehensive income for the year	-	297,697	11,143	-	308,840
At 31 December 2012	700,000	849,115	11,143	125,555	1,685,813

NOTES TO THE FINANCIAL STATEMENTS

	Notes	2012 Sh'000	2011 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32(a)	477,295	-
Taxation paid	9(c)	(9,167)	-
Net cash generated from operating activities		468,128	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment properties	10	(12,747)	-
Purchase of property and equipment	11	(42,056)	-
Purchase of intangible assets	12	(9,456)	-
Mortgage loans advanced	13	(4,924)	-
Mortgage loans repaid	13	8,097	-
Net movement in other staff loans	14	(16,972)	-
Purchase of quoted shares	15	(387)	-
Purchase of Government securities	19	(120,440)	-
Proceeds of maturity of Government securities	19	274,111	-
Purchase of short term investments	20	(81,188)	-
Investment in fixed deposits in non-financial institutions		(29,958)	-
Proceeds of disposal of equipment		2,384	-
Movement in fixed deposits with financial institutions (excluding cash and cash equivalents)		45,402	-
Net cash generated from investing activities		11,866	-
INCREASE IN CASH AND CASH EQUIVALENTS		479,994	
CASH AND CASH EQUIVALENTS AT 1 JANUARY		-	-
CASH AND CASH EQUIVALENTS TRANSFERRED FROM CIC INSURANCE GROUP LIMITED	32(c)	648,220	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	32(b)	1,128,214	-

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.

	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.

1 ACCOUNTING POLICIES

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

• IFRS 9, Financial Instruments

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 company'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 company'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 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.

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

1ACCOUNTING POLICIES

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

(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 13, Fair Value Measurements

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. However, the company 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.

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

These amend IAS 1 Presentation of Financial Statements to revise 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 company will apply the amendments prospectively. The adoption of these amendments will only impact on the presentation if the financial statements with no impact on the reported amounts.

- 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. 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.

1 ACCOUNTING POLICIES

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

- 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.

- 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.

IAS 1 Presentation of Financial Statements

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 company 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 company's financial statements.

1 ACCOUNTING POLICIES

Interpretations (IFRIC)

(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

- Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012 (Continued)

IAS 32 Financial Instruments: Presentation

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 company's financial statements as the company has already adopted this treatment.

(iii) Early adoption of standards

The company 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 received from the holding company, CIC Insurance Group Limited under a reorganisation of the groups business, the Company has recognised the assets and liabilities transferred at their carrying amounts in the books of the transferring entity 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.

Income recognition

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.

1 ACCOUNTING POLICIES

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.

Claims incurred

Claims and policyholders' benefits payable comprise claims paid in the year and changes in the provision for insurance contract liabilities. Claims paid represent all payments made during the year, whether arising from events occurring during that or earlier years. Insurance contract liabilities 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. Insurance contract liabilities are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims intimated but not paid. Insurance contract liabilities are not discounted.

Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company 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 company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

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

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 company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

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.

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 company 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 company 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 company and employees.

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute and are currently at Sh 200 per employee per month.

The company's contributions to the defined contribution scheme and NSSF are charged to profit or loss as they fall due.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

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.

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 company's accounting policy. Such properties are classified to the appropriate categories 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.

1 ACCOUNTING POLICIES

Financial instruments

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument. The company 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 company 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 company'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.

Purchases and sales of investments are recognised on trade date – the date on which the company 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 company 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 company 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 company assesses at the end of each reporting period whether there is objective evidence that a financial asset (or company 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 company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as other financial liabilities.

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on net basis, or realise the asset and settle the liability simultaneously.

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.

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

In the process of applying the company'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 company'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 company'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.

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 company's experience but subject to the minimum percentages set by the Commissioner of Insurance.

