CIC ASSET MANAGEMENT LTD

*We keep our word*

# FINANCIAL STATEMENTS
# 31 DECEMBER 2012

## Our Mission :

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

## Our Vision :

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

## Our Values:

*Integrity I Teamwork*

*Productivity I Fairness I Dynamism*

## Our Customer Value Proposition:

*Fastest Service I Fairest Price*

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THE CIC MONEY MARKET FUND
FINANCIAL STATEMENTS
31 DECEMBER 2012



THE CIC MONEY MARKET FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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## THE CIC MONEY MARKET FUND

## TRUSTEE AND PROFESSIONAL ADVISERS

| | |
|---|---|
| CORPORATE TRUSTEE | Kenya Commercial Bank Ltd - Custody Services |
| | Piedmont Plaza, 3rd Floor |
| | Ngong Road |
| | P O Box 30664 – 00100 |
| | Nairobi |
| REGISTERED OFFICE CIC Plaza | Upper Hill Mara Road |
| | P O Box 59485 - 00200 |
| | Nairobi |
| FUND MANAGERS AND | |
| ADMINISTRATORS | CIC Asset Management Limited |
| | 2nd Floor, CIC Plaza |
| | P O Box 59485 - 00200 |
| | Nairobi |
| CUSTODIANS | Co-operative Bank Custodial Services |
| | Co-operative Bank House, 14th Floor |
| | Haile Selassie Avenue |
| | P O Box 48231 - 00100 |
| | Nairobi |
| AUDITORS | Deloitte & Touche |
| | Certified Public Accountants (Kenya) |
| | Deloitte Place, Waiyaki Way, Muthangari |
| | P O Box 40092 - 00100 |
| | Nairobi |



## THE CIC MONEY MARKET FUND
## REPORT OF THE TRUSTEE

The trustee has the pleasure of submitting the fund's report together with the audited financial statements for the year ended 31 December 2012.

### ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The fund was established, and is governed by a Trust Deed dated 6 January 2011 as a money market fund. The fund is registered with the Capital Markets Authority and approved under the Income Tax Act. It only suffers tax in the form of withholding tax on interest income and dividends.

The primary objective of the fund is to seek long term capital growth and income consistent with moderate investment risk from a wide range of securities thereby allowing access to diverse investment assets and returns. It ultimately aims to mobilize savings and allow access to investment assets and returns in money market instruments otherwise restricted to persons with access to large amounts of capital. The fund primarily invests in term deposits and bonds.

The fund is a unit trust and the interest of the individual members is determined by the value of their units. It is administered by the trustee who is responsible for its affairs.

The fund is an approved collective investment scheme within the meaning of the Capital Markets Act; and the holders are not liable for the debts of the fund.

### FINANCIAL REVIEW

The statement of comprehensive income on page 10 shows a profit for the year of Sh 78,624,637 (2011: Sh 7,343,341) and the statement of financial position on page 11 shows the net assets as at 31 December 2012 amounted to Sh 1,795,942,987 (2011: Sh 243,426,482).

### PERFORMANCE RECORD

The performance record of the fund over the period it has been in existence is as shown below:-

**a) The cumulative average growth rate of the funds invested in the fund:**

| | 2011 | 2012 |
|---|---|---|
| Growth rate | 7.24% | 5.07% |
| | ====== | ====== |

**b) The closing, lowest and highest daily and annual yield of the units of the fund:**

| | 2011 Bid Price | 2011 Offer Price | 2012 Bid Price | 2012 Offer Price |
|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs |
| Closing unit price | 13.17 | 13.98 | 10.49 | 11.02 |
| Lowest unit price | 2.8 | 2.91 | 10.20 | 11.48 |
| Highest unit price | 13.48 | 14.29 | 18.19 | 19.79 |
| | ===== | ===== | ===== | ===== |

**c) The total fund value, number of units and net income distributed for one unit held at the end of the period is as shown below:**

| | 2011 | 2012 |
|---|---|---|
| | Kshs | Kshs |
| Total fund value (Kshs) | 244,523,600 | 1,800,222,751 |
| Number of units issued | 244,523,600 | 1,800,222,751 |
| Net income distributed (% of units held) | 5.2% | 10.8% |

There has not been any amalgamation or reconstruction of the current units in the fund that have had a material effect on the size of the fund.

## INVESTMENT

Under the terms of their appointment CIC Asset Management Limited are responsible for the investment of funds. The overall responsibility for investment and performance lies with the trustee.

## MEMBERSHIP

As at 31 December 2012, the fund had 928 unit holders (2011: 117 unit holders).

## FUND ADVISORS

The names and addresses of the fund manager, trustee, custodian and auditor are as shown on page 2.

## AUDITORS

Deloitte & Touche, having indicated their willingness, continue in office.

27th March 2013

Nairobi



## THE CIC MONEY MARKET FUND
## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Capital Markets Act and the trust deed require the trustee to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the fund at the end of the financial year and of the funds operating results for that year. It also requires the trustee to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

The trustee is 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 Capital Markets Act, and for such internal controls as the trustee determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The trustee accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of Capital Markets Act. The trustee is of the opinion that the financial statements give a true and fair view of the financial affairs of the CIC Money Market Fund and of its operating results. The trustee further accepts 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 trustee to indicate that the CIC Money Market Fund will not be able to meet its maturing obligations for at least the next twelve months from the date of this statement.

27th March 2013

## THE CIC MONEY MARKET FUND
## FUND MANAGER'S REPORT

Dear Unit holder,

It is our pleasure to report that your Fund recorded impressive performance during the period under review. The fund sustained its strong growth momentum in new sales and achieved above average returns against the backdrop of volatile economic conditions.

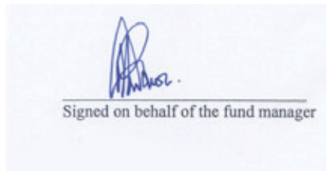
During 2012, Kenya recorded an estimated real GDP growth of 4.70% compared to the 4.0% in the year 2011. The improved economic performance was attributable to slowing inflationary pressures fuelled by lower food prices & energy costs, stabilizing exchange rate, declining interest rates and satisfactory rainfall. Key sectors that benefited from these macro developments included Agriculture, Wholesale & Retail, Manufacturing and Transport & Communication realizing stronger performance as compared to the previous year. Further, the political climate remained stable despite intense campaigns during the second half of the year in the run-up to the 2013 general election.

On to the investment markets, the domestic equities market maintained a bullish trend with broad based share price increases being evidenced across the bourse. The participation of foreign investors remained high throughout the year and this served to induce vibrancy in various counters in the market. The benchmark NSE 20 index stood at 4,133 points up from 3,205 points in December 2011 while Market Capitalization appreciated by 47% to close at Kshs 1,272 billion. With the improved trading performance, our selection criteria was focused on identification and selection of stable and mature companies that exhibited strong fundamentals and had predictable outlooks. This strategy informed our investment actions in both the CIC Equity Fund and the equity portion of the CIC Balanced Fund.

On fixed income, interest rates tumbled especially towards the second half of the year on the back of a stabilizing local currency, declining inflation, sustained monetary policy easing and improving liquidity conditions. The 91-day Treasury bill fell from 18.95% in 2011 to 8.14% in December 2012 while the 182-day Treasury bill closed at 8.10% down from 18.58% in the prior year. This notwithstanding, we continued to deliver above market returns within the CIC Money Market Fund, the CIC Fixed Income Fund and the interest bearing portion of the Balanced Fund riding on our tactical investment approach that targeted sourcing and investing in high yielding instruments across the yield curve.

Looking ahead, general consensus on the outlook for 2013 points towards significant improvement in economic performance subject to a tranquil electioneering and transition processes. Accordingly, we intend to maintain our precautious investment approach anchored on safeguarding capital value. In this regard, we will not shy away from taking up any bargain opportunities that may arise either in the debt or equity markets. We are confident that through our disciplined investment philosophy and robust investment strategy, the delivery of predictable and consistent competitive returns throughout the year is achievable. We wish to reiterate our commitment towards ensuring the realization of the specific underlying objectives of each of the funds including offering above average returns while providing adequate liquidity to meet ongoing obligations, capital preservation and conservative risk exposure to the investors.

In conclusion, we take this opportunity to acknowledge the support you have afforded us and thank all members for their dedicated contribution to the growth of the CIC Unit Trust Scheme. CIC Asset Management looks forward to working closely with you in realizing your financial and investment goals.




27th March 2013

## THE CIC MONEY MARKET FUND
## REPORT OF THE CUSTODIAN
## FOR THE YEAR ENDED 31 DECEMBER 2012

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between Co-operative Bank Custodial Services as the Custodians and CIC Asset Management Limited as the Fund Manager, we confirm that:

a) we have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations, to the CIC Money Market Fund.

b) the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's income have been carried out in accordance with the Regulations; and

c) the investment and borrowing powers and restrictions applicable to the Fund in accordance with the Regulations and the documents of incorporation have not been exceeded.

For the year ended 31 December 2012, we have held the assets for the Fund, including title deeds, securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

In our opinion, the Fund Manager has in all material respects managed the Fund in accordance with the provisions of the Capital Markets (Collective Investment Schemes) Regulations, 2001, incorporation documents, the information memorandum and the rules of the collective investment scheme.

28th March 2013

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CIC MONEY MARKET FUND

### Report on Financial Statements

We have audited the accompanying financial statements of The CIC Money Market Fund, set out on pages 10 to 21 which comprise the statement of financial position as at 31 December 2012, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Trustee's Responsibility for the Financial Statements

The trustee is 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 Capital Markets Act and for such internal controls as the trustee determines 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 fund's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund'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 Fund as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Capital Markets Act.

### Report on other legal requirements

As required by the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations), we report to you, based on our audit, that:

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

ii) the accounts have been properly prepared in accordance with the Regulations and

iii) the Fund's statement of financial position (balance sheet) and statement of comprehensive income (statement of net income and net gains or losses on the fund) are in agreement with the books of accounts.

Deloitte & Touche

Certified Public Accountants (Kenya)

28th March 2013

Nairobi



## THE CIC MONEY MARKET FUND
## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| INVESTMENT INCOME | 4 | 106,041,828 | 8,753,346 |
| OPERATING EXPENSES | 5 | (14,089,451) | (1,097,118) |
| PROFIT BEFORE TAXATION | | 91,952,377 | 7,656,228 |
| TAXATION CHARGE | 6 | (13,327,740) | (312,887) |
| PROFIT FOR THE YEAR | | 78,624,637 | 7,343,341 |
| OTHER COMPREHENSIVE INCOME | | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 78,624,637 | 7,343,341 |

## THE CIC MONEY MARKET FUND
## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2012

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| **ASSETS** | | | |
| Call deposits | 7 | 42,048,616 | 39,907,094 |
| Fixed deposits | 8 | 1,024,148,891 | 202,317,853 |
| Commercial paper | 9 | 47,324,708 | 2,268,340 |
| Corporate bond | 10 | 54,673,425 | - |
| Treasury bills | 11 | 631,480,271 | - |
| Bank balances | | 546,840 | 30,313 |
| TOTAL ASSETS | | 1,800,222,751 | 244,523,600 |
| **LIABILITIES** | | | |
| Payables and accruals | 12 | 4,279,764 | 1,097,118 |
| NET ASSETS | | 1,795,942,987 | 243,426,482 |

The financial statements on pages 14 to 29 were approved by the trustee on 27th March 2013 and were signed on behalf of the trustees by:

27th March 2013

## THE CIC MONEY MARKET FUND
## STATEMENT OF CHANGES IN NET ASSETS
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Net assets at 1 January | 243,426,482 | - |
| Net proceeds from units traded | 2,290,926,387 | 313,509,286 |
| Distributions payable in the year | (817,034,519) | (77,426,145) |
| Total comprehensive income for the year | 78,624,637 | 7,343,341 |
| Net assets at 31 December | 1,795,942,987 | 243,426,482 |

