CfC Insurance Holdings Limited

Annual Report 2011

and financial statements. For year ended 31st December

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Notice of annual general meeting

Notice is hereby given that the eighth Annual General Meeting of the members of CfC Insurance Holdings Limited will be held on Monday, 25 June 2012, at CfC House, Mamlaka Road, Nairobi, at 11.00 in the forenoon to transact the following business:

1. The Secretary to read the notice convening the meeting and confirm the presence of a quorum.
2. To receive and consider the Audited Financial Statements for the year ended 31 December 2011 and the Directors and Auditors Report thereon.
3. The note that the Directors do not recommend payment of dividend for the year ended 31 December 2011.
4. To elect Director
   - In accordance with Article 111 of the Companys Articles of Association, Mr J G Kiereini, retires by rotation and offer himself forre-election.
   - In accordance with Article 110 of the Companys Articles of Association, Ms S A Mboya, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offers herself for re-election.
5. To approve the Directors remuneration for the year ended 31 December 2011 as provided in the Financial Statements.
6. To note that Messrs PricewaterhouseCoopers continue in office as the auditor under Section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.
7. Special Business
8. To consider and if thought fit, to pass the following resolution as a Special Resolution:
9. "THAT the name of the Company be changed from CfC Insurance Holdings Limited to "Liberty Holdings Kenya Limited".
10. 8. Any other business for which due notice has been given.

By order of the Board

Caroline Kioni
Company Secretary
Date: 28 March 2012

NOTE

In accordance with section 136(2) of the Companies Act every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not be a Member of the Company. A form of proxy is enclosed and should be returned to the Company Secretary, P.O. Box 30390-00100 Nairobi, to arrive not later than 48 hours before the meeting.

Group Information

Directors
J G Kiereini - Chairman
ML du Toit *
B Katompa *
P Gethi
G R May **
S A Mboya - (Appointed on 29 November 2011)
S Wenman *- (Resigned on 29 November 2011)
K Mbathi - (Resigned on 29 November 2011)

* South African ** British

Secretary
C Kioni
CfC House
Mamlaka Road
P O Box 30390, 00100
Nairobi

Registered office
LR No 209/8592/2
CfC House
Mamlaka Road
P O Box 30390, 00100
Nairobi

Subsidiaries
CfC Life Assurance Ltd (100%)
The Heritage Insurance Company (K) Ltd (100%)
Azali Limited (100%)
CfC Investments Ltd (100%)
The Heritage Insurance (T) Ltd (60%)

Associates
Alliance Insurance Corporation Ltd
Strategis Insurance (Tanzania) Ltd

Bankers
CfC Stanbic Bank Ltd
Barclays Bank (K) Ltd
NIC Bank Ltd
Commercial Bank of Africa
Standard Chartered Bank Ltd
Kenya Commercial Bank Ltd
Equity Bank Ltd

Auditor
PricewaterhouseCoopers
Upper Hill Road,
Rahimtulla Tower
P O Box 43963, 00100
Nairobi

Share registrar
Comprite Kenya Limited
P O Box 63428, 00619
Nairobi

Chairman's Statement

It is my pleasure to present the annual report and financial statements for the CfC Insurance Holdings Limited ("CfCIH") for the year ended 31 December 2011.

The listing of CfCIH shares at the Nairobi Securities Exchange ("NSE") on 21 April 2011 marked the final step of the demerger from CfC Stanbic Holding Limited ("CSH"). This was the culmination of the separation of the wealth management arm from the banking and stock broking businesses in CSH. Liberty Holdings Limited ("Liberty") is now a core strategic partner. Liberty provides a perfect complementary fit in terms of product offering, IT systems, scope and expertise which are core for our strategic intent of becoming the leading Wealth Management Group within Kenya.

We now have a firm base from which to develop the specialized business units within CfCIH, namely life insurance, deposit administration, short term and health insurance in order to actively focus management expertise in each business areas. The Groups operations are undergoing significant changes in line with the strategy. The majority of changes are associated with improvement to the current distribution channels, introduction of new alternative distribution channels for products, introduction of differentiated products, improvement of risk controls, enhancement and re-engineering of processes and introduction of technology to enhance service delivery to our customers and intermediaries.

Financial Performance
CfCIH consolidated profit after tax for the year was Shs 950 Million up from Shs 260 Million in 2010. The improved performance is mainly the result of operational strategies that have been implemented to deliver on the groups business efficiency objectives. These results show strong resilience in a market that was characterized by a declining stock market, rising interest rates, and inflation amidst a number of internal operational changes.

The reduction in the Group's comprehensive income is substantively the result of a combination of the decline in fair values of equities listed on the NSE and rising interest rates that have negatively affected the valuation of the Group's investments in Government of Kenya Treasury bonds.

Compliance
Compliance with best practice and regulatory requirements is enshrined within our value and governance structures in all the subsidiaries. The following are our key regulators:
The Insurance Regulatory Authority of Kenya – the primary regulator of insurance businesses in Kenya
The Tanzanian Insurance Regulatory Authority – the primary regulator of insurance businesses in Tanzania
The Capital Markets Authority.