Held -to-maturity financial assets

The company 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 company evaluates its intention and ability to hold such assets to maturity. If the company fails to hold 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 company 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 company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property and equipment

Critical estimates are made by the company'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 GROSS EARNED PREMIUMS

	2012 Sh'000	2011 Sh'000
Ordinary life	350,154	-
Group life	2,102,617	-
Total gross earned premium	2,452,771	-

4 INVESTMENT INCOME

	2012 Sh'000	2011 Sh'000
Interest from Government securities		
held to maturity	112,284	-
Bank deposit interest	167,094	-
Interest on staff loan receivables	2,361	-
Dividend income	14,738	-
Rental income from investment properties	17,904	-
	314,381	-

	2012 Sh'000	2011 Sh'000
Investment income earned on financial assets,		
analysed by category of asset is as follows:		
Held to maturity investments	279,378	-
Fair value through profit or loss investments	14,738	-
Loans and receivables	2,361	-
Total income earned from financial assets	296,477	-
Investment income earned from non-financial assets	17,904	-
Total investment income	314,381	-

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

NOTES TO THE FINANCIAL STATEMENTS

5 OTHER GAINS/(LOSSES)

Fair value gains on investment properties (note 10)	15,253	-
Fair value gain on quoted equity investments		
at fair value through profit or loss (note 15)	25,669	-
Amortisation/discount on Government securities		
held to maturity	15,165	-
Loss on disposal of property and equipment	(1,459)	-
Other income	534	-
	________	________
	55,162	-
	========	========

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).

	2012	2011
	Sh'000	Sh'000

6 CLAIMS AND POLICYHOLDERS BENEFITS PAYABLE

Claims and policyholders benefits payable:		
- Gross	1,293,355	-
- Reinsurer's share	(167,443)	-
Actuarial adjustment of policy holder's liability	376,925	-
	________	________
	1,502,837	-
	========	========

7 OPERATING AND OTHER EXPENSES

The following items have been charged in arriving		
at profit before taxation:		
Staff costs (note 8)	212,337	-
Auditors' remuneration	2,100	-
Directors' fees	6,303	-
Directors' emoluments	40,592	-
Depreciation (note 11)	29,901	-
Amortisation (note 12)	12,908	-
Premium tax	2,989	-
Other costs	434,301	-
	________	________
	741,431	-
	========	========

8 STAFF COSTS

Staff costs include the following:		
- Salaries	192,590	-
- Pension costs	14,941	-
- leave pay	4,806	-
	________	________
	212,337	-
	========	========

	2012	2011
	Sh'000	Sh'000

9TAXATION

a) Taxation charge

Current tax at 30%	-	-
	========	========

b) Reconciliation of taxation expense to expected

tax based on accounting profit		
Profit before taxation	297,697	-
	========	========
Tax calculated at a tax rate of 30%	89,309	-
Tax effect of income not subject to tax	(89,309)	-
	________	________
Taxation charge for the year	-	-
	========	========

c) Taxation payable

At 1 January	-	-
Tax charge on transfer to retained earnings	30,000	-
Taxation charge for the year	-	-
Paid during the year	(9,167)	-

NOTES TO THE FINANCIAL STATEMENTS

At 31 December	20,833	-
	========	========

10 INVESTMENT PROPERTIES

CIC Plaza;		
At 1 January	-	-
Transfer from CIC insurance Group Limited (note 33)	294,020	-
Addition	12,747	-
Fair value gain (note 5)	15,253	-
At 31 December	322,020	-
	========	========

CIC Plaza was revalued on 31 December 2012 by Lloyd Masika Limited, registered valuers, on the basis of open market value.

NOTES TO THE FINANCIAL STATEMENTS

11PROPERTY AND EQUIPMENT

	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 and 31 December 2011	-	-	-	-	-
At 1 January 2012	-	-	-	-	-
Transfer from CIC Insurance Group Limited (note 33)	130,980	37,120	70,052	68,492	306,644
Additions	5,463	7,991	18,422	10,180	42,056
Disposals	-	(11,125)	-	-	(11,125)
Surplus on revaluation	6,537	-	-	-	6,537
At 31 December 2012	142,980	33,986	88,474	78,672	344,112
COMPRISING:					
Cost	-	33,986	88,474	78,672	201,132
Valuation - 2012	142,980	-	-	-	142,980
	142,980	33,986	88,474	78,672	344,112