**REPRESENTED BY:**

| | | |
|---|---|---|
| Bank balances | 546,840 | 30,313 |
| Call deposits | 42,048,616 | 39,907,094 |
| Fixed deposits | 1,024,148,891 | 202,317,853 |
| | 1,066,744,347 | 242,255,260 |

## THE CIC MONEY MARKET FUND
## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Reconciliation of profit before taxation to cash (used in)/generated from operations: | | | |
| Profit before taxation | | 91,952,377 | 7,656,228 |
| Working capital changes: | | | |
| Commercial paper | | (45,056,368) | (2,268,340) |
| Corporate bond | | (54,673,425) | - |
| CBK treasury bonds | | (631,480,271) | - |
| Payables and accruals | | 3,182,646 | 1,097,118 |
| Cash (used in)/generated from operations | | (636,075,041) | 6,485,006 |
| Taxation paid | 6 | (13,327,740) | (312,887) |
| Net cash (used in)/generated from operating activities | | (649,402,781) | 6,172,119 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from units issued | | 2,290,926,387 | 313,509,286 |
| Amounts payable on cancellation of units | | (817,034,519) | (77,426,145) |
| Net cash generated from financing activities | | 1,473,891,868 | 236,083,141 |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 824,489,087 | 242,255,260 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 242,255,260 | - |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | 1,066,744,347 | 242,255,260 |

## THE CIC MONEY MARKET FUND
## NOTES TO THE FINANCIAL STATEMENTS
## 1 ACCOUNTING POLICIES

### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

(a) New standards and amendments to published standards effective for the year ended 31 December 2012

| Amendments and revised standards | |
|---|---|
| Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010) | |
| | The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. The Fund will continue disclosing an analysis of other comprehensive income item by item in the statement of changes in equity. |

(b) New standards and amendments to published standards and interpretations in issue but not yet effective in the year ended 31 December 2012

At the date of authorisation of these financial statements, there were a number of revised or amended standards and interpretations that were in issue but not yet effective. The trustees anticipate that the new or revised standards and interpretations will have no material impact on the financial statements of the fund in future periods.

| 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 (2010) | 1 January 2015 |
| | |
| IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition | |
| 1 January 2015 | |

(c) Early adoption of standards

The fund did not early-adopt any new or amended standards during the financial year.

### Basis of accounting

The fund prepares its financial statements on the historical cost basis of accounting modified to include the revaluation of certain assets. The principal accounting policies adopted are set out below.

### Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the fund and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset net the carrying amount on initial recognition.

### Dividend income

Dividend income from equity securities is recognised when the fund's right to receive payment has been established provided that it is probable that the economic benefits will flow to the fund and the amount of income can be measured reliably.

### Financial instruments

### Financial assets

### Classification

A financial asset or liability is recognised when the fund becomes party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the fund has transferred substantially all risks and rewards of ownership. As at the reporting date, the classification of the fund's financial assets was as follows:

- Fair value through profit or loss:
  - Quoted shares and treasury bonds
- Loans and receivables:
  - Bank balances
- Held to maturity:
  - Fixed and call deposits and corporate bonds

The fund determines the appropriate classification of its financial assets at initial recognition.

### (i) 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 in this category if acquired principally for the purpose of selling in the short term or if so designated. These assets are carried at fair value.

### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the fund provides money, goods or services directly to a debtor with no intention of trading the receivable. These assets are carried at amortised cost.

### (iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the trustee has the positive intention and ability to hold to maturity. Where a sale occurs other than for an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. These assets are carried at amortised cost.

### (iv) Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available-for-sale. These are measured at fair value based on quoted prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income.

### Impairment and uncollectibility of financial assets

The fund assesses at the end of each reporting period whether there is any objective evidence that a financial asset or fund of financial assets is impaired. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

If it is probable that the fund will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is dealt with in profit or loss for the year.

### Derecognition of financial assets

The fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds

received.

**Financial liabilities**

After initial recognition, the fund measures all financial liabilities at amortised cost.

Derecognition of financial liabilities

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

**Taxation**

The fund is exempt from income tax. It is however subject to withholding tax on interest income at a rate of 15% and dividends received at a rate of 5%.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## 2 CRITICAL JUDGEMENTS IN APPLYING THE FUND'S ACCOUNTING POLICIES

In the process of applying the fund's accounting policies described above, the trustee has made estimates and assumptions that have a significant effect on the amounts recognised in the financial statements. that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgement in applying the funds accounting policies relates to the trustee following the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the fund evaluates its intention and ability to hold such investments to maturity. If the fund fails to keep these investments 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 investments would therefore be measured at fair value not amortised cost.

## 3 FINANCIAL RISK MANAGEMENT

The fund generates revenues for the members by investing in various income generating activities which involve trading in the bond market. These activities expose the fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The Trust Deed sets out the investment policy and management of the fund's assets to minimise potential adverse effects on its financial performance.

**a) Credit risk**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the fund. The credit risk on term deposits and bank balances is limited as the counterparties are all recognised banks with good reputations. The fund's bond investments are placed through reputable intermediaries to protect the fund against any misappropriations. Financial assets subject to credit risk at the end of the reporting period include:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Call deposits | 42,048,616 | 39,907,094 |
| Fixed deposits | 1,024,148,891 | 202,317,853 |
| Commercial paper | 47,324,708 | 2,268,340 |
| Corporate bond | 54,673,425 | - |
| Treasury bills | 631,480,271 | - |
| Bank balances | 546,840 | 30,313 |
| | 1,800,222,751 | 244,523,600 |

No collateral was held for these assets. The assets are all classified as neither past due nor impaired.

**b) Liquidity risk**

Liquidity risk is the risk that the fund will not be able to meet its financial obligations when they fall due. The fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or at the risk of damaging the fund's reputation.



The fund's financial liabilities as at 31 December 2012 amounted to Sh 4,279,764 (2011: Sh 1,097,118) and are payable within one year hence any discounting effect is not significant.

**c) Market risk**

**(i) Price risk**

The fund had no investments in bonds or equities that would be subject to price risk.

**(ii) Interest rate risk**

The fund's interest bearing assets include term deposits, treasury and corporate bonds which are at fixed interest rates hence are not subject to interest rate risk.

**(iii) Foreign exchange risk**

The fund has no financial instruments that would be subject to the foreign exchange risk.

**c) Fair value of financial assets and liabilities**

Determination of fair value and fair values hierarchy

IFRS 7 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 fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability 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 fund considers relevant and observable market prices in its valuations where possible.

There were no financial assets carried at fair value during the year.

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| **4 INVESTMENT INCOME** | | |
| Held to maturity investments: | | |
| Interest on commercial paper | 2,161,735 | 424,446 |
| Interest on call deposits | 10,330,601 | 857,980 |
| Interest on fixed deposits | 94,986,651 | 7,470,920 |
| Interest on corporate bond | 2,773,425 | - |
| Interest on treasury bills | 7,279,412 | - |
| Gain on sale of treasury bills | 5,467,873 | - |
| Fair value loss on treasury bills | (16,957,869) | - |
| | 106,041,828 | 8,753,346 |

## 5 OPERATING EXPENSES

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Management fees | 11,348,086 | 619,685 |
| Audit fees | 340,000 | 240,000 |
| Trustee fees | 1,399,237 | 128,825 |
| Custodial fees | 964,627 | 71,108 |
| Capital Markets Authority fees | 37,500 | 37,500 |
| | 14,089,451 | 1,097,118 |

## 6 TAXATION CHARGE

| | | |
|---|---|---|
| At 1 January | - | - |
| Withholding tax expense | 13,327,740 | 312,887 |
| Withholding tax paid | (13,327,740) | (312,887) |
| At 31 December | - | - |

## 7 CALL DEPOSITS - HELD TO MATURITY

| | | |
|---|---|---|
| Maturing within 90 days | 42,000,000 | 9,520,000 |
| Accrued interest on call deposits | 48,616 | 387,094 |
| | 42,048,616 | 39,907,094 |

The weighted average effective interest rate on the call deposits at 31 December 2012 was 6.5%

(2011 - 11.72%).

## 8 FIXED DEPOSITS - HELD TO MATURITY

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Maturing within 90 days | 999,239,555 | 196,430,118 |
| Accrued interest | 24,909,336 | 5,887,735 |
| | 1,024,148,891 | 202,317,853 |

The weighted average effective interest rate on term deposits at 31 December 2012 was 14%.

(2011 - 17.06%).



## 9 COMMERCIAL PAPER - HELD TO MATURITY

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Maturing within 90 days | 46,375,773 | 2,188,621 |
| Accrued interest | 948,935 | 79,719 |
| | 47,324,708 | 2,268,340 |

The weighted average effective interest rate on commercial paper at 31 December 2012 was 12.59% (2011 - 13.35%).

## 10 CORPORATE BOND - HELD TO MATURITY

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Maturing within 90 days | 51,900,000 | - |
| Accrued interest | 2,773,425 | - |
| | 54,673,425 | - |

The weighted average effective interest rate on corporate bonds at 31 December 2012 was 13.25%

## 11 TREASURY BILLS - AVAILABLE FOR SALE

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Available for sale | 648,438,140 | - |
| Fair value loss | (16,957,869) | - |
| | 631,480,271 | - |

The weighted average effective coupon rate on treasury bills as at 31 December 2012 was 12.25% (2011: nil).

## 12 PAYABLES

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Due to related parties | 3,939,764 | 786,010 |
| Audit fees | 340,000 | 240,000 |
| Custodians fees | - | 71,108 |
| | 4,279,764 | 1,097,118 |

Due to related parties relates to management fees owed to CIC Asset Management Limited as well as trustee, custody and CMA fees paid on behalf of the Fund by the CIC Asset Management Limited.

## 13 RELATED PARTIES

The fund transacts with other divisions within the CIC Insurance Group Limited. As at the end of the year, the investments held on behalf of the related parties are as below:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| CIC Life Assurance Limited | 30,630,599 | 17,609,299 |
| CIC Staff Welfare Association | 2,055,761 | 43,248,837 |
| CIC General Insurance Limited | 60,352,803 | 1,020,545 |
| | 93,039,163 | 61,878,681 |

Transactions with related parties during the year are as follows:

| | | |
|---|---|---|
| CIC Asset Management Limited- Management fees | 11,348,086 | 619,685 |

## 14 CURRENCY

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

## 15 REGISTRATION

The fund is registered in Kenya under the Capital Markets Authority Act.

**THE CIC BALANCED FUND**
**FINANCIAL STATEMENTS**
**FOR THE PERIOD ENDED 31 DECEMBER 2012**

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**THE CIC BALANCED FUND**
**TRUSTEE AND PROFESSIONAL ADVISERS**

| | |
|---|---|
| CORPORATE TRUSTEE | Kenya Commercial Bank Ltd - Custody Services<br>Piedmont Plaza, 3rd Floor<br>Ngong Road<br>P O Box 30664 - 00100<br>Nairobi |
| REGISTERED OFFICE | CIC Plaza Upper Hill Mara Road<br>P O Box 59485 - 00200<br>Nairobi |
| FUND MANAGERS AND ADMINISTRATORS | CIC Asset Management Limited<br>2nd Floor, CIC Plaza<br>P O Box 59485 - 00200<br>Nairobi |
| CUSTODIAN | Co-operative Bank Custodial Services<br>Co-operative Bank House, 14th Floor<br>Haile Selassie Avenue<br>P O Box 48231 - 00100<br>Nairobi |
| AUDITORS | Deloitte & Touche<br>Certified Public Accountants (Kenya)<br>Deloitte Place, Waiyaki Way, Muthangari<br>P O Box 40092 - 00100<br>Nairobi |

## THE CIC BALANCED FUND

## REPORT OF THE TRUSTEE

The trustee has the pleasure in submitting the fund's report together with the audited financial statements for the year ended 31 December 2012.

## ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The fund was established, and is governed by a trust deed dated 6 January 2011 as a growth fund. The fund is registered with the Capital Markets Authority and approved under the Income Tax Act. It only suffers tax in the form of withholding tax on interest and dividends.

The primary objective of the CIC Balanced Fund is to seek long term capital growth and income consistent with moderate investment risk from a wide range of Securities thereby allowing access to diverse investment assets and returns. The Balanced Fund ultimately aims to mobilize savings and allow access to investment assets and returns in both equities and money market instruments otherwise restricted to persons with access to large amounts of capital. The fund primarily invests in quoted equity securities, corporate bonds and Government bonds

The fund is a unit trust and the interest of the individual members is determined by the value of their units. It is administered by the trustee who is responsible for its affairs.

The fund is an approved collective investment scheme within the meaning of the Capital Markets Act; and the holders are not liable for the debts of the fund.

## FINANCIAL REVIEW

The statement of comprehensive income on page 10 shows a profit for the year of Sh 10,581,552 (2011: Sh 14,956) and the statement of financial position on page 11 shows the net assets as at 31 December 2012 of Sh 128,333,000 (2011: Sh 15,845,782).

## PERFORMANCE RECORD

The performance record of the fund over the period it has been in existence is as shown below:-

a) The cumulative average growth rate of the funds invested in the fund for the year was as follows:

| | 2011 | 2012 |
|---|---|---|
| Growth rate | 2.44% | 8.70% |
| | ====== | ====== |

b) The closing, lowest and highest unit prices of the units of the fund during the year were as follows:

| | 2011 Bid Price | 2011 Offer Price | 2012 Bid Price | 2012 Offer Price |
|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs |
| | | | | |
| Closing unit price | 9.85 | 10.32 | 11.62 | 12.16 |
| Lowest unit price | 9.42 | 9.87 | 9.74 | 10.2 |
| Highest unit price | 10.00 | 10.47 | 12.26 | 12.84 |
| | ===== | ===== | ===== | ===== |

c) The total fund value, number of units and net income distributed for one unit held at the end of the period is as shown below:

| | 2011 | 2012 |
|---|---|---|
| Total fund value (Kshs) | 16,098,385 | 128,743,159 |
| Number of units issued | 1,608,510 | 9,452,540 |
| Net income distributed per unit (Kshs) | 0.54 | 0.31 |
| | ======== | ======== |

There has not been any amalgamation or reconstruction of the current units in the fund that have had a material effect on the size of the

## INVESTMENT

Under the terms of their appointment CIC Asset Management Limited are responsible for the investment of funds. The overall responsibility for investment and performance lies with the trustee.

## MEMBERSHIP

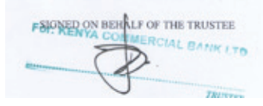
As at 31 December 2012, the fund had 39 unit holders (2011: 19 unit holders).

## FUND ADVISORS

The names and addresses of the fund manager, trustee, custodian and auditor are as shown on page 2.

## AUDITORS

Deloitte & Touche, having indicated their willingness, continue in office.




27th March 2013

Nairobi

## THE CIC BALANCED FUND

### STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Capital Markets Act and the Fund's trust deed require the trustee to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the fund at the end of the financial year and of the funds operating results for that year. It also requires the trustee to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

The trustee is 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 Capital Markets Act, and for such internal controls as the trustee determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The trustee accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of Capital Markets Act. The trustee is of the opinion that the financial statements give a true and fair view of the financial affairs of the CIC Balanced Fund and of its operating results. The trustee further accepts 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 trustee to indicate that the CIC Balanced Fund will not be able to meet its maturing obligations for at least the next twelve months from the date of this statement.

Signed on behalf of the trustee

27th March 2013



## THE CIC BALANCED FUND

### FUND MANAGER'S REPORT

Dear Unit holder,

It is our pleasure to report that your Fund recorded impressive performance during the period under review. The fund sustained its strong growth momentum in new sales and achieved above average returns against the backdrop of volatile economic conditions.

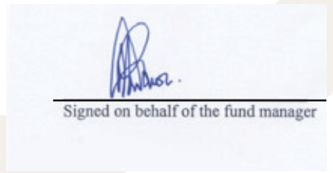
During 2012, Kenya recorded an estimated real GDP growth of 4.70% compared to the 4.0% in the year 2011. The improved economic performance was attributable to slowing inflationary pressures fuelled by lower food prices & energy costs, stabilizing exchange rate, declining interest rates and satisfactory rainfall. Key sectors that benefited from these macro developments included Agriculture, Wholesale & Retail, Manufacturing and Transport & Communication realizing stronger performance as compared to the previous year. Further, the political climate remained stable despite intense campaigns during the second half of the year in the run-up to the 2013 general election.

On to the investment markets, the domestic equities market maintained a bullish trend with broad based share price increases being evidenced across the bourse. The participation of foreign investors remained high throughout the year and this served to induce vibrancy in various counters in the market. The benchmark NSE 20 index stood at 4,133 points up from 3,205 points in December 2011 while Market Capitalization appreciated by 47% to close at Kshs 1,272 billion. With the improved trading performance, our selection criteria was focused on identification and selection of stable and mature companies that exhibited strong fundamentals and had predictable outlooks. This strategy informed our investment actions in both the CIC Equity Fund and the equity portion of the CIC Balanced Fund.

On fixed income, interest rates tumbled especially towards the second half of the year on the back of a stabilizing local currency, declining inflation, sustained monetary policy easing and improving liquidity conditions. The 91-day Treasury bill fell from 18.95% in 2011 to 8.14% in December 2012 while the 182-day Treasury bill closed at 8.10% down from 18.58% in the prior year. This notwithstanding, we continued to deliver above market returns within the CIC Money Market Fund, the CIC Fixed Income Fund and the interest bearing portion of the Balanced Fund riding on our tactical investment approach that targeted sourcing and investing in high yielding instruments across the yield curve.

Looking ahead, general consensus on the outlook for 2013 points towards significant improvement in economic performance subject to a tranquil electioneering and transition processes. Accordingly, we intend to maintain our precautious investment approach anchored on safeguarding capital value. In this regard, we will not shy away from taking up any bargain opportunities that may arise either in the debt or equity markets. We are confident that through our disciplined investment philosophy and robust investment strategy, the delivery of predictable and consistent competitive returns throughout the year is achievable. We wish to reiterate our commitment towards ensuring the realization of the specific underlying objectives of each of the funds including offering above average returns while providing adequate liquidity to meet ongoing obligations, capital preservation and conservative risk exposure to the investors.

In conclusion, we take this opportunity to acknowledge the support you have afforded us and thank all members for their dedicated contribution to the growth of the CIC Unit Trust Scheme. CIC Asset Management looks forward to working closely with you in realizing your financial and investment goals.



Signed on behalf of the fund manager

27th March 2013

## THE CIC BALANCED FUND
## REPORT OF THE CUSTODIAN
## FOR THE YEAR ENDED 31 DECEMBER 2012

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between Co-operative Bank Custodial Services as the Custodians and CIC Asset Management Limited as the Fund Manager, we confirm that:

a) we have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations, to the CIC Balanced Fund.

b) the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's income have been carried out in accordance with the Regulations; and

c) the investment and borrowing powers and restrictions applicable to the Fund in accordance with the Regulations and the documents of incorporation have not been exceeded.

For the year ended 31 December 2012, we have held the assets for the Fund, including title deeds, securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

In our opinion, the Fund Manager has in all material respects managed the scheme in accordance with the provisions of the Capital Markets (Collective Investment Schemes) Regulations, 2001, incorporation documents, the information memorandum and the rules of the collective investment scheme

27th March 2013

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CIC BALACED FUND

### Report on Financial Statements

We have audited the accompanying financial statements of The CIC balanced fund, set out on pages 10 to 22 which comprise the statement of financial position as at 31 December 2012, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Trustee's Responsibility for the Financial Statements

The trustee is 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 Capital Markets Act and for such internal controls as the trustee determines 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 fund's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund'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 Fund as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Capital Markets Act.

As required by the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations), we report to you, based on our audit, that:

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

ii) the accounts have been properly prepared in accordance with the Regulations and

iii) the Fund's statement of financial position (balance sheet) and statement of comprehensive income (statement of net income and net gains or losses on the fund) are in agreement with the books of accounts.

Certified Public Accountants (Kenya)

27th March 2013

Nairobi

## THE CIC BALANCED FUND
## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012<br>Sh | 2011<br>Sh |
|---|---|---|---|
| INVESTMENT INCOME | 4 | 4,831,599 | 544,388 |
| UNREALISED GAIN ON OTHER INVESTMENTS | 8 | 1,445,003 | 56,057 |
| UNREALISED GAIN/(LOSS) ON QUOTED SHARES | 9 | 6,110,961 | (304,145) |
| NET INCOME | | 12,387,563 | 296,300 |
| OPERATING EXPENSES | 5 | (1,322,776) | (252,603) |
| PROFIT BEFORE TAXATION | | 11,064,787 | 43,697 |
| TAXATION CHARGE | 6 | (483,235) | (28,741) |
| PROFIT FOR THE YEAR | | 10,581,552 | 14,956 |
| OTHER COMPREHENSIVE INCOME | | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 10,581,552 | 14,956 |



## THE CIC BALANCED FUND
## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2012

| | Note | 2012<br>Sh | 2011<br>Sh |
|---|---|---|---|
| ASSETS | | | |
| Fixed deposits | 7 | 55,587,172 | 9,793,462 |
| Other investment | 8 | 34,234,059 | 1,154,057 |
| Quoted shares | 9 | 31,463,460 | 4,913,335 |
| Other receivable | | 76,363 | - |
| Bank balances | | 7,382,105 | 237,531 |
| TOTAL ASSETS | | 128,743,159 | 16,098,385 |
| LIABILITIES | | | |
| Payables and accruals | 10 | 410,159 | 252,603 |
| NET ASSETS | | 128,333,000 | 15,845,782 |

The financial statements on pages 10 to 22 were approved by the trustee on and were signed on behalf of the trustee by:

27th March 2013

## THE CIC BALANCED FUND
## STATEMENT OF CHANGES IN NET ASSETS
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Net assets at 1 January | 15,845,782 | - |
| Net proceeds from units traded | 102,432,209 | 20,219,141 |
| Distributions paid in the year | (526,543) | (4,388,315) |
| Total comprehensive income for the year | 10,581,552 | 14,956 |
| Net assets at 31 December | 128,333,000 | 15,845,782 |

## THE CIC BALANCED FUND
## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Reconciliation of profit before taxation to cash used in operations | | | |
| Profit before taxation | | 11,064,787 | 43,697 |
| Fair value (gains)/loss on quoted shares | | (6,110,961) | 304,145 |
| | | 4,953,826 | 347,842 |
| Working capital changes: | | | |
| Other investments | | (33,080,002) | (1,154,057) |
| Quoted shares | | (20,439,164) | (5,217,480) |
| Payables and accruals | | 157,556 | 252,603 |
| Dividends receivable | | (76,363) | - |
| Cash used in operations | | (48,484,147) | (5,771,092) |
| Taxation paid | 6 | (483,235) | (28,741) |
| Net cash used in operating activities | | (48,967,382) | (5,799,833) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from units issued | | 102,432,209 | 20,219,141 |
| Distributions paid in the year | | (526,543) | (4,388,315) |
| Net cash generated from financing activities | | 101,905,666 | 15,830,826 |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 52,938,284 | 10,030,993 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 10,030,993 | - |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | 62,969,277 | 10,030,993 |

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| **REPRESENTED BY:** | | | |
| Bank balances | | 7,382,105 | 237,531 |
| Fixed deposits | | 55,587,172 | 9,793,462 |
| | | 62,969,277 | 10,030,993 |

## THE CIC BALANCED FUND
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2012
### 1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

(a) New standards and amendments to published standards effective for the year ended 31 December 2012

The following new standards issued by the International Accounting Standards Board are effective in the current period. These have been adopted in the financial statements of the fund in the year.

| | |
|---|---|
| Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010) | |
| | The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. The Fund will continue disclosing an analysis of other comprehensive income item by item in the statement of changes in equity. |

(b) New standards and amendments to published standards and interpretations in issue but not yet effective in the year ended 31 December 2012

At the date of authorisation of these financial statements, there were a number of revised or amended standards and interpretations that were in issue but not yet effective. The trustees anticipate that the new or revised standards and interpretations will have no material impact on the financial statements of the fund in future periods.

| | 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 (2010) | 1 January 2015 |
| | |
| IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition | |
| 1 January 2015 | |

#### c) Early adoption of standards

The fund did not early-adopt any new or amended standards during the financial year.