The Nairobi Securities Exchange.
We have a cordial relationship with our key regulators as well as the respective revenue authorities. This is founded on our endeavor to strictly comply with the guidelines of our industry and regular open communication.

Directorate
The directors who were in office in 2011 are listed on page 2 of this report. I am delighted to welcome Susan Mboya who joined the Board in 2011. Messers Kitili Mbathi and Stuart Wenman resigned from the Board during the year. I take this opportunity to thank them for their service and commitment to the Companys and Groups growth.

Human resources
Our success is the result of a committed team both at the holding and operating companies' levels who believe that in delivering value to our stakeholders, we will continue to build on the legacy of this great Group.

Chairman's Report Continued

Outlook

As we endeavour to further expand the business, we shall continue to raise the skills of our human capital to empower them and improve customer service standards across the Group. In addition, the new multi-national exposure brings new prospects for staff to consider offers of employment within the region. Libertys networks brings along opportunities for skills development and transfer, training and international experience. The Groups total staff complement as at 31 December 2011 was 366 compared to 369 in 2010.

Going forward, we shall continue to focus on growth through active improvement of our innovation in product offering to our customers, new and enhanced distribution channels, more efficient processes and systems, improved communication and increased relevance in the market. In addition we will continue to strengthen mutually beneficial arrangements, including banc-assurance, for greater value to all. By honoring our commitments, we will become the leading insurance and wealth management solution provider in East Africa, trusted to keep our promises and deliver real value.

Whilst 2011 was a challenging year for the economies within the East African region, indications are that the impact of some of the negative factors (interest rates, inflation and the equity market may not be as severe in 2012. This should have a positive effect on the performance of the Group.

Appreciation

Our excellent results would not have been possible if it were not for the support we have received from a dedicated work force, our clients, the shareholders and all other stake holders. We are confident that synergies, innovation and increased client focus will not only create value for all but also drive the earnings power in the current year to achieve attractive returns.

Finally, and on behalf of the Board, I would like to thank the Government and the regulatory bodies including the Insurance Regulatory Authority, the Nairobi Securities Exchange and the Capital Markets Authority, among others, for their support leading to the listing on 21 April 2011 and until now.

May I also extend my thanks to my fellow board members for their support and diligence throughout the year.

J G Kiereini

Chairman

28 March 2012

Corporate Governance Report

Introduction

The directors are committed to the principles of good governance and appreciate the importance of governing the business with integrity and accountability to all the stakeholders. The Board prescribes to the Commonwealth Association of Corporate Governance principles and has adopted the recommended guidelines and associated principles of best practice.

Through its subsidiaries; CfC Life Assurance Company Ltd, The Heritage Insurance Company Kenya Ltd and CfC Investments Ltd, the Board of CfC Insurance Holdings Ltd follows principles of openness, integrity and accountability in its stewardship of the organisations affairs. It recognises the dynamic nature of corporate governance and continuously assesses the Group's compliance with generally accepted corporate practices on a regular basis. The role of the Board is to ensure conformance by focusing on and providing the Groups overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision.

The Board is responsible for maintaining a system of internal control and for reviewing its effectiveness regularly to ensure that the assets of the Group are safeguarded while maintaining a reliable system of managing financial information, so that the Groups objectives of increased growth in profitability and shareholder value are realised.

Board of Directors

The Board of Directors consists of one executive Director and five non-executive directors who have been chosen for their business acumen and wide range of skills and experience. The Board meets quarterly as a minimum. During the year five meetings were held and the attendance by the Directors was as follows:

: Attended AP: Absent with Apology N/A: Not a member

The Board is responsible for setting the direction of the Group through the establishment of strategic objectives, key policies and decision making processes to achieve the objectives of the organisation. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability against approved strategic approaches.

Directors	Meeting on 11 March 2011	Meeting on 18 March 2011	Meeting on 10 June 2011	Meeting on 29 August 2011	Meeting on 29 August 2011
Mr J. G Kiereini					
Mr M. L du Toit					N/A
Mr K. Mbathi					
Mr B. Katompa					
Mr G. R. May					
Mr P. Gethi					
Mr S. Wenman					N/A
Ms S.A Mboya	N/A	N/A	N/A	N/A	N/A

Corporate Governance Report

Board effectiveness and evaluation

The Board is focused on continued improvements to its effectiveness and corporate governance performance. During the year the Board of Directors conducted a self assessment evaluation, which was divided into structure, process and effectiveness. A special meeting was convened to discuss the outcome and address any areas of concern. The results will be used to further improve Board functioning.

Sustainability

Social and environmental responsibility remains an important part of CfC Insurance Group culture. The monitoring and reporting of sustainability issues is still an evolving discipline within the organisation.

Social responsibility

As a Kenyan business, the Group understands the challenges and benefits of doing business in Kenya, and owes its existence to the people and societies within which it operates. The Group is committed therefore not only to the promotion of the economic development but also to the strengthening of civil society and human well-being.

The Group concentrates its social investment expenditure in defined focus areas in order to make the greatest impact. These areas of focus are subject to annual revision as the countrys socio-economic needs change.