DEPRECIATION

At 1 January 2011 and 31 December 2011	-	-	-	-	-
At 1 January 2012	-	-	-	-	-
Transfer from CIC Insurance Group Limited (note 33)	1,195	17,528	35,953	19,279	73,955
Charge for the year	3,411	5,935	13,131	7,424	29,901
Eliminated on disposals	-	(7,282)	-	-	(7,282)
Reversal on revaluation	(4,606)	-	-	-	(4,606)
At 31 December 2012	-	16,181	49,084	26,703	91,968

NET BOOK VALUE

At 31 December 2012	142,980	17,806	39,390	51,969	252,144
At 31 December 2011	-	-	-	-	-

NET BOOK VALUE - COST BASIS

At 31 December 2012	72,239	17,806	39,390	51,969	181,404
At 31 December 2011	-	-	-	-	-

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.

	2012 Sh'000	2011 Sh'000
12 INTANGIBLE ASSETS		
Computer software:		
COST		
At 1 January	-	-
Transfer from CIC insurance Group Limited (note 33)	93,153	-
Additions	9,456	-
At 31 December	102,609	-
AMORTISATION		
At 1 January	-	-
Transfer from CIC insurance Group Limited (note 33)	50,976	-
Amortisation	12,908	-
At 31 December	63,884	-
NET BOOK VALUE		
At 31 December	38,725	-

13 LOANS RECEIVABLE

Mortgage loans:

At 1 January	-	-
Transfer from CIC Insurance Group Limited (note 33)	68,520	-

NOTES TO THE FINANCIAL STATEMENTS

Loans advanced	4,924	-
Loan repayments	(8,097)	-
	________	________
At 31 December	65,347	-
	========	========
Maturity profile of mortgage loans:		
Within 1 year	722	-
In 1-5 years	4,976	-
In over 5 years	59,649	-
	________	________
	65,347	-
	========	========

14 LOANS RECEIVABLE

	2012 Sh'000	2011 Sh'000
Other loans:		
Staff loans	98,302	-
Policy loans	36,236	-
	________	________
	134,538	-
	========	========
Movement:		
At 1 January	-	-
Transfer from CIC Insurance Group Limited (note 33)	117,566	-
Loans advanced	31,898	-
Loan repayments	(14,926)	-
	________	________
At 31 December	134,538	-
	========	========

NOTES TO THE FINANCIAL STATEMENTS

15 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

At 1 January	-	-
Transfer from CIC insurance Group Limited (note 33)	62,183	-
Additions	387	-
Fair value gain	25,669	-
	________	________
At 31 December	88,239	-
	========	========

16 DEPOSITS AND COMMERCIAL PAPER HELD TO MATURITY

OTHER DEPOSITS

Embu Farmers Co-operative Society Limited	23,610	-
CIC - Unit Trusts	69,867	-
COMMERCIAL PAPER		
TPS Serena Limited	20,198	-
Kenya Electricity Generating company Limited	25,501	-
	________	________
Total deposits and commercial paper	139,176	-
	========	========
Maturity analysis:		
Maturing within three months	-	-
Maturing after 3 months	139,176	-
	________	________
Total deposits and commercial papers	139,176	-
	========	========

15 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

At 1 January	-	-
Transfer from CIC insurance Group Limited (note 33)	62,183	-
Additions	387	-
Fair value gain	25,669	-
	________	________
At 31 December	88,239	-
	========	========

16 DEPOSITS AND COMMERCIAL PAPER HELD TO MATURITY

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COMMERCIAL PAPER		
TPS Serena Limited	20,198	-
Kenya Electricity Generating company Limited	25,501	-
	________	________
Total deposits and commercial paper	139,176	-
	========	========
Maturity analysis:		
Maturing within three months	-	-
Maturing after 3 months	139,176	-
	________	________
Total deposits and commercial papers	139,176	-
	========	========

17DIRECT INSURANCE AND REINSURERS RECEIVABLES

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

	2012	2011
	Sh'000	Sh'000

18 OTHER RECEIVABLES

Staff advances	107	-
Other receivables	41,315	-
	________	________
Total receivables	41,422	-
	========	========

19 GOVERNMENT SECURITIES HELD TO MATURITY

At 1 January	-	-
Transfer from CIC insurance Group Limited (note 33)	1,206,318	-
Additions	120,440	-
Maturities	(274,111)	-
Amortisation/discount	(15,165)	-
	________	________
At 31 December	1,037,482	-
	========	========
Treasury bills and bonds maturing		
- within 90 days	45,000	-
- after 90 days	992,482	-
	________	________
At 31 December	1,037,482	-
	========	========

Treasury bonds amounting to Sh 185 million are held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Insurance Act.