Basis of accounting

The fund prepares its financial statements on the historical cost basis of accounting modified to include the revaluation of certain assets. The principal accounting policies adopted are set out below.




### 1 ACCOUNTING POLICIES (Continued)

#### Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the fund and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset net the carrying amount on initial recognition.

#### Dividend income

Dividend income from equity securities is recognised when the fund's right to receive payment has been established provided that it is probable that the economic benefits will flow to the fund and the amount of income can be measured reliably.

#### Financial instruments

#### Financial assets

#### Classification

A financial asset or liability is recognised when the fund becomes party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the fund has transferred substantially all risks and rewards of ownership. As at the reporting date, the classification of the fund's financial assets was as follows:

• Fair value through profit or loss:

- Quoted shares and treasury bonds

• Loans and receivables:

- Bank balances

• Held to maturity:

- Fixed and call deposits and corporate bonds

The fund determines the appropriate classification of its financial assets at initial recognition.

#### (i) 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 in this category if acquired principally for the purpose of selling in the short term or if so designated. These assets are carried at fair value.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the fund provides money, goods or services directly to a debtor with no intention of trading the receivable. These assets are carried at amortised cost.

#### (iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the trustee has the positive intention and ability to hold to maturity. Where a sale occurs other than for an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. These assets are carried at amortised cost.

#### (iv) Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available-for-sale. These are measured at fair value based on quoted prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income.

### Impairment and uncollectibility of financial assets

The fund assesses at the end of each reporting period whether there is any objective evidence that a financial asset or fund of financial assets is impaired. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

If it is probable that the fund will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is dealt with in profit or loss for the year.

### Derecognition of financial assets

The fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the fund neither transfers nor retains substantially all the risks and rewards of

ownership and continues to control the transferred asset, the fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### Financial liabilities

After initial recognition, the fund measures all financial liabilities at amortised cost.

Derecognition of financial liabilities

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

### Taxation

The fund is exempt from income tax. It is however subject to withholding tax on interest income at a rate of 15% and dividends received at a rate of 5%.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## 2 CRITICAL JUDGEMENTS IN APPLYING THE FUND'S ACCOUNTING POLICIES

In the process of applying the fund's accounting policies described above, the trustee has made estimates and assumptions that have a significant effect on the amounts recognised in the financial statements. that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgement in applying the funds accounting policies relates to the trustee following the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the fund evaluates its intention and ability to hold such investments to maturity. If the fund fails to keep these investments 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 investments would therefore be measured at fair value not amortised cost.

## 3 FINANCIAL RISK MANAGEMENT

The fund generates revenues for the members by investing in various income generating activities which involve trading in the bond market. These activities expose the fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The Trust Deed sets out the investment policy and management of the fund's assets to minimise potential adverse effects on its financial performance.

### a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the fund. The credit risk on term deposits and bank balances is limited as the counterparties are all recognised banks with good reputations. The fund's bond investments are placed through reputable intermediaries to protect the fund against any misappropriations. Financial assets subject to credit risk at the end of the reporting period include:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Fixed deposits | 55,587,172 | 9,793,462 |
| Other investment | 34,234,059 | 1,154,057 |
| Other receivables | 76,363 | - |
| Bank balances | 7,382,105 | 237,531 |
| | 97,279,699 | 1,185,050 |

No collateral was held for these assets. The assets are classified as neither past due nor impaired.

### b) Liquidity risk

Liquidity risk is the risk that the fund will not be able to meet its financial obligations when they fall due. The fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or at the risk of damaging the fund's reputation.

The fund's financial liabilities as at 31 December 2012 relate to the payable balance of Sh 410,159 (2011: 252,603) which is payable within one year hence the discounting effect is not significant.

### THE CIC BALANCED FUND

### c) Market risk

### (i) Price risk

The fund is exposed to equity and bond price risk because of investments in both quoted shares and the bond market. The Trust Deed sets out the following guiding principles for the Fund Manager in order to manage this risk:

- invest in a solid spread of high performance securities;
- take capital profits when appropriate;
- select investments in companies with proven performance and good prospects for growth;
- spread securities over those economic sectors that meet the criteria of performance and growth; and
- administer the portfolio according to best practice.

All quoted shares held by the fund are traded on the Nairobi Securities Exchange (NSE).

As at 31 December 2012, an increase/(decrease) of 5% on the prices of securities would result to an increase/(decrease) in net returns on investments by approximately Sh 1,573,173 (2011: 245,667).

### (ii) Interest rate risk

The fund's interest bearing assets include term deposits, treasury and corporate bonds which are at fixed interest rates hence are not subject to interest rate risk.

### (iii) Foreign exchange risk

The fund has no financial instruments that would be subject to the foreign exchange risk.

### d) Fair value of financial assets and liabilities

Determination of fair value and fair values hierarchy:

IFRS 7 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 fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability 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 fund considers relevant and observable market prices in its valuations where possible.

### (d) Fair value of financial assets and liabilities

There were no financial assets classified under level 2 or 3 in the year. There were no transfers between the levels in the period. The assets classified under level 1 at the end of the reporting period include:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Quoted shares | 31,463,460 | 4,913,335 |
| Other investment | 34,234,059 | 1,154,057 |
| | 65,697,519 | 6,067,392 |

## 4 INVESTMENT INCOME

| | | |
|---|---|---|
| Held to maturity investments: | | |
| Interest on fixed deposits | 4,010,425 | 450,366 |
| Interest on call deposits | 89,929 | 89,402 |
| At fair value through profit or loss investments: | | |
| Dividend income | 731,245 | 4,620 |
| | 4,831,599 | 544,388 |

## 5 ADMINISTRATIVE EXPENSES

| | | |
|---|---|---|
| Management fees | 981,421 | 114,722 |
| Trustees fees | 178,161 | 83,258 |
| Capital Markets Authority fees | 37,500 | 37,500 |
| Audit fees | 30,000 | 10,000 |
| Custodial fees | 95,694 | 7,123 |
| | 1,322,776 | 252,603 |



## 6 TAXATION

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| At 1 January | - | - |
| Withholding tax expense | 483,235 | 28,741 |
| Withholding tax paid | (483,235) | (28,741) |
| At 31 December | - | - |

## 7FIXED DEPOSITS– HELD TO MATURITY

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Maturing within 90 days | 54,464,634 | 9,472,356 |
| Accrued interest | 1,122,538 | 321,106 |
| | 55,587,172 | 9,793,462 |

The weighted average effective interest rate on short term deposits at 31 December 2012 was 12.45% (2011: 14.91%)

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| **8 OTHER INVESTMENT** | | |
| - AT FAIR VALUE THROUGH PROFIT OR LOSS | | |
| Cost | 32,789,056 | 1,098,000 |
| Fair value gain | 1,445,003 | 56,057 |
| | 34,234,059 | 1,154,057 |

This represents an investment in the CIC money market fund.

**9 QUOTED SHARES - AT FAIR VALUE THROUGH PROFIT OR LOSS**

Fair values for quoted shares are determined by reference to the closing Nairobi Securities Exchange prices at the end of the reporting period.

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| **10 PAYABLES** | | |
| Due to related parties | 361,498 | 235,480 |
| Other payables | 18,661 | 7,123 |
| Audit fees | 30,000 | 10,000 |
| | 410,159 | 252,603 |

The amount due to related parties relates to management fees owed to CIC Asset Management Limited as well as Trustee and CMA fees paid on behalf of the Fund by the CIC Asset Management Limited.

| | 1 January 2012 | Additions | Bonus issue | 31 December 2012 | Cost of Additions | Fair value gain/(loss) | 31 December 2012 |
|---|---|---|---|---|---|---|---|
| | Units | Units | Units | units | Shs | Shs | Shs |
| Barclays Bank Limited | 60,000 | 190,000 | - | 250,000 | 2,294,367 | 860,133 | 3,937,500 |
| Co-operative Bank Limited | 85,000 | 265,100 | 49,900 | 400,000 | 3,146,575 | 852,175 | 5,040,000 |
| Kenya Commercial Bank Limited | 110,000 | 90,000 | | 200,000 | 2,192,327 | 1,904,173 | 5,950,000 |
| Kenya Electricity Generating Co. Limited | 70,000 | - | - | 70,000 | - | 24,500 | 616,000 |
| Kenya Power & Lighting Co Limited | 36,700 | 83,300 | 12,500 | 132,500 | 1,296,031 | 325,634 | 2,265,750 |
| NIC Bank Limited | - | 145,000 | 14,500 | 159,500 | 3,913,192 | 2,187,683 | 6,100,875 |
| CIC Insurance Group Limited | - | 2,127,700 | | 2,127,700 | 7,596,672 | (43,337) | 7,553,335 |
| | 361,700 | 2,901,100 | 76,900 | 3,339,700 | 20,439,164 | 6,110,961 | 31,463,460 |

## 12 RELATED PARTY TRANSACTIONS

The fund transacts with other entities within the CIC Insurance Group Limited. Balances due to related parties have been disclosed under note 11. As at the end of the year, the investments

held on behalf of the related parties are as below:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| CIC Life Assurance Limited | 7,277,090 | 3,870,225 |
| CIC General Insurance Limited | 36,527,969 | 8,898,609 |
| | 43,805,059 | 12,768,834 |

Transactions with related parties over the period are as follows:

CIC Asset Management Limited-Management fees

| | | |
|---|---|---|
| | 981,421 | 114,722 |

## 13 CURRENCY

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

## 15 REGISTRATION

The fund is registered in Kenya under the Capital Markets Authority (CMA) Act.

**THE CIC FIXED INCOME FUND**
**FINANCIAL STATEMENTS**
**FOR THE PERIOD ENDED 31 DECEMBER 2012**

## CONTENTS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**THE CIC FIXED INCOME FUND**
**TRUSTEE AND PROFESSIONAL ADVISERS**

| | |
|---|---|
| CORPORATE TRUSTEE | Kenya Commercial Bank Ltd - Custody Services<br>Piedmont Plaza, 3rd Floor<br>Ngong Road<br>P O Box 30664 – 00100<br>Nairobi |
| REGISTERED OFFICE | CIC Plaza Upper Hill Mara Road<br>P O Box 59485 - 00200<br>Nairobi |
| FUND MANAGERS AND ADMINISTRATORS | CIC Asset Management Limited<br>2nd Floor, CIC Plaza<br>P O Box 59485 - 00200<br>Nairobi |
| CUSTODIANS | Co-operative Bank Custodial Services<br>Co-operative Bank House, 14th Floor<br>Haile Selassie Avenue<br>P O Box 48231 - 00100<br>Nairobi |
| AUDITORS | Deloitte & Touche<br>Certified Public Accountants (Kenya)<br>Deloitte Place, Waiyaki Way, Muthangari<br>P O Box 40092 - 00100<br>Nairobi |

## THE CIC FIXED INCOME FUND

## REPORT OF THE TRUSTEE

The trustee has the pleasure of submitting the fund's report together with the audited financial statements for the period ended 31 December 2012.

## ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The fund was established, and is governed by a Trust Deed dated 6 January 2011 as a Fixed Income Fund. The fund is registered with the Capital Markets Authority and approved under the Income Tax Act. It only suffers taxation in the form of withholding tax on interest income and dividends.

The primary objective of the fund is to seek long term capital growth and income consistent with moderate investment risk from a wide range of securities thereby allowing access to diverse investment assets and returns. It ultimately aims to mobilize savings and allow access to investment assets and returns in money markets otherwise restricted to persons with access to large amounts of capital. The fund primarily invests in corporate and treasury bonds.

The fund is a unit trust and the interest of the individual members is determined by the value of their units. It is administered by the trustee who is responsible for its affairs.

The fund is an approved collective investment scheme within the meaning of the Capital Markets Act; and the holders are not liable for the debts of the fund.

## FINANCIAL REVIEW

The statement of comprehensive income on page 10 shows a profit for the period of Sh 2,593,171 (2011: Sh 384,762) and the statement of financial position on page 11 shows the net assets as at 31 December 2012 of Sh 28,242,639 (2011: Sh 15,486,928).

## INVESTMENT

Under the terms of their appointment, CIC Asset Management Limited are responsible for the investment of funds. The overall responsibility for investment and performance lies with the trustee.

## PERFORMANCE RECORD

The performance record of the fund over the period it has been in existence is as shown below:-

**a) The cumulative average growth rate of the funds invested in the fund:**

| | 2011 | 2012 |
|---|---|---|
| | Kshs | Kshs |
| Growth rate | 5.93% | 11.50% |
| | ====== | ======= |

**b) The closing, lowest and highest unit prices of the units of the fund:**

**c) The total fund value, number of units and net income distributed for one unit held at the end of the period are as shown below:**

| | 2011 Bid Price | 2011 Offer Price | 2012 Bid Price | 2012 Offer Price |
|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs |
| Closing unit price | 9.99 | 10.24 | 10.62 | 10.58 |
| Lowest unit price | 9.71 | 9.47 | 9.77 | 10.2 |
| Highest unit price | 10.00 | 10.28 | 10.96 | 11.28 |
| | ===== | ===== | ===== | ===== |

| | 2011 | 2012 |
|---|---|---|
| | Kshs | Kshs |
| Total fund value (Kshs) | 15,742,406 | 28,625,438 |
| Number of units issued | 1,562,723 | 1,355,912 |
| Net income distributed per unit (Kshs) | 0.72 | 2.31 |
| | ========== | ========== |

There has not been any amalgamation or reconstruction of the current units in the fund that have had a material effect on the size of the fund.

## MEMBERSHIP

As at 31 December 2012, the fund had 12 unit holders (2011: 11 unit holders).

## FUND ADVISORS

The names and addresses of the fund manager, trustee, custodian and auditor are as shown on page 2.

## AUDITORS

Deloitte & Touche, having indicated their willingness, continue in office.

SIGNED ON BEHALF OF THE TRUSTEES

27th March 2013

Nairobi

## THE CIC FIXED INCOME FUND
## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Capital Markets Act and the trust deed require the trustee to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the fund at the end of the financial year and of the funds operating results for that year. It also requires the trustee to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

The trustee is 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 Capital Markets Act, and for such internal controls as the trustee determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The trustee accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of Capital Markets Act. The trustee is of the opinion that the financial statements give a true and fair view of the financial affairs of the CIC Fixed Income Fund and of its operating results. The trustee further accepts 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 trustee to indicate that the CIC Fixed Income Fund will not be able to meet its maturing obligations for at least the next twelve months from the date of this statement.

Signed on behalf of the trustee

27th March 2013

## THE CIC FIXED INCOME FUND
## FUND MANAGER'S REPORT

Dear Unit holder,

It is our pleasure to report that your Fund recorded impressive performance during the period under review. The fund sustained its strong growth momentum in new sales and achieved above average returns against the backdrop of volatile economic conditions.

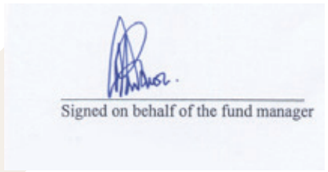
During 2012, Kenya recorded an estimated real GDP growth of 4.70% compared to the 4.0% in the year 2011. The improved economic performance was attributable to slowing inflationary pressures fuelled by lower food prices & energy costs, stabilizing exchange rate, declining interest rates and satisfactory rainfall. Key sectors that benefited from these macro developments included Agriculture, Wholesale & Retail, Manufacturing and Transport & Communication realizing stronger performance as compared to the previous year. Further, the political climate remained stable despite intense campaigns during the second half of the year in the run-up to the 2013 general election.

On to the investment markets, the domestic equities market maintained a bullish trend with broad based share price increases being evidenced across the bourse. The participation of foreign investors remained high throughout the year and this served to induce vibrancy in various counters in the market. The benchmark NSE 20 index stood at 4,133 points up from 3,205 points in December 2011 while Market Capitalization appreciated by 47% to close at Kshs 1,272 billion. With the improved trading performance, our selection criteria was focused on identification and selection of stable and mature companies that exhibited strong fundamentals and had predictable outlooks. This strategy informed our investment actions in both the CIC Equity Fund and the equity portion of the CIC Balanced Fund.

On fixed income, interest rates tumbled especially towards the second half of the year on the back of a stabilizing local currency, declining inflation, sustained monetary policy easing and improving liquidity conditions. Interest on the 91-day Treasury bill fell from 18.95% in 2011 to 8.14% in December 2012 while the 182-day Treasury bill closed at 8.10% down from 18.58% in the prior year. This notwithstanding, we continued to deliver above market returns within the CIC Money Market Fund, the CIC Fixed Income Fund and the interest bearing portion of the Balanced Fund riding on our tactical investment approach that targeted sourcing and investing in high yielding instruments across the yield curve.

Looking ahead, general consensus on the outlook for 2013 points towards significant improvement in economic performance subject to a tranquil electioneering and transition processes. Accordingly, we intend to maintain our precautious investment approach anchored on safeguarding capital value. In this regard, we will not shy away from taking up any bargain opportunities that may arise either in the debt or equity markets. We are confident that through our disciplined investment philosophy and robust investment strategy, the delivery of predictable and consistent competitive returns throughout the year is achievable. We wish to reiterate our commitment towards ensuring the realization of the specific underlying objectives of each of the funds including offering above average returns while providing adequate liquidity to meet ongoing obligations, capital preservation and conservative risk exposure to the investors.

In conclusion, we take this opportunity to acknowledge the support you have afforded us and thank all members for their dedicated contribution to the growth of the CIC Unit Trust Scheme. CIC Asset Management looks forward to working closely with you in realizing your financial and investment goals.



Signed on behalf of the fund manager

27th March 2013

## THE CIC FIXED INCOME FUND
## REPORT OF THE CUSTODIAN
## FOR THE YEAR ENDED 31 DECEMBER 2012

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between Co-operative Bank Custodial Services as the Custodians and CIC Asset Management Limited as the Fund Manager, we confirm that:

a) we have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations, to the CIC Fixed Income Fund.

b) the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's income have been carried out in accordance with the Regulations; and

c) the investment and borrowing powers and restrictions applicable to the Fund in accordance with the Regulations and the documents of incorporation have not been exceeded.

For the year ended 31 December 2012, we have held the assets for the Fund, including title deeds, securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

In our opinion, the Fund Manager has in all material respects managed the scheme in accordance with the provisions of the Capital Markets (Collective Investment Schemes) Regulations, 2001, incorporation documents, the information memorandum and the rules of the collective investment scheme.

27th March 2013

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CIC FIXED INCOME FUND

### Report on Financial Statements

We have audited the accompanying financial statements of The CIC Fixed Income Fund, set out on pages 10 to 21 which comprise the statement of financial position as at 31 December 2012, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Trustee's Responsibility for the Financial Statements

The trustee is 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 Capital Markets Act and for such internal controls as the trustee determines 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 fund's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund'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 Fund as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Capital Markets Act.

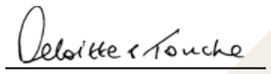
Report on other legal requirements

As required by the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations), we report to you, based on our audit, that:

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

ii) the accounts have been properly prepared in accordance with the Regulations and

iii) the Fund's statement of financial position (balance sheet) and statement of comprehensive income (statement of net income and net gains or losses on the fund) are in agreement with the books of accounts.



Certified Public Accountants (Kenya)

27th March 2013

Nairobi

## THE CIC FIXED INCOME FUND
## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| INVESTMENT INCOME | 4 | 3,770,806 | 657,179 |
| OPERATING EXPENSES | 5 | (698,578) | (255,478) |
| PROFIT BEFORE TAXATION | | 3,072,228 | 401,701 |
| TAXATION CHARGE | 6 | (479,057) | (16,939) |
| PROFIT FOR THE YEAR | | 2,593,171 | 384,762 |
| OTHER COMPREHENSIVE INCOME | | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 2,593,171 | 384,762 |

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| **ASSETS** | | | |
| Fixed deposits | 7 | 18,530,534 | 13,884,549 |
| Call deposits | 8 | - | 419,269 |
| Commercial paper | 9 | 1,695,985 | 1,437,834 |
| Treasury bills | 10 | 2,239,557 | - |
| Corporate bond | 11 | 5,747,437 | - |
| Other investments | 12 | 211,202 | - |
| Other receivable | | 43,931 | - |
| Bank balances | | 156,792 | 754 |
| TOTAL ASSETS | | 28,625,438 | 15,742,406 |
| LIABILITIES | | | |
| Payables and accruals | 13 | 382,799 | 255,478 |
| NET ASSETS | | 28,242,639 | 15,486,928 |

The financial statements on pages 10 to 21 were approved by the trustee on March 2013 and were signed on behalf of the trustee by:

27th March 2013



## THE CIC FIXED INCOME FUND
## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2012

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| ASSETS | | | |
| Fixed deposits | 7 | 18,530,534 | 13,884,549 |
| Call deposits | 8 | - | 419,269 |
| Commercial paper | 9 | 1,695,985 | 1,437,834 |
| Treasury bills | 10 | 2,239,557 | - |
| Corporate bond | 11 | 5,747,437 | - |
| Other investments | 12 | 211,202 | - |
| Other receivable | | 43,931 | - |
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| TOTAL ASSETS | | 28,625,438 | 15,742,406 |
| LIABILITIES | | | |
| Payables and accruals | 13 | 382,799 | 255,478 |
| NET ASSETS | | 28,242,639 | 15,486,928 |

The financial statements on pages 10 to 21 were approved by the trustee on March 2013 and were signed on behalf of the trustee by:

27th March 2013

## THE CIC FIXED INCOME FUND
## STATEMENT OF CHANGES IN NET ASSETS
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Net assets at registration | 15,486,928 | - |
| Net proceeds from units traded in the year | 15,417,481 | 18,332,636 |
| Distributions payable in the year | (5,254,941) | (3,230,470) |
| Total comprehensive income for the year | 2,593,171 | 384,762 |
| Net assets at 31 December | 28,242,639 | 15,486,928 |