Going Concern

The Board has reviewed the facts and assumptions, on which it relied and, based on these, will continue to view the Group as a going concern for the foreseeable future.

Remuneration

CfC Insurance Holdings Limited has a clear policy on remuneration of executive and non-executive directors at levels that are fair and reasonable in a competitive market for the skills, knowledge, experience required, nature and size of the Board.

The amounts paid to directors are included in note 34 which represents the total remuneration paid to executive and non-executive directors for the year under review.

J G Kiereini M L du Toit
Chairman Managing Director
28 March 2012

Director's Report

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2011, in accordance with Section 157 of the Kenyan Companies Act, which discloses the state of affairs of CfC Insurance Holdings Limited and its subsidiaries (together the "Group") and of CfC Insurance Holdings Limited (the "Company").

Incorporation

The Group was incorporated on 6 July 2004 under the name of Quadco One Limited. On 12 August 2004, the shareholders unanimously resolved to change the name of the Group from Quadco One Limited to CfC Holdings Limited. The Group was subsequently renamed CfC Insurance Holdings Limited in 2009.

Principal activities

The Group is engaged in the business of insurance and wealth management through its subsidiaries namely CfC Life Assurance Limited, CfC Investments Limited, and the Heritage Insurance Company Kenya Limited. The Group underwrites all classes of long term and general insurance as defined in the Kenyan Insurance Act. It also issues investment contracts to provide customers with asset management solutions for their savings and retirement needs.

Results and dividend

Profit for the year ended 31 December 2011 is Shs 950,418,000 (2010: Shs 260,014,000) has been added to retained earnings. During the year, no interim dividend was paid (2010: Shs 231,034,000). The directors do not recommend payment of a final dividend (2010: Nil)

Directors

The names of the directors who held office during the year and to the date of this report are set out on page 1. In accordance with the Groups Articles of Association, all the Directors retire and being eligible, offer themselves for re-election.

Auditor

The Groups auditor, PricewaterhouseCoopers, continue in office in accordance with Section 159(2) of the Companies Act.

By order of the Board
C. Kioni
28 March 2012

Statement of Directors' Responsibilities

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and Company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Company and its subsidiaries keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and its subsidiaries. They are also responsible for safeguarding the assets of the Company and its subsidiaries.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and its subsidiaries and of its profit or loss in accordance with International Financial Reporting Standards.

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the Company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement

J G Kiereini
Chairman
28 March 2012

M L du Toit
Director

Report Of The Independent Auditor To The Members Of Cfc Insurance Holdings Limited

Report on the financial statements

We have audited the accompanying consolidated financial statements of CfC Insurance Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), as set out on pages 11 to 83. These financial statements comprise the consolidated statement of financial position at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, together with the consolidated statement of financial position of the Company standing alone as at 31 December 2011, the income statement, statement of comprehensive income and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that 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 the auditors 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, the auditor considers internal control relevant to the Groups preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Groups internal control. 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 opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2011 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

1. 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;
2. in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books;
3. The Companys statement of financial position is in agreement with the books of account.

Certified Public Accountants
March 2012 Nairobi

1. General information

CfC Insurance Holdings Limited is incorporated in Kenya under the Companies Act as a limited liability Company, and is domiciled in Kenya. The address of its registered office is:

LR No 209/8592/2
CfC House, Mamlaka Road
Chiromo Road
P.O. Box 30390-00100
Nairobi

The Company was listed on the Nairobi Securities Exchange by way of introduction on 21 April 2011. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the income statement in these financial statements.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available for sale financial assets and derivative instruments at fair value through profit or loss. The financial statements are presented in Kenyan Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Groups accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group
The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 January 2011.

Standard Title

The amendment to IAS 1, „Presentation of financial statements is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Group and Company was already disclosing the analysis of other comprehensive income on its statement of changes in equity.

The amendment to IAS 24, „Related party disclosures clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amended definition means that some entities will be required to make additional disclosures, e.g., an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. There has been no significant impact on the Group and Company.

The amendments to IFRS 7, „Financial Instruments - Disclosures are part of the 2010 Annual Improvements and emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment has also removed the requirement to disclose the following;

- Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
- Fair value of collaterals; and
- Renegotiated assets that would otherwise be past due but not impaired.

The application of the above amendment has simplified financial risk disclosures made by the Group and Company. Other amendments and interpretations to standards became mandatory for the year beginning 1 January 2011 but had no significant effect on the Groups financial statements.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Group and Company.

Standard	Title	Applicable for financial years beginning on/after
IAS 1	Presentation of financial statements	1 July 2012
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013

- **IAS 1, Presentation of financial statements**

The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. Entities will be required to separate items presented in other comprehensive income ("OCI") into two Groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two Groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to „statement of profit or loss and other comprehensive income, though IAS 1 still permits entities to use other titles.

- **IFRS 9, Financial instruments**

IFRS 9, was issued in November 2009 and October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entitys business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entitys own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch. The Group and Company is yet to assess IFRS 9s full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

- **IFRS 10, „Consolidated financial statements**

This is a new standard that replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company and provides additional guidance to assist in the determination of control where this is difficult to assess. The revised definition of control focuses on the need to have both power and variable returns before control is present. The Group will need to consider the new guidance.