20 SHORT TERM INVESTMENTS

	2012	2011
	Sh'000	Sh'000
Policy holder deposits:		
At 1 January	-	-
Transfer from CIC Insurance Group Limited (note 33)	125,749	-
Additions	81,188	-
	________	________
At 31 December	206,937	-
	========	========

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.

21DEPOSITS WITH FINANCIAL INSTITUTIONS

	2012	2011
	Sh'000	Sh'000
The Co-operative Bank of Kenya Limited	207,579	-
Housing Finance Company of Kenya Limited	56,624	-
K-Rep Bank Limited	181,738	-
I & M Bank Limited	34,582	-
NIC Bank Limited	23,540	-
Barclays Bank of Kenya Limited	7,746	-
Family Bank Limited	22,509	-
Jamii Bora Bank Limited	62,624	-
Consolidated Bank of Kenya Limited	196,017	-
Kenya Commercial Bank Limited	49,800	-
Development Bank of Kenya Limited	120,181	-
National Bank of Kenya Limited	42,031	-

CIC LIFE ASSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Chase Bank Limited	177,007	-
ABC Bank Kenya Limited	200,242	-
Transnational Bank Limited	76,571	-
	________	________
	1,458,791	-
	========	========
Maturity analysis:		
Maturing within three months	1,066,702	-
Maturing after 3 months	392,089	-
	________	________
		1,458,791 -
	========	========

22 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	-
Mortgage loans	4.00	-
Policy loans	4.00	-
Deposits with financial institutions	14.00	-
Other deposits and commercial papers	9.00	-
	========	========

23 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 20 each:				
At 1 January	7,500	150,000	-	-
Additions	42,500	850,000	7,500	150,000
At 31 December	50,000	1,000,000	7,500	150,000
Issued and fully paid up share capital:				
At 1 January	-	-	-	-
Additions	35,000	700,000	-	-
At 31 December	35,000	700,000	-	-
Issued and unpaid share capital:				
At 1 January	500	10,000	-	-
Paid up in the year	(500)	(10,000)	-	-
Additions	-	-	500	10,000
At 31 December	-	-	500	10,000
Total share capital	35,000	700,000	500	10,000

The company issued 35 million shares during the year at Sh 20 each amounting to Sh 700,000,000 to CIC Insurance Group Limited (2011 – 500,000 shares of Sh 20 each were allotted but remained unpaid).

24 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 retained earnings.

25 REVALUATION SURPLUS

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

26 RETAINED EARNINGS

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

27 RELATED PARTY BALANCES

	2012 Sh'000	2011 Sh'000
(a) Due from:		
CIC Asset Management Limited	10,535	-
CIC Insurance Group Limited	2,000	10,000
Co-operative Insurance Services Limited	16,621	-
	29,156	10,000
(b) Due to:		
CIC General Insurance Limited	1,484	-

28 INSURANCE CONTRACTS LIABILITIES

Claims reported and claims handling expenses:

NOTES TO THE FINANCIAL STATEMENTS

At 1 January	-	-
Transfer from CIC Insurance Group Limited (note 33)	368,415	-
Claims incurred in the year	1,293,355	-
Payments for claims and claims handling expenses	(1,376,047)	-
	________	________
At 31 December 2012	285,723	-
	========	========
Comprising:		
Gross amounts	378,662	-
Reinsurers share (note29)	(92,939)	-
	________	________
At 31 December 2012	285,723	-
	========	========

29 REINSURERS' SHARE OF INSURANCE LIABILITIES AND RESERVES

At 1 January	-	-
Transfer from CIC Insurance Group Limited (note 33)	87,417	-
Increase in share of reinsurer's share liability	5,522	-
	________	________
Reinsurers' share of insurance contract liabilities {note 28)	92,939	-
	========	========

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.