## THE CIC FIXED INCOME FUND
## STATEMENT OF CASH FLOWS
## FOR THE PERIOD ENDED 31 DECEMBER 2012

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Reconciliation of profit before taxation to cash used in operations: | | | |
| Profit before taxation | | 3,072,228 | 401,701 |
| Working capital changes: | | | |
| Commercial paper | | (258,151) | (1,437,834) |
| Treasury bills | | (2,239,557) | - |
| Corporate bond | | (5,747,437) | - |
| Other investments | | (211,202) | - |
| Payables and accruals | | 127,321 | 255,478 |
| Other receivables | | (43,931) | - |
| Cash used in operations | | (5,300,729) | (780,655) |
| Taxation paid | 6 | (479,057) | (16,939) |
| Net cash used in operating activities | | (5,779,786) | (797,594) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from units issued | | 15,417,481 | 18,332,636 |
| Amounts payable on cancellation of units | | (5,254,941) | (3,230,470) |
| Net cash generated from financing activities | | 10,162,540 | 15,102,166 |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 4,382,754 | 14,304,572 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 14,304,572 | - |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | 18,687,326 | 14,304,572 |

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| REPRESENTED BY: | | | |
| Bank balance | | 156,792 | 754 |
| Call deposits | | - | 419,269 |
| Fixed deposits | | 18,530,534 | 13,884,549 |
| | | 18,687,326 | 14,304,572 |

## 1 ACCOUNTING POLICIES

### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

### (a) New standards and amendments to published standards effective for the year ended 31 December 2012

| Amendments and revised standards | |
|---|---|
| Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010) | |
| | The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. The Fund will continue disclosing an analysis of other comprehensive income item by item in the statement of changes in equity. |

### (b) New standards and amendments to published standards and interpretations in issue but not yet effective in the year ended 31 December 2012

At the date of authorisation of these financial statements, there were a number of revised or amended standards and interpretations that were in issue but not yet effective. The trustees anticipate that the new or revised standards and interpretations will have no material impact on the financial statements of the fund in future periods.

| | 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 (2010) | 1 January 2015 |
| | |
| IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition | |
| 1 January 2015 | |

### (c) Early adoption of standards

The fund did not early-adopt any new or amended standards during the financial year.

Basis of accounting

The fund prepares its financial statements on the historical cost basis of accounting modified to include the revaluation of certain assets. The principal accounting policies adopted are set out below.





## 1 ACCOUNTING POLICIES (Continued)

### Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the fund and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset net the carrying amount on initial recognition.

### Financial instruments

### Financial assets

### Classification

A financial asset or liability is recognised when the fund becomes party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the fund has transferred substantially all risks and rewards of ownership. As at the reporting date, the classification of the fund's financial assets was as follows:

- Fair value through profit or loss:
  - Quoted shares and treasury bonds
- Loans and receivables:
  - Bank balances
- Held to maturity:
  - Fixed and call deposits and corporate bonds

The fund determines the appropriate classification of its financial assets at initial recognition.

### (i) 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 in this category if acquired principally for the purpose of selling in the short term or if so designated. These assets are carried at fair value.

### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the fund provides money, goods or services directly to a debtor with no intention of trading the receivable. These assets are carried at amortised cost.

### (iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the trustee has the positive intention and ability to hold to maturity. Where a sale occurs other than for an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. These assets are carried at amortised cost.

### (iv) Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available-for-sale. These are measured at fair value based on quoted prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income.

### Financial assets (Continued)

Impairment and uncollectibility of financial assets

The fund assesses at the end of each reporting period whether there is any objective evidence that a financial asset or fund of financial assets is impaired. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

If it is probable that the fund will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is dealt with in profit or loss for the year.

### Derecognition of financial assets

The fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### Financial liabilities

After initial recognition, the fund measures all financial liabilities at amortised cost.

### Derecognition of financial liabilities

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

### Taxation

The fund is exempt from income tax. It is however subject to withholding tax on interest income at a rate of 15% and dividends received at a rate of 5%.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## 2 CRITICAL JUDGEMENTS IN APPLYING THE FUND'S ACCOUNTING POLICIES

In the process of applying the fund's accounting policies described above, the trustee has made estimates and assumptions that have a significant effect on the amounts recognised in the financial statements. that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgement in applying the funds accounting policies relates to the trustee following the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the fund evaluates its intention and ability to hold such investments to maturity. If the fund fails to keep these investments 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 investments would therefore be measured at fair value not amortised cost.

## 3 FINANCIAL RISK MANAGEMENT

The fund generates revenues for the members by investing in various income generating activities which involve trading in the stock exchange. These activities expose the fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The Trust Deed sets out the investment policy and management of the fund's assets to minimise potential adverse effects on its financial performance.

### a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the fund. The credit risk on term deposits and bank balances is limited as the counterparties are all recognised banks with good reputations. The fund's bond investments are placed through reputable intermediaries to protect the fund against any misappropriations. Financial assets subject to credit risk at the end of the reporting period include:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Fixed deposits | 18,530,534 | 13,884,549 |
| Call deposits | - | 419,269 |
| Commercial paper | 1,695,985 | 1,437,834 |
| Treasury bills | 2,239,557 | - |
| Corporate bond | 5,747,437 | - |
| Other Investments | 211,202 | - |
| Other receivable | 43,931 | - |
| Bank balances | 156,792 | 754 |
| | 28,625,438 | 15,742,406 |

No collateral was held for these assets. The assets are classified as neither past due nor impaired.

### b) Liquidity risk

Liquidity risk is the risk that the fund will not be able to meet its financial obligations when they fall due. The fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or at the risk of damaging the fund's reputation.

The fund's financial liabilities as at 31 December 2012 relate to the payable balance of Sh 382,799 (2011: Sh 255,478) which is payable within one year hence the discounting effect is not significant.

### c) Market risk

### (i) Price risk

The fund is exposed to bond price risk because of investments in the bond market. The Trust Deed sets out the following guiding principles for the Fund Manager in order to manage this risk:

- invest in a solid spread of high performance securities;
- take capital profits when appropriate;
- select investments in companies with proven performance and good prospects for growth;
- spread securities over those economic sectors that meet the criteria of performance and growth; and
- administer the portfolio according to best practice.

As at 31 December 2012, an increase/(decrease) of 5% on the prices of securities would result to an increase/(decrease) in net returns on investments of approximately Sh 373,173 (2011: nil).

### (ii) Interest rate risk

The fund's interest bearing assets include term deposits, treasury and corporate bonds which are at fixed interest rates hence are not subject to interest rate risk.

### (iii) Foreign exchange risk

The fund has no financial instruments that would be subject to the foreign exchange risk.

### d) Fair value of financial assets and liabilities

Determination of fair value and fair values hierarchy

IFRS 7 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 fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability 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 fund considers relevant and observable market prices in its valuations where possible.

There were no financial assets carried at fair value during the year.

## 4 INVESTMENT INCOME

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Held to maturity investments: | | |
| Interest on fixed deposits | 2,805,068 | 563,905 |
| Interest on call deposits | - | 31,894 |
| Interest on commercial paper | 286,125 | 61,380 |
| Interest on corporate bond | 173,351 | - |
| Interest on other investments | 36,202 | - |
| Interest on treasury bills | 470,060 | - |
| | 3,770,806 | 657,179 |

## 5 OPERATING EXPENSES

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Management fees | 423,274 | 103,309 |
| Trustees' fees | 174,000 | 83,259 |
| Capital Markets Authority fees | 37,500 | 37,500 |
| Audit fees | 10,000 | 25,000 |
| Custodial fees | 53,804 | 6,410 |
| | 698,578 | 255,478 |



## 6 TAXATION

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Withholding tax expense | 479,057 | 16,939 |
| Withholding tax paid | (479,057) | (16,939) |
| At 31 December | - | - |

## 7 FIXED DEPOSITS – HELD TO MATURITY

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Maturing within 90 days | 18,161,567 | 13,377,000 |
| Accrued interest | 368,967 | 507,549 |
| | 18,530,534 | 13,884,549 |

The weighted average effective interest rate on short term deposits at 13% (2011 -13.02%).

## 8 CALL DEPOSITS – HELD TO MATURITY

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Maturing within 90 days | - | 407,342 |
| Accrued interest | - | 11,927 |
| | - | 419,269 |

The weighted average effective interest rate on call deposits as at 31 December 2012 was 5.34% (2011 - 6.25%).

## 9 COMMERCIAL PAPER – HELD TO MATURITY

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Maturing within 90 days | 1,644,930 | 1,430,000 |
| Accrued interest | 51,055 | 7,834 |
| | 1,695,985 | 1,437,834 |

The weighted average effective interest rate on commercial paper as at 10.71% (2011 - 10.75%.

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |

## 10 TREASURY BILLS – HELD TO MATURITY

| | | |
|---|---|---|
| Held to maturity | 2,336,415 | - |
| Ammortisation | (96,858) | - |
| | 2,239,557 | - |

The weighted average effective interest rate on treasury bills as at 31 December 2012 was 12.84% (2011 - 10.75%).

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |

## 11 CORPORATE BOND – HELD TO MATURITY

| | | |
|---|---|---|
| Maturing within 90 days | 5,574,086 | - |
| Accrued interest | 173,351 | - |
| | 5,747,437 | - |

The weighted average effective interest rate on corporate bond as at 31 December 2012 was 12.83% (2011 - 10.75%.

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |

## 12 OTHER INVESTMENTS – HELD TO MATURITY

| | | |
|---|---|---|
| Held to maturity | 175,000 | - |
| Accrued interest | 36,202 | - |
| | 211,202 | - |

Other investments represents investment in CIC Money market fund

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |

## 13 PAYABLES

| | | |
|---|---|---|
| Due to related parties | 372,799 | 224,068 |
| Audit fees | 10,000 | 25,000 |
| Other payables | - | 6,410 |
| | 382,799 | 255,478 |

Due to related parties relates to management fees owed to CIC Asset Management Limited.

## 14 RELATED PARTIES

As at 31 December 2012, the investments held on behalf of the related parties are as shown below:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| CIC Life Assurance Limited | 11,819,587 | 7,857,834 |
| CIC General Insurance Limited | 7,558,215 | 5,968,871 |
| | 19,377,802 | 13,826,705 |

Transactions with related parties over the period are as follows:

| | | |
|---|---|---|
| CIC Asset Management Limited-Management fees | 423,274 | 103,309 |

## 15 CURRENCY

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

## 16 REGISTRATION

The fund is registered in Kenya under the Capital Markets Authority Act.

THE CIC EQUITY FUND
FINANCIAL STATEMENTS
31 DECEMBER 2012

THE CIC EQUITY FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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## THE CIC EQUITY FUND
## TRUSTEE AND PROFESSIONAL ADVISERS

| | |
|---|---|
| CORPORATE TRUSTEE | Kenya Commercial Bank Ltd - Custody Services<br>Piedmont Plaza, 3rd Floor<br>Ngong Road<br>P. O. Box 30664 - 00100<br>Nairobi |
| REGISTERED OFFICE CIC Plaza | Upper Hill Mara Road<br>P O Box 59485 - 00200<br>Nairobi |
| FUND MANAGERS AND ADMINISTRATORS | CIC Asset Management Limited<br>2nd Floor, CIC Plaza<br>P O Box 59485 - 00200<br>Nairobi |
| CUSTODIANS | Co-operative Bank Custodial Services<br>Co-operative Bank House, 14th Floor<br>Haile Selassie Avenue<br>P O Box 48231 - 00100<br>Nairobi |
| AUDITORS | Deloitte & Touche<br>Certified Public Accountants (Kenya)<br>Deloitte Place, Waiyaki Way, Muthangari<br>P O Box 40092 - 00100<br>Nairobi |



## THE CIC EQUITY FUND
## REPORT OF THE TRUSTEE

The trustee has the pleasure of submitting the fund's report together with the audited financial statements for the year ended 31 December 2012.

### ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The fund was established, and is governed by a Trust Deed dated 6 January 2011 as an equity fund. The fund is registered with the Capital Markets Authority and approved under the Income Tax Act. It only suffers tax in the form of withholding tax on interest income and dividends.

The primary objective of the fund is to seek long term capital growth and income consistent with moderate investment risk from a wide range of securities thereby allowing access to diverse investment assets and returns. It ultimately aims to mobilize savings and allow access to investment assets and returns in equities otherwise restricted to persons with access to large amounts of capital. The fund primarily invests in quoted equity securities.

The fund is a unit trust and the interest of the individual members is determined by the value of their units. It is administered by the trustee who is responsible for its affairs.

The fund is an approved collective investment scheme within the meaning of the Capital Markets Act; and the holders are not liable for the debts of the fund.

### FINANCIAL REVIEW

The statement of comprehensive income on page 10 shows profit for the year of Sh 11,384,904 (2011: Sh 138,513). The statement of financial position on page 11 shows the net assets as at 31 December 2012 of Sh 87,274,105 (2011:Sh 30,523,808).

### PERFORMANCE RECORD

The performance record of the fund over the period it has been in existence is as shown below:-

**a) The cumulative average growth rate of the funds invested in the fund:**

| | 2011 | 2012 |
|---|---|---|
| Growth rate | 2.79% | 15.24% |

**b) The closing, lowest and highest unit prices of the units of the fund:**

| | 2011 Bid Price | 2011 Offer Price | 2012 Bid Price | 2012 Offer Price |
|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs |
| Closing unit price | 10.02 | 10.54 | 11.68 | 12.29 |
| Lowest unit price | 9.45 | 9.95 | 9.93 | 10.19 |
| Highest unit price | 10.30 | 10.84 | 11.93 | 12.68 |

**c) The total fund value, number of units and net income distributed for one unit held at the end of the period is as shown below:**

| | 2011<br>Kshs | 2012<br>Kshs |
|---|---|---|
| Total fund value (Kshs) | 30,868,136 | 89,769,043 |
| Number of units issued | 3,058,995 | 4,892,186 |
| Net income distributed per unit (Kshs) | 0.84 | 1.03 |

There has not been any amalgamation or reconstruction of the current units in the fund that have had a material effect on the size of the fund.

## INVESTMENT

Under the terms of their appointment, CIC Asset Management Limited are responsible for the investment of funds. The overall responsibility for investment and performance lies with the trustee.

## MEMBERSHIP

As at 31 December 2012, the fund had 81 unit holders (2011: 38 unit holders).

## FUND ADVISORS

The names and addresses of the fund manager, trustee, custodian and auditor are as shown on page 2.

## AUDITORS

Deloitte & Touche, having indicated their willingness, continue in office.

SIGNED ON BEHALF OF THE TRUSTEE

27th March 2013

Nairobi

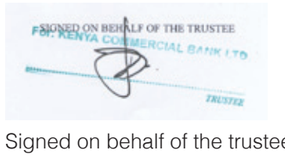
## THE CIC EQUITY FUND
## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Capital Markets Act and the trust deed require the trustee to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the fund at the end of the financial year and of the funds operating results for that year. It also requires the trustee to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

The trustee is 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 Capital Markets Act, and for such internal controls as the trustee determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The trustee accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of Capital Markets Act. The trustee is of the opinion that the financial statements give a true and fair view of the financial affairs of the CIC Equity Fund and of its operating results. The trustee further accepts 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 trustee to indicate that the CIC Equity Fund will not be able to meet its maturing obligations for at least the next twelve months from the date of this statement.




Signed on behalf of the trustee

27th March 2013

## THE CIC EQUITY FUND
## FUND MANAGER'S REPORT

**Dear Unit holder,**

It is our pleasure to report that your Fund recorded impressive performance during the period under review. The fund sustained its strong growth momentum in new sales and achieved above average returns against the backdrop of volatile economic conditions.

During 2012, Kenya recorded an estimated real GDP growth of 4.70% compared to the 4.0% in the year 2011. The improved economic performance was attributable to slowing inflationary pressures fuelled by lower food prices & energy costs, stabilizing exchange rate, declining interest rates and satisfactory rainfall. Key sectors that benefited from these macro developments included Agriculture, Wholesale & Retail, Manufacturing and Transport & Communication realizing stronger performance as compared to the previous year. Further, the political climate remained stable despite intense campaigns during the second half of the year in the run-up to the 2013 general election.

On to the investment markets, the domestic equities market maintained a bullish trend with broad based share price increases being evidenced across the bourse. The participation of foreign investors remained high throughout the year and this served to induce vibrancy in various counters in the market. The benchmark NSE 20 index stood at 4,133 points up from 3,205 points in December 2011 while Market Capitalization appreciated by 47% to close at Kshs 1,272 billion. With the improved trading performance, our selection criteria was focused on identification and selection of stable and mature companies that exhibited strong fundamentals and had predictable outlooks. This strategy informed our investment actions in both the CIC Equity Fund and the equity portion of the CIC Balanced Fund.

On fixed income, interest rates tumbled especially towards the second half of the year on the back of a stabilizing local currency, declining inflation, sustained monetary policy easing and improving liquidity conditions. The 91-day Treasury bill fell from 18.95% in 2011 to 8.14% in December 2012 while the 182-day Treasury bill closed at 8.10% down from 18.58% in the prior year. This notwithstanding, we continued to deliver above market returns within the CIC Money Market Fund, the CIC Fixed Income Fund and the interest bearing portion of the Balanced Fund riding on our tactical investment approach that targeted sourcing and investing in high yielding instruments across the yield curve.

Looking ahead, general consensus on the outlook for 2013 points towards significant improvement in economic performance subject to a tranquil electioneering and transition processes. Accordingly, we intend to maintain our precautious investment approach anchored on safeguarding capital value. In this regard, we will not shy away from taking up any bargain opportunities that may arise either in the debt or equity markets. We are confident that through our disciplined investment philosophy and robust investment strategy, the delivery of predictable and consistent competitive returns throughout the year is achievable. We wish to reiterate our commitment towards ensuring the realization of the specific underlying objectives of each of the funds including offering above average returns while providing adequate liquidity to meet ongoing obligations, capital preservation and conservative risk exposure to the investors.

In conclusion, we take this opportunity to acknowledge the support you have afforded us and thank all members for their dedicated contribution to the growth of the CIC Unit Trust Scheme. CIC Asset Management looks forward to working closely with you in realizing your financial and investment goals.

March 2013

## THE CIC EQUITY FUND
## REPORT OF THE CUSTODIANS
## FOR THE YEAR ENDED 31 DECEMBER 2012

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between Co-operative Bank Custodial Services as the Custodians and CIC Asset Management Limited as the Fund Manager, we confirm that:

a) we have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations, to the CIC Equity Fund.

b) the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's income have been carried out in accordance with the Regulations; and

c) the investment and borrowing powers and restrictions applicable to the Fund in accordance with the Regulations and the documents of incorporation have not been exceeded.

For the year ended 31 December 2012, we have held the assets for the Fund, including title deeds, securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

In our opinion, the Fund Manager has in all material respects managed the scheme in accordance with the provisions of the Capital Markets (Collective Investment Schemes) Regulations, 2001, incorporation documents, the information memorandum and the rules of the collective investment scheme

March 2013

## INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE OF THE CIC EQUITY FUND

### Report on financial statements

We have audited the accompanying financial statements of the CIC Equity Fund, set out on pages 10 to 22 which comprise the statement of financial position as at 31 December 2012, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Trustee's Responsibility for the Financial Statements

The trustee is 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 Capital Markets Act and for such internal controls as the trustee determines 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 fund's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund'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 Fund as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Capital Markets Act.

### Report on other legal requirements

As required by the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations), we report to you, based on our audit, that:

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

ii) the accounts have been properly prepared in accordance with the Regulations and

iii) the Fund's statement of financial position (balance sheet) and statement of comprehensive income (statement of net income and net gains or losses on the fund) are in agreement with the books of accounts.

Deloitte & Touche

Certified Public Accountants (Kenya)

2013

Nairobi

## THE CIC EQUITY FUND
## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012<br>Sh | 2011<br>Sh |
|---|---|---|---|
| INVESTMENT INCOME | 4 | 5,994,277 | 880,984 |
| UNREALISED GAIN ON OTHER INVESTMENT | 8 | 295,917 | 44,801 |
| UNREALISED GAIN/(LOSS) ON QUOTED SHARES | 11 | 7,202,530 | (403,100) |
| NET INCOME | | 13,492,724 | 522,685 |
| OPERATING EXPENSES | 5 | (1,445,138) | (344,328) |
| PROFIT BEFORE TAXATION | | 12,047,586 | 178,357 |
| TAXATION CHARGE | 6 | (662,682) | (39,844) |
| PROFIT FOR THE YEAR | | 11,384,904 | 138,513 |
| OTHER COMPREHENSIVE INCOME | | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 11,384,904 | 138,513 |

## THE CIC EQUITY FUND
## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2012

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| **ASSETS** | | | |
| Fixed deposits | 7 | 20,738,643 | 18,878,874 |
| Other investment | 8 | 493,719 | 3,897,801 |
| Call deposit | 9 | 25,044,521 | - |
| Corporate bond | 10 | 5,181,233 | - |
| Quoted shares | 11 | 38,205,833 | 8,043,000 |
| Other receivable | | 105,094 | - |
| Bank balances | | - | 48,461 |
| TOTAL ASSETS | | 89,769,043 | 30,868,136 |
| **LIABILITIES** | | | |
| Payables and accruals | 12 | 372,429 | 344,328 |
| Overdraft | | 2,122,509 | - |
| TOTAL ASSETS | | 2,494,938 | 344,328 |
| NET ASSETS | | 87,274,105 | 30,523,808 |

The financial statements on pages 10 to 22 were approved by the trustee on March 2013

and were signed on behalf of the trustee by:

## THE CIC EQUITY FUND
## STATEMENT OF CHANGES IN NET ASSETS
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | 2012 Sh | 2011 Sh |
|---|---|---|
| Net assets at 1 January | 30,523,808 | - |
| Net proceeds from units traded in the year | 48,200,004 | 37,330,545 |
| Distributions payable in the year | (2,834,611) | (6,945,250) |
| Total comprehensive income for the year | 11,384,904 | 138,513 |
| Net assets at 31 December | 87,274,105 | 30,523,808 |

| | Note | 2012 Sh | 2011 Sh |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Reconciliation of profit before taxation to cash used in operations: | | | |
| Profit before taxation | | 12,047,586 | 178,357 |
| Working capital changes: | | | |
| Quoted shares | | (30,162,833) | (8,043,000) |
| Corporate bond | | (5,181,233) | - |
| Payables and accruals | | 28,101 | 344,328 |
| Other receivable | | (105,094) | - |
| Other investments | | 3,404,082 | (3,897,801) |
| Cash used in operations | | (19,969,391) | (11,418,116) |
| Taxation paid6 | | (662,682) | (39,844) |
| Net cash used in operating activities | | (20,632,073) | (11,457,960) |

## CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|---|---|
| Proceeds from units issued | 48,200,004 | 37,330,545 |
| Amounts payable on cancellation of units | (2,834,611) | (6,945,250) |
| Net cash generated from financing activities | 45,365,393 | 30,385,295 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 24,733,320 | 18,927,335 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | 18,927,335 | - |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 43,660,655 | 18,927,335 |
| REPRESENTED BY: | | |
| Bank balances | (2,122,509) | 48,461 |
| Fixed deposits | 20,738,643 | 18,878,874 |
| Call deposit | 25,044,521 | - |
| | 43,660,655 | 18,927,335 |

## THE CIC EQUITY FUND
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2012

### 1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

#### (a) New standards and amendments to published standards effective for the year ended 31 December 2012

| Amendments and revised standards | |
|---|---|
| Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010) | |
| | The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. The Fund will continue disclosing an analysis of other comprehensive income item by item in the statement of changes in equity. |

#### (b) New standards and amendments to published standards and interpretations in issue but not yet effective in the year ended 31 December 2012

At the date of authorisation of these financial statements, there were a number of revised or amended standards and interpretations that were in issue but not yet effective. The trustees anticipate that the new or revised standards and interpretations will have no material impact on the financial statements of the fund in future periods.

| | 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 (2010) | 1 January 2015 |
| | |
| IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition | |
| 1 January 2015 | |

#### (c) Early adoption of standards

The fund did not early-adopt any new or amended standards during the financial year.