- **IFRS 12, Disclosure of Interests in other entities**

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including interests in subsidiaries, associates, joint arrangements, special purpose entities and other off balance sheet vehicles. The Group is yet to assess IFRS 12s full impact.

- **IFRS 13, Fair value measurement**

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs.

The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess IFRS 13s full impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group or Company.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of CfC Insurance Holdings Limited and its subsidiaries; CfC Life Assurance Limited, CfC Investments Limited, The Heritage Insurance Company (Kenya) Limited, The Heritage Insurance Company (Tanzania) Limited and Azali Limited. The financial statements have been made up to 31 December 2011.

Notes

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interests proportionate share of the acquirees net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value over any previous equity interest in the acquiree over the fair value of the Groups share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are those entities in which the Group has significance influence, but not control, over the financial and operating policies. Significant influence generally accompanies, but is not limited to, a shareholding of between 20% and 50% of the voting rights. Investments in mutual funds over whose financial and operating policies the Group is able to exercise significant influence (including those in which the Group has between 20% and 50% economic interest) are also classified as associates.

Interest in associates is accounted for using the equity method and are measured in the consolidated statement of financial position at an amount that reflects the Groups share of the net assets of the associate (including go odwill). Equity accounting involves recognising the investment initially at cost, including goodwill, and subsequently adjusting the carrying value for the Groups share of the associates income and expenses and other comprehensive income.

Equity accounting of losses in associates is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the Group has an obligation or has made payments on behalf of the associate. Unrealised intra-Group profits are eliminated in determining the Groups share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Equity accounting is applied from the date on which the entity becomes an associate, up to the date on which it ceases to be an associate. The accounting policies of associates have been changed where necessary to ensure consistency with the policies of the Group. Investment in associates is accounted for at cost less impairment losses in the Company financial statements.

c) Functional currency and translation of foreign currencies

i. Functional and presentation currency

Items included in the financial statements of each of the Groups entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated and Company financial statements are presented in Kenya Shillings, which is the Groups presentation currency.

ii. Consolidation of Group entities

The results and financial position of all foreign operations that have a functional currency different from the Groups presentation currency are translated into the presentation currency as follows:

- assets and liabilities (including goodwill and fair value adjustments arising on acquisition) are translated at the closing rate on the reporting date;
- income and expenses are translated at average exchange rates for the year, to the extent that such average rates approximate actual rates; and
- all resulting foreign exchange differences are accounted for directly in a separate component of other comprehensive income, being the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The exchange differences arising are recognised in equity.

iii. Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of Group entities at exchange rates prevailing at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

d) Insurance contracts

Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. See accounting policy for these contracts under 2(f). A number of insurance and investment contracts contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

a. that are likely to be a significant portion of the total contractual benefits;
b. whose amount or timing is contractually at the discretion of the Group; and
c. that are contractually based on:
    i. The performance of a specified pool of contracts or a specified type of contract;
    ii. Realised and/or unrealised investment returns on a specified pool of assets held by the Group; or
    iii. The profit or loss of the Company, fund or other entity that issues the contract.

Insurance contracts and investment contracts are classified into two main categories, depending on the duration of risk and as per the provisions of the Insurance Act.

Long term insurance business

Includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business and bond investment business and business incidental to any such class of business;

Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract), and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life;

Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, Group life and permanent health insurance policy.

ii) General insurance business
Means insurance business of any class or classes not being long term insurance business. Classes of General Insurance include Aviation insurance, Engineering insurance, Fire insurance - domestic risks, Fire insurance - industrial and commercial risks, Liability insurance, Marine Insurance, Motor insurance - private vehicles , Motor insurance - commercial vehicles, Personal accident insurance, Theft insurance ,Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.

Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

Recognition and measurement

i) Premium income
For long term insurance business, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

For general insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the financial reporting date, and is computed using the 1/24th method.

Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

ii) Claims
For long term insurance business, benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts. For general insurance business, claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the financial reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

iii) Commissions payable and deferred acquisition costs ("DAC")
A proportion of commission payable is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

iv) Liability adequacy test
At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

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

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 2 (f).

vi) Receivables and payables related to insurance contracts and investment contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The processes followed by the Group in assessing impairment of these receivables are described in Note 2 (f)

vii) Salvage and subrogation reimbursements
Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled.

The allowance is the amount that can reasonably be recovered from the disposal of the property. Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

e) Other income recognition

Commissions receivable are recognised as income in the period in which they are earned. Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends are recognised as income in the period in which the right to receive payment is established. Rental income is recognised as income in the period in which it is earned.

f) Investment contracts

The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate). The investment contracts include funds administered for a number of retirement benefit schemes.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment property (these contracts are also known as unit-linked investment contracts) and are designated at inception as at fair value through profit or loss. The Group designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as „an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
See Note 2 (l) for the financial assets backing these liabilities.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (i.e. the fair value received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

When such evidence exists, the Group recognises profit on day 1. The Group has not recognised any profit on initial measurement of these investment contracts because the difference is attributed to the prepayment liability recognised for the future investment management services that the Group will render to each contract holder.