30 ACTUARIAL VALUE OF POLICYHOLDER LIABILITIES

The actuarial valuation of the life fund was carried out by The Actuarial Services Company Limited, Actuaries and Consultants, as at 31 December 2012 and revealed an actuarial surplus of Sh 943,032,275 before declaration of interest and bonuses to policyholders. 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 31. A transfer of Sh 100,000,000 has been made to retained earnings based on the recommendation of the Actuary.

NOTES TO THE FINANCIAL STATEMENTS

	2012	2011
	Sh'000	Sh'000
31 OTHER PAYABLES		
Sundry payables	86,615	-
Premiums received in advance	15,623	-
Leave pay provision	1,526	-
Rent deposits	2,523	-
Mavuno unit linked deposits	206,937	-
	________	________
	313,224	-
	========	========

32 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of profit before tax to cash generated from operations:

Profit before taxation	297,697	-
Adjustments for:		
Fair value gains on revaluation on investment property (note 10)	(15,253)	-
Depreciation (note 11)	29,901	-
Amortisation of intangible assets (note 12)	12,908	-
Gain on revaluation of quoted shares (note 15)	(25,669)	-
Loss on disposal of property and equipment (note 5)	1,459	-
Amortisation/discount	15,165	-
Increase in outstanding claims provision	10,247	-
Working capital changes;		
Increase in receivables arising out of direct insurance arrangements	(56,528)	-
Decrease in receivables arising out of reinsurance arrangements	(5,231)	-
Increase in reinsurers share of liabilities and reserves	(5,522)	-
Decrease in other receivables	2,669	-

Increase in other payables	(75,921)	-
Actuarial value of policyholders liabilities	376,925	-
Movement in amounts due to reinsurers and other insurance bodies (net)	(57,880)	-
Movement in related party balances	(27,672)	-
Cash generated from operations	477,295	-

b) Cash and cash equivalents

Bank and cash balances	61,512	-
Deposits with banks maturing within 3 months (note 21)	1,066,702	-
	1,128,214	-

c) Transfer of cash and cash equivalents from CIC insurance Group Limited

Bank and cash balances	44,187	-
Deposits held with financial institutions	604,033	-
	648,220	-

33 BUSINESS REORGANISATION

Following approval by shareholders, the Insurance Regulatory Authority and Minister for Finance, the holding company, CIC Insurance Group Limited was reorganised and this resulted in the Company acquiring the following assets of the long term insurance business and assuming the related liabilities of the CIC Insurance Group Limited, through a transfer on 1 January 2012. The transfer has been recognised in these financial statements as detailed below:

Transfer of assets and liabilities

	Note	At 1 January 2012 Sh'000
Assets		
Investment properties	10	294,020
Furniture and equipment	11	232,689
Intangible assets	12	42,177
Loans receivable -Mortgage loans	13	68,520
- Other loans	14	117,566
Equity investments	15	62,183
Deposits and commercial paper		109,218
Receivables arising out of reinsurance arrangements		4,853
Receivables arising out of direct insurance arrangements		25,522
Reinsurers share of liabilities and reserves		87,417
Other receivables		44,091
Government securities held to maturity	19	1,206,318
Short term investments	20	125,749
Deposits with financial institutions		1,041,524
Cash and bank balances		44,187
Total assets		3,506,034

Liabilities

Actuarial value of policyholder liabilities	30	1,273,183
Insurance contracts liabilities	28	368,415
Payables arising from reinsurance arrangements		
and insurance bodies		68,318
Other payables		389,145
		_______
Total liabilities		2,099,061
		=======
Net assets transferred		1,406,973
Less: Issue of shares to CIC Insurance Group Limited		700,000
		_______
Surplus on the transfer of assets and liabilities		706,973
		=======
Represented by:		
Statutory reserve	32	651,418
Retained earnings		55,555
		________
Surplus on the transfer of assets and liabilities		706,973
		=======