#### Basis of accounting

The fund prepares its financial statements on the historical cost basis of accounting modified to include the revaluation of certain assets. The principal accounting policies adopted are set out below.

#### Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the fund and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset net the carrying amount on initial recognition.

**Dividend income**

Dividend income from equity securities is recognised when the fund's right to receive payment has been established provided that it is probable that the economic benefits will flow to the fund and the amount of income can be measured reliably.

**Financial instruments**

**Financial assets**

**Classification**

A financial asset or liability is recognised when the fund becomes party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the fund has transferred substantially all risks and rewards of ownership. As at the reporting date, the classification of the fund's financial assets was as follows:

• Fair value through profit or loss:

- Quoted shares, treasury bonds, corporate bonds

• Loans and receivables:

- Bank balances
•Held to maturity:

- Fixed and call deposits

The fund determines the appropriate classification of its financial assets at initial recognition.

**(i) 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 in this category if acquired principally for the purpose of selling in the short term or if so designated. These assets are carried at fair value.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the fund provides money, goods or services directly to a debtor with no intention of trading the receivable. These assets are carried at amortised cost.

**(iii) Held to maturity**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the trustee has the positive intention and ability to hold to maturity. Where a sale occurs other than for an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. These assets are carried at amortised cost.

The fund determines the appropriate classification of its financial assets at initial recognition.

**(iv) Available-for-sale financial assets**

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available-for-sale. These are measured at fair value based on quoted prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income.

**Impairment and uncollectibility of financial assets**

The fund assesses at the end of each reporting period whether there is any objective evidence that a financial asset or fund of financial assets is impaired. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

If it is probable that the fund will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is dealt with in profit or loss for the year.



**Derecognition of financial assets**

The fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**Financial liabilities**

**After initial recognition, the fund measures all financial liabilities at amortised cost.**

**Derecognition of financial liabilities**

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

**Taxation**

The fund is exempt from income tax. It is however subject to withholding tax on interest income at a rate of 15% and dividends received at a rate of 5%.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**2 CRITICAL JUDGEMENTS IN APPLYING THE FUND'S ACCOUNTING POLICIES**

In the process of applying the fund's accounting policies described above, the trustee has made estimates and assumptions that have a significant effect on the amounts recognised in the financial statements. that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgement in applying the funds accounting policies relates to the trustee following the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the fund evaluates its intention and ability to hold such investments to maturity. If the fund fails to keep these investments 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 investments would therefore be measured at fair value not amortised cost.

## 3 FINANCIAL RISK MANAGEMENT

The fund generates revenues for the members by investing in various income generating activities which involve trading in the stock exchange. These activities expose the fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The Trust Deed sets out the investment policy and management of the fund's assets to minimise potential adverse effects on its financial performance.

### a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the fund. The credit risk on term deposits and bank balances is limited as the counterparties are all recognised banks with good reputations. The fund's equity investments are placed through reputable intermediaries to protect the fund against any misappropriations. Financial assets subject to credit risk at the end of the reporting period include:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Fixed deposits | 20,738,643 | 18,878,874 |
| Other investment | 493,719 | 3,897,801 |
| Call deposit | 25,044,521 | - |
| Corporate bond | 5,181,233 | - |
| Other receivables | 105,094 | - |
| Bank balances | (2,122,509) | 48,461 |
| | 49,440,701 | 22,825,136 |

No collateral was held for these assets. The assets are all neither classified as past due nor impaired.

### b) Liquidity risk

Liquidity risk is the risk that the fund will not be able to meet its financial obligations when they fall due. The fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or at the risk of damaging the fund's reputation.

The fund's financial liabilities as at 31 December 2012 to Sh 372,430 (2011: 344,328) and are payable within one year hence the discounting effect is not significant.

### c) Market risk

### (i) Price risk

The fund is exposed to equity and bond price risk because of investments in both quoted shares and the bond market. The Trust Deed sets out the following guiding principles for the Fund Manager in order to manage this risk:

- invest in a solid spread of high performance securities;
- take capital profits when appropriate;
- select investments in companies with proven performance and good prospects for growth;
- spread securities over those economic sectors that meet the criteria of performance and growth; and
- administer the portfolio according to best practice.

All quoted shares held by the fund are traded on the Nairobi Securities Exchange (NSE).

As at 31 December 2012, an increase/(decrease) of 5% on the prices of securities would result to an increase/(decrease) in net returns on investments by approximately Sh 1,910,292 (2011: Sh 402,150)

### (ii) Interest rate risk

The fund's interest bearing assets include term deposits, treasury and corporate bonds which are at fixed interest rates hence are not subject to interest rate risk.



### (iii) Foreign exchange risk

The fund has no financial instruments that would be subject to the foreign exchange risk.

### d) Fair value of financial assets and liabilities

Determination of fair value and fair values hierarchy:

IFRS 7 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 fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability 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 fund considers relevant and observable market prices in its valuations where possible.

There were no financial assets classified under level 2 or 3 in the year. There were no transfers between the levels in the period. The assets classified under level 1 at the end of the reporting period include:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| Quoted shares | 38,205,833 | 8,043,000 |
| Other investment | 493,719 | 3,897,801 |
| | 38,699,552 | 11,940,801 |

## 4 INVESTMENT INCOME

| | | |
|---|---|---|
| Held to maturity investments: | | |
| Interest on fixed deposits | 2,817,328 | 870,904 |
| Interest on demand deposits | 1,835,339 | - |
| Interest on corporate bond | 181,233 | - |
| At fair value through profit or loss investments: | | |
| Dividend income | 1,160,377 | 10,080 |
| | 5,994,277 | 880,984 |

## 5 OPERATING EXPENSES

| | | |
|---|---|---|
| Management fees | 1,079,246 | 186,966 |
| Trustee fees | 174,000 | 83,258 |
| Capital Markets Authority fees | 37,500 | 37,500 |
| Audit fees | 20,000 | 25,000 |
| Custodial fees | 134,392 | 11,604 |
| | 1,445,138 | 344,328 |

## 6 TAXATION

| | 2012 Sh | 2011 Sh |
|---|---|---|
| At 1 January | - | - |
| Withholding tax expense | 662,682 | 39,844 |
| Withholding tax paid | (662,682) | (39,844) |
| At 31 December | - | - |

## 7 FIXED DEPOSITS - HELD TO MATURITY

| | | |
|---|---|---|
| Maturing within 90 days | 20,161,587 | 18,311,624 |
| Accrued interest | 577,056 | 567,250 |
| | 20,738,643 | 18,878,874 |

The weighted average effective interest rate on fixed deposits at 31 December 2012 was 12.15% (2011: 14.25%).

## 8 OTHER INVESTMENT - AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2012 Sh | 2011 Sh |
|---|---|---|
| Cost | 197,802 | 3,853,000 |
| Fair value gain | 295,917 | 44,801 |
| | 493,719 | 3,897,801 |

This represents an investment in CIC money market fund.

## 9 DEMAND DEPOSIT - HELD TO MATURITY

| | | |
|---|---|---|
| Cost | 25,000,000 | - |
| Accrued interest | 44,521 | - |
| | 25,044,521 | - |

The weighted average effective interest rate on demand deposits at 31 December 2012 was 6.5 % (2011: nil)

## 10 CORPORATE BOND – HELD TO MATURITY

| | 2012 Sh | 2011 Sh |
|---|---|---|
| Cost | 5,000,000 | - |
| Fair value gain | 181,233 | - |
| | 5,181,233 | - |

The weighted average effective interest rate on corporate bond as at 31 December 2012 was 13.5 %

(2011: nil)



Fair values for quoted shares are determined by reference to the closing Nairobi Securities Exchange prices at the end of the reporting period.

| | 1 January | | Bonus | 31 December | 1 January | Cost of | Fair value | 31 December |
|---|---|---|---|---|---|---|---|---|
| | 1 January 2012 Units | Additions Units | Bonus issue Units | 31 December 2012 units | 1 January 2012 Kshs | Cost of Additions Kshs | Fair value gain/(loss) Kshs | 31 December 2012 Kshs |
| Barclays Bank of Kenya Limited | 100,000 | 345,000 | - | 445,000 | 1,305,000 | 4,182,148 | 1,521,602 | 7,008,750 |
| The Co-operative Bank Limited | 120,000 | 234,000 | 46,000 | 400,000 | 1,470,000 | 2,781,198 | 788,802 | 5,040,000 |
| Kenya Commercial Bank Limited | 200,000 | 100,000 | | 300,000 | 3,370,000 | 2,361,636 | 3,193,364 | 8,925,000 |
| Kenya Electricity Generating Co. Limited | 100,000 | - | - | 100,000 | 845,000 | - | 35,000 | 880,000 |
| Kenya Power & Lighting Co. Limited | 60,000 | 90,000 | 18,750 | 168,750 | 1,053,000 | 1,428,100 | 404,525 | 2,885,625 |
| NIC Bank Limited | - | 162,500 | 16,250 | 178,750 | - | 5,066,171 | 1,771,017 | 6,837,188 |
| CIC Insurance Group Limited | - | 1,867,400 | - | 1,867,400 | - | 7,141,050 | (511,780) | 6,629,270 |
| | 580,000 | | | 580,000 | | | | |
| | 2,798,900 | | | 2,798,900 | | | | |
| | 81,000 | | | 81,000 | | | | |
| | 3,459,900 | | | 3,459,900 | | | | |
| | 8,043,000 | | | 8,043,000 | | | | |
| | 22,960,303 | | | 22,960,303 | | | | |
| | 7,202,530 | | | 7,202,530 | | | | |
| | 38,205,833 | | | 38,205,833 | | | | |

hence are not subject to interest rate risk.

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |

## 12 PAYABLES

| | | |
|---|---|---|
| Due to related parties | 352,429 | 307,724 |
| Audit fees | 20,000 | 25,000 |
| Custodian fees | - | 11,604 |
| | 372,429 | 344,328 |

Due to related parties relates to management fees owed to CIC Asset Management Limited as well as trustee, custody and CMA fees paid on behalf of the Fund by the CIC Asset Management Limited.

## 13 RELATED PARTY TRANSACTIONS

The fund transacts with other divisions within the CIC Insurance Group Limited. As at 31 December 2012, the investments held on behalf of the related parties were as below:

| | 2012 | 2011 |
|---|---|---|
| | Sh | Sh |
| CIC Life Assurance Limited | 21,707,700 | 10,539,162 |
| CIC General Insurance Limited | 38,484,282 | 15,731,840 |
| | 60,191,982 | 26,271,002 |

Transactions with related parties over the period were as follows:

| | | |
|---|---|---|
| CIC Asset Management Limited - Management fees | 1,079,246 | 186,966 |

## 14 CURRENCY

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

## 15 REGISTRATION

The fund is registered in Kenya under the Capital Markets Authority (CMA) Act.