The Groups main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. The fair value of financial liabilities for investment contracts without fixed terms is determined using the current unit values in which the contractual benefits are denominated. These unit values reflect the fair values of the financial assets contained within the Groups unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each contract holder at the financial reporting date by the unit value for the same date.

When the investment contract has an embedded put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

For investment contracts with fixed and guaranteed terms, the amortised cost basis is used. In this case, the liability is initially measured at its fair value less transaction costs that are incremental and directly attributable to the acquisition or issue of the contract.

Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Group re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the financial liabilitys original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

g) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the financial reporting date.

h) Share capital

Ordinary shares are classified as „share capital in equity. Any premium received over and above the par value of the shares is classified as „share premium in equity.

i) Investment in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The investment in subsidiary is stated at cost less any provision for impairment. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

j) Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Companys interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Computer software

Generally, costs associated with developing or maintaining computer software programmes and the acquisition of software licenses are recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Group and have a probable future economic benefit beyond one year, are recognised as intangible assets.

Capitalisation is further limited to development costs where the Group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development.

Direct costs include software development employee costs and an appropriate portion of relevant overheads. Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (two to 10 years), and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Other intangible assets

The Group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in the income statement as incurred.
Prepayment assets are recognised for advertising or promotional expenditure until the Group has obtained the right to access the goods purchased or received the services.

The Group capitalises brands, customer lists, customer contracts and similar rights acquired in business combinations. Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, not exceeding 20 years, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

k) Cash and cash equivalents

Cash and cash equivalents are carried in the date of financial reporting at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

l) Financial instruments
Financial instruments include all financial assets and liabilities held for liquidity, investment, trading or hedging purposes.

All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through the income statement where transaction costs are recognised immediately in the income statement. Financial instruments are recognised (derecognised) on the date the Group commits to purchase (sell) the instruments (trade date accounting).

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classification.

Classification

i) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity.
Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in other comprehensive income.

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, other than those classified by the Group as at fair value through the income statement or available-for-sale. This category includes purchased loans.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the Groups advances are included in the loans and receivables category.

iii) Financial assets and liabilities designated at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

f.) Financial Instruments (Continued)
The Group designates certain financial assets and liabilities, other than those held for trading, as at fair value through profit or loss when:

- This designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. The designation significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts or insurance contract liabilities; or
- Groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the Groups key management personnel on a fair value basis; or
- Financial instruments contain one or more embedded derivatives that significantly modify the instruments cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are re-measured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (expense) for all dated financial assets (financial liabilities) and in other revenue within non-interest revenue for all undated financial assets.

iv) Available-for-sale

Financial assets classified by the Group as available-for- sale are generally strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or non-derivative financial assets that are not designated as another category of financial assets.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the available-for-sale reserve in other comprehensive income until the financial asset is derecognised or impaired. When dated (undated) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in other comprehensive income are transferred to interest income.

Interest income, calculated using the effective interest method, is recognised in the income statement. Dividends received on available-for-sale instruments are recognised in the income statement when the Groups right to receive payment has been established. Foreign exchange gains or losses on available-for-sale debt instruments are recognised in the income statement.

Impairment of financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or Group of financial assets is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that loss event had a negative effect on the estimated future cash flows of the financial asset or Group of financial assets that can be estimated reliably.

i) Assets carried at amortised cost
The Group first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

ii) Available-for-sale financial assets
Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred.

f.) Financial Instruments (Continued)
In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is transferred from other comprehensive income to the income statement.

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement for available-for-sale debt instruments. An impairment loss in respect of an available-for-sale equity instrument is not reversed through the income statement but accounted for directly in other comprehensive income.

Derecognition of financial instruments
Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expires.

m) Investment property
Property held to earn rental income and/or for capital appreciation that is not owner-occupied is classified as investment property. Investment property includes property under construction or development for future use as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with fair value changes recognised in the income statement as investment gains or losses.

The fair value of investment property is based on valuation information at the reporting date. If the valuation information cannot be reliably determined, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets.

Fair value adjustments on investment property recognised in the income statement are adjusted for any double-counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

n) Property and equipment

Equipment and owner-occupied properties
All categories of property and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. All other equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the assets carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably.

Maintenance and repairs, which do not meet these criteria, are recognised in the income statement as incurred. Depreciation, impairment losses and gains or losses on disposal of assets are included in the income statement. Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the period of the lease or over a lesser period, as is considered appropriate.

The assets residual values and useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year-end. The estimated useful lives of tangible assets for the current financial year are as follows:

Leasehold buildings	The shorter of the lease period or 50 years
Furniture & fittings	3 - 10 years
Motor vehicles	4 - 5 years
Computers and office equipment	3 - 10 years

There has been no change to the estimated useful lives from those applied in the previous financial year.

o) Impairment of non-financial assets
Intangible assets that have an indefinite useful life and goodwill are tested annually for impairment. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the income statement for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are Grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cashgenerating units).