34 CONTINGENT LIABILITIES

	2012 Sh'000	2011 Sh'000
Bank guarantees	2,248	-
	========	========

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

35 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	63,000	-
	========	========
Committed but not contracted for	1,040,391	-
	========	========

36 OPERATING LEASE COMMITMENTS

Company as a lessee

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

	2012 Sh'000	2011 Sh'000
Not later than one year	3,179	-
Later than 1 year but not later than 5 years	3,579	-
	________	________
	6,758	-
	========	========

Company as a lessor

Net rental income earned during the year was Sh 17,904,000. At the end of the reporting period, the company had contracted with tenants for the following future lease receivables:

	2012	2011
	Sh'000	Sh'000
Not later one year	44,287	-
Later than 1 year but not later than 5 years	134,639	-
	178,926	-

Leases are for a period of six years.

37 RELATED PARTIES

The company 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.

	2012	2011
	Sh'000	Sh'000

a) Transaction with related parties during the year

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

Net earned premiums	568,323	-
Net claims incurred	304,325	-
Interest earned on bank deposits	6,519	-

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 acquired all the long term assets and the related liabilities of CIC Insurance Group Limited as detailed in note 33.

	2012	2011
	Sh'000	Sh'000

b) Outstanding balances with related parties

i) Term deposits and bank balances

Fixed deposits	202,546	-
Cash balance	37,603	-
	240,149	-

ii) Insurance balances

Premiums receivable from related parties	12,659	-

iii)Mortgage loans

Mortgage receivable from related parties (note 14)	65,347	-

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

Mortgage receivable from directors	65,347	-

d) Key management personnel remuneration

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

	2012	2011
	Sh'000	Sh'000
Directors 'emoluments - fees	6,303	-
- others	40,592	-
Key management salaries and other short-term employment benefits	13,385	-
	60,280	-

38 RISK MANAGEMENT OBJECTIVES AND POLICIES

The company'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 company'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 company 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 company 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 company 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

(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 company. The bases of these purchase is underpinned by the company's experience, financial modelling by and exposure of the reinsurance broker.

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

38 RISK MANAGEMENT OBJECTIVES AND POLICIES

Insurance risk

Claims reserving

The company'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 company include term assurance, endowment, anticipated endowments, credit life insurance, company life insurance, company 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.

Company 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. Company 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. Company life insurance is a contract that provides a life cover to a company of people and pays a sum assured on death.

NOTES TO THE FINANCIAL STATEMENTS

The most common company life cover is the employee company 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 company 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 company is exposed to are as follows:

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

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

The company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors 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 company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the company to pursue third parties for payment of some or all costs. The company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the company.

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Company wide reinsurance limits of 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 company charges for death and disability risks on a quarterly basis. Under these contracts the company has the right to alter these charges to take account of death and disability experience, thereby mitigating the risks to the company.

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

NOTES TO THE FINANCIAL STATEMENTS

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 Company's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

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

Longevity

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

An increase in longevity rates will lead to an increase in the number of annuity payments 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 Company's experience and vary by product type, policy duration and sales trends. An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the company's own risk exposure. A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012	Policyholder's Liabilities (Net of Reinsurance)	
	Shs'000	% change
Main basis	1,857,046	-
Expenses plus 10%	1,961,125	5.60%
Mortality and other claims experience plus 10%	1,857,588	0.03%
Interest rate less 1%	1,870,140	0.71%
Expense inflation plus 1%	1,909,703	2.84%
Withdrawals plus 10%	1,856,789	-0.01%
	========	=======

Insurance risk

The company had no financial assets and financial liabilities at 31 December 2011. The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of long-term insurance contracts as of 31 December 2012:

Life assurance business

	Carrying	No					
	Amount	stated	Contractual cash flows (undiscounted)				
Financial assets	31.12.2012	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	1,037,482	-	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	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

	Carrying	No					
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
	=======	======	=====	======	======	======	======

Financial risk

The company 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 company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in non-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 company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5% in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the company's overall exposure to interest rate sensitivities included in the company's ALM framework and its impact in the company's profit or loss 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 8,354,700 (2011 – Nil).