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through the income statement only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

p) Leases

Group as lessee
Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is recognised in the income statement over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are recognised in the income statement on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as lessor
Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The benefits arising from investment allowances on assets leased to clients are accounted for in tax.

Leases of assets under which the Group retains a significant portion of the risks and rewards of ownership are classified as operating leases. Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of a penalty is recognised as income in the period in which termination takes place.

q) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation if as a result of past events it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.
The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit pledged as collateral security. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

r) Employee benefits

Defined contribution plan
The majority of the Groups employees are eligible for retirement benefits under a defined contribution plan. The Group and all its employees also contribute to the respective Social Security Funds, which are defined contribution schemes. A defined contribution plan is a retirement benefit plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Groups contributions to the defined contribution schemes are charged to the profit and loss account in the year in which they fall due.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

s) Tax

Direct taxation includes current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is not recognised for the following temporary differences:

- The initial recognition of goodwill;
- The initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- Investments in subsidiaries and jointly controlled entities (excluding mutual funds) where the Group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

t) Reinsurance premiums

Reinsurance premiums are recognised when due for payment, in accordance with the terms of each reinsurance contract.

u) Acquisition costs

Acquisition costs for insurance contracts represent commissions payable to agents and brokers and other costs that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred.

v) Deferred acquisition costs (DAC) in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs are expensed as incurred, unless specifically attributable to an investment contract with an investment management service element.

Such costs are deferred and amortised on a straight-line basis over the expected life of the contract (10 to 16 years for linked annuities and five years for other investment contracts), taking into account all decrements, as they represent the right to receive future management fees. A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis. The DAC asset is assessed for impairment at the reporting date.

w) Dividends on ordinary shares

Dividends are recognised in equity in the period in which they are declared. Dividends declared after the reporting date is disclosed in the dividends note

x) Segment reporting

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The Groups identification of segments and the measurement of segment results is based on the Insurance Act and internal reporting to management. Transactions between segments are priced at market-related rates.

y) Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation, in the current year or as indicated in Note 2(z) below. Refer to Note 4 Segment reporting..

z) Restatements

During the year, it was established that the actuarial liabilities had been understated by Shs 310,232,000 as a result of an actuarial valuation error. In addition, available-for-sale investments were overstated by Shs 245,184,000 due to a pricing error at the end of 2010. The prior year balances have been restated to correct these errors. The December 2009 actuarial liabilities have been increased by Shs 310,232,000 and the retained earnings have been adjusted with the same figure as the data available to the actuaries could not enable them to split the impact to the respective years. The entire impact has been booked to the earliest period presented. In addition, the investment balances in 2010 have been reduced by Shs 245,184,000 and the other reserve balances have been adjusted with the same figure. The directors have presented three balance sheets because the restatement on the actuarial liabilities has an impact on 2009 reserves. These restatements did not have a tax impact.

Comparative information for 2009 has only been disclosed on the note that has been impacted by the restatement resulting from the actuarial valuation error i.e. Note 17 and Note 25.

3. Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions 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.

a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 18.

b) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting date. The Group has used a discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

c) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Groups provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

d) Impairment of available-for-sale assets

The Group determines that available-for-sale equity investments are impaired when there has been significant or prolonged decline in fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration of the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

e) Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment and their residual values. The rates used are set out in Note 2(n).

f) The classification of financial investments

In applying the Groups accounting policies, management has made judgement in determining the classification of financial investments as held-to-maturity, available for sale and loans and receivables in line with IAS 39. The classifications require judgement of the Groups ability and intention to hold the investments to maturity.

g) Insurance contract liabilities

It is the statutory requirement in Kenya that the insurance contract liabilities are calculated on the statutory Net Present Valuation (NPV) basis. The NPV is intended to measure the solvency of the life operation on a stable basis and examines the business from the point of view of premiums that are net of standard expense allowances the value of future net premium is compared with the cost of providing contractual policyholder benefits over the duration of the policy. When performing the liability adequacy test, all classes for which undiscounted liabilities were calculated, a discounted cash flow model was created based on the "best estimate" assumptions. Prudent margins are added to these to project cash flows. These are then discounted at the valuation interest rate.

(i) Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business, while Group specific tables are used for larger classes. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk.

g.) Insurance contract liabilities (Continued)

The Group bases these estimates on standard mortality tables that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums.

The main source of uncertainty is that epidemics such as AIDS could result in future mortality being significantly worse than in the past for the age Groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk.

For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

An investigation into mortality experience is performed annually. The period investigation extends over the latest three full years for larger classes of business. Investigations relating to smaller classes usually extend over five years in order to gain sufficient credibility of the data. The results of the investigation are used to set the valuation assumptions, which are taken as an adjustment to the respective standard table.

In setting the assumptions, provision is made for the expected increase in AIDS-related claims. In general, Actuarial Society of South Africa (ASSA) models are used to allow AIDS-related claims. The practice differs by class of business, however for major classes of business, a basic allowance for AIDS related deaths is included in the base mortality rates against which annual mortality investigations are conducted. A further discretionary margin is then held using the ASSA2000 lie model.

(ii) Morbidity

The incidence of disability claims is derived from industry experience studies, adjusted where appropriate for Group Companies own experience. The same is true for the incidence of recovery from disability.

(iii) Medical

The incidence of medical claims is derived from the risk premium rates determined from annual investigations. This is adjusted where appropriate to allow for the future expected experience.

(iv) Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal rates are analysed by product type and policy duration. These withdrawal rates vary considerably by duration and policy term. Typically the rates are higher for risk type products versus investment type products, and are higher at early durations.

(v) Correlation

No correlations between assumptions are allowed for.

4. Segmental reporting

The Group is currently organised in line with the Insurance Act which classifies insurance and investment contracts into two main categories (long-term and general) depending on the duration of risk.

The results of the business units are reviewed regularly by Board in order to make decisions about resources to be allocated to segments and assessing segment performance.

The Group is required to produce segmented financial statements i.e. income statement and statement of financial position in compliance with IFRS 8.

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Identification of segments and the measurement of segment result is based on the Groups internal reporting to management.

The geographical spread (across borders) is also used as a part of performance analysis.

a) Long term insurance business

Includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business, industrial life assurance business and bond investment business and business incidental to any such class of business;

Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract), and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life;

Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, Group life and permanent health insurance policy.

b) General insurance business

Includes insurance business of any class or classes not being long term insurance business. Classes of General Insurance include Aviation insurance, Engineering insurance, Fire insurance - domestic risks, Fire insurance - industrial and commercial risks, Liability insurance, Marine Insurance, Motor insurance - private vehicles , Motor insurance - commercial vehicles, Personal accident insurance, Theft insurance ,Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.

Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

Major Customers

The Group does not have any one major customer that contributes more than 10 percent of its revenues.

i) Results by business units

31 December 2011	Long term Business Shs'000	General Business Tota Shs'000	Total Shs'000
Net insurance premium revenue	**1,292,262**	**2,945,671**	**4,237,933**
	1,275,822	**919,500**	**2,195,322**
Commissions earned	62,739	450,286	513,025
Investment income	1,201,073	439,557	1,640,630
Administration fees	12,010	1,927	13,937
Other income	-	27,730	27,730
Total income	**2,568,084**	**3,865,171**	**6,433,255**
Net insurance benefits and claims	**(961,814)**	**(1,520,680)**	**(2,482,494)**
Total expenses and commissions	**(872,248)**	**(2,068,679)**	**(2,940,927)**
Result of operating activities	**734,022**	**275,812**	**1,009,834**
Share of income from associates	-	2,381	2,381
Profit before taxation	**734,022**	**278,193**	**1,012,215**
Income tax expense	7,538	(69,335)	(61,797)
Profit for the year	**741,560**	**208,858**	**950,418**
Total assets	**16,977,464**	**7,316,070**	**24,293,533**
Property and equipment	656,623	399,928	1,056,551
Intangible assets	100,935	19,031	119,966
Investment property	412,500	211,053	623,553
Financial investments	5,316,180	9,194,696	14,510,876
Reinsurers' share of insurance liabilities	459,465	1,657,670	2,117,135
Total liabilities	**14,366,885**	**5,752,052**	**20,118,936**
Insurance contract liabilities	4,356,511	2,332,799	6,689,310
Payable under deposit administration contracts	9,237,856	-	9,237,856
Unearned premium reserve	-	2,242,031	2,242,031
Borrowings	252,311	(182,220)	70,091
Additions to property and equipment	14,090	63,277	77,367
Additions to intangible assets	8,047	3,553	11,600

31 December 2010 Restated	Long term business Shs'000	General business Shs'000	Total Shs'000
Net insurance premium revenue	**1,227,350**	**2,304,559**	**3,531,909**
	1,344,394	**498,350**	**1,842,744**
Commissions earned	27,227	189,957	217,184
Investment income	1,306,914	274,216	1,581,130
Administration fees	10,253	6,826	17,079
Other income	-	27,351	27,351
Total income	**2,571,744**	**2,802,909**	**5,374,653**
Net insurance benefits and claims	**(1,304,942)**	**(1,409,530)**	**(2,714,472)**
Total expenses and commissions	**(898,497)**	**(1,315,531)**	**(2,214,028)**
Result of operating activities	**368,305**	**77,848**	**446,153**
Share of income from associates	-	36,782	36,782
Profit before taxation	**368,305**	**114,630**	**482,935**
Income tax expense	(161,485)	(61,436)	(222,921)
Profit for the year	**206,820**	**53,194**	**260,014**
Total assets	**17,213,290**	**6,614,039**	**23,827,329**
Property and equipment	982,689	110,274	1,092,963
Intangible assets	134,181	32,869	167,050
Investment property	210,000	335,000	545,000
Financial investments	12,392,112	2,692,598	15,084,710
Reinsurers' share of insurance liabilities	56,700	1,353,796	1,410,496
Total liabilities	**13,702,700**	**5,447,970**	**19,150,670**
Insurance contract liabilities	3,917,829	2,109,370	6,027,199
Payable under deposit administration contracts	8,703,273	-	8,703,273
Unearned premium reserve	-	1,853,053	1,853,053
Borrowings	250,000	250,000	500,000
Additions to property and equipment	66,600	7,184	73,784
Additions to intangible assets	9,401	1,367	10,768

The segment information has been restated accordingly to correct the errors of actuarial liabilities understatement of Shs 310,232,000 and available-for-sale investments overstatement of Shs 245,184,000 as detailed in note 2 (z). These restatements affected only the long-term segment information.

ii) Results on geographical spread

In 2010 the Group acquired the Heritage Insurance Company Kenya Limited and effectively took control of the Heritage Insurance Company Tanzania Limited operations. The Tanzanian subsidiary contributed approximately 8% of the Groups consolidated income.