(ii) Equity price risk

The company 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 is 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 company has a defined investment policy which sets limits on the company's exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the company's price risk arising from its investments in equity securities.

NOTES TO THE FINANCIAL STATEMENTS

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 100% of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by Sh 1,283,450 (2011 – Nil) and equity would increase/decrease by Sh 4,410,900 (2011 – Nil).

(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 company primarily transacts in Kenya shillings and its assets and liabilities are denominated in the same currency. The company is therefore not exposed to currency risk.

(b) Credit risk

The company 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 company 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 company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or companys 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 company's liability as primary insurer. If a reinsurer fails to pay a claim, the company 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 shows the carrying amounts of assets bearing credit risk:

	2012	2011
	Sh'000	Sh'000
Debt securities held to maturity:		
- Government bonds and treasury bills	1,037,482	-
Equity securities:		
At fair value through profit or loss:		
- Listed securities	88,239	-
Loans and receivables from insurance and		
reinsurance contracts	384,958	-
Due from related parties	29,156	-
Fixed and other deposits	1,597,967	-
Cash and bank balances	61,512	-
	________	________
Total	3,199,314	-
	========	========

NOTES TO THE FINANCIAL STATEMENTS

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 company. 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:

	Fully performing	Past due	Impaired
	Sh'000	Sh'000	Sh'000
At 31 December 2012	82,050	-	-
	=======	=======	======

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 company also owes most of the reinsurance debtors hence any default would be offset from the payables arising from reinsurance contracts.

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 company's procedures on credit. Exposures to individual policyholders and companys 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 companys 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 company 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 company's financial liabilities:

31 December 2012

	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Insurance contract liabilities	378,662	-	-	378,662
Payables arising from reinsurance arrangements	10,438	-	-	10,438
Other payables	106,286	-	206,938	313,224
	=======	======	======	=======

(d) Fair value hierarchy

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

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

- 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 company 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.

31 December 2012

	Level 1	Level 2	Level 3	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Fair value through profit or loss				
- Equity investments	88,239	-	-	88,239
	========	=======	=======	========

31 December 2011

The company had no financial instruments at fair value at the year end.

(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

39 CAPITAL RISK MANAGEMENT

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

The company'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 company'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 company'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 company is focused on the creation of value for shareholders.

The company 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 company 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 company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

NOTES TO THE FINANCIAL STATEMENTS

The company 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 company 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 company has complied with all externally imposed capital requirements throughout the year.

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

	2012	2011
	Sh'000	Sh'000
Share capital	700,000	-
Statutory reserve	849,115	-
Revaluation surplus	11,143	-
Retained earnings	125,555	-
	________	________
Equity	1,685,813	-
	========	========
	2012	2011
	Sh'000	Sh'000

The company had no external financing at 31 December 2012.

40 INCORPORATION

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

41HOLDING COMPANY

The holding company is CIC Insurance Group Limited which is incorporated and domiciled in Kenya.

42CURRENCY

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

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	Ordinary	Group	Total
	Life	life	2012
	Sh '000	Sh '000	Sh '000
Gross premium written	350,154	2,102,617	2,452,771
Less: Reinsurance payable	(2,998)	(138,410)	(141,408)
	______	______	______
Net premium income	347,156	1,964,207	2,311,363
	______	______	______
Policyholders' benefits:			
Life and health claims	5,515	1,029,317	1,034,832
Maturities	79,273	-	79,273
Surrenders	11,807	-	11,807
Actuarial adjustment of policy holders liability	246,354	130,571	376,925
	______	______	______
Net policyholders' benefits	342,949	1,159,888	1,502,837
	______	______	______
Commissions paid	57,250	81,691	138,941
Expenses of management	80,888	657,554	738,442
Premium tax	2,989	-	2,989
	______	______	______
Total expenses and commissions	141,127	739,245	880,372
	______	______	______
Investment income	125,690	243,853	369,533
	______	______	______
(Decrease)/increase in life fund before tax	(11,229)	308,926	297,697
Tax charge	-	-	-
	______	______	______

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

(Decrease)/increase in life fund for the year	(11,229)	308,926	297,697
	=======	=======	========

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

Director	Director	Principal Officer