31 December 2011	Kenya Shs'000	Tanzania Shs'000	Total Shs'000
Net insurance premium revenue	3,708,527	529,406	4,237,933
	1,894,879	300,443	2,195,322
Commissions earned	334,714	178,311	513,025
Investment income	1,537,612	103,018	1,640,630
Administration fees	13,937	-	13,937
Other income	8,616	19,114	27,730
Total income	**5,603,406**	**829,849**	**6,433,255**
Net insurance benefits and claims	**(2,174,282)**	**(308,212)**	**(2,482,494)**
Total expenses and commissions	**(2,531,223)**	**(409,704)**	**(2,940,927)**
Result of operating activities	**897,901**	**111,933**	**1,009,834**
Share of income from associates	-	2,381	2,381
Profit before taxation	**897,901**	**114,314**	**1,012,215**
Income tax expense	(29,682)	(32,115)	(61,797)
Profit for the year	**868,219**	**82,199**	**950,418**
Total assets	**20,752,478**	**3,541,055**	**24,293,533**
Property and equipment	1,041,057	15,494	1,056,551
Intangible assets	105,660	14,306	119,966
Investment property	623,553	-	623,553
Financial investments	13,779,743	731,133	14,510,876
Reinsurers' share of insurance liabilities	643,941	1,473,194	2,117,135
Total liabilities	**17,329,835**	**2,789,101**	**20,118,936**
Insurance contract liabilities	5,440,982	1,248,328	6,689,310
Payable under deposit administration contracts	9,237,856	-	9,237,856
Unearned premium reserve	1,343,097	898,934	2,242,031
Borrowings	70,091	-	70,091
Additions to property and equipment	66,798	10,569	77,367
Additions to intangible assets	10,806	794	11,600

31 December 2010	Kenya Shs'000	Tanzania Shs'000	Total Shs'000
Net insurance premium revenue	3,140,288	391,621	3,531,909
	1,621,667	221,077	1,842,744
Commissions earned	78,509	138,675	217,184
Investment income	1,521,365	59,765	1,581,130
Administration fees	17,079	-	17,079
Other income	4,714	22,637	27,351
Total income	**4,761,955**	**612,698**	**5,374,653**
Net insurance benefits and claims	**(2,502,925)**	**(211,547)**	**(2,714,472)**
Total expenses and commissions	**(1,888,466)**	**(325,562)**	**(2,214,028)**
Result of operating activities	**370,564**	**75,589**	**446,153**
Share of income from associates	-	36,782	36,782
Profit before taxation	**370,564**	**112,371**	**482,935**
Income tax expense	(191,555)	(31,366)	(222,921)
Profit for the year	**179,009**	**81,005**	**260,014**
Total assets	**21,301,052**	**2,526,277**	**23,827,329**
Property and equipment	1,076,419	16,544	1,092,963
Intangible assets	138,289	28,761	167,050
Investment property	545,000	-	545,000
Financial investments	14,606,098	478,612	15,084,710
Reinsurers' share of insurance liabilities	1,248,671	161,825	1,410,496
Total liabilities	**17,347,371**	**1,803,299**	**19,150,670**
Insurance contract liabilities	5,139,583	887,616	6,027,199
Payable under deposit administration contracts	8,703,273	-	8,703,273
Unearned premium reserve	1,212,365	640,688	1,853,053
Borrowings	500,000	-	500,000
Additions to property and equipment	71,049	2,735	73,784
Additions to intangible assets	10,768	-	10,768

The segment information has been restated accordingly to correct the errors of actuarial liabilities understatement of Shs 310,232,000 and available-for-sale investments overstatement of Shs 245,184,000 as detailed in note 2 (z). These restatements affected only the Kenyan segment information.

5. Financial risk management objectives and policies

CfC Insurance Holdings Limited (the Group) offers a comprehensive range of financial products and services to the retail and corporate markets, distributing tailored risk, insurance, investment, retirement and health products through its network. The Group is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of these products and services. The Group is mindful of achieving this objective in the interests of all stakeholders. The Group continues to explore opportunities to develop and grow its business organically, with strategic plans being subject to careful consideration of the trade-off between risk and reward, taking into account the risk appetite limits approved by the board.

The Groups main value creation activities can be summarised into the following categories:

1. Providing risk cover – CfC Insurance Holdings Limiteds core competency is to understand the life, health and asset related risk needs of individuals and Groups, and design sustainable products that provide financial security to policyholders and their families in times of death, sickness or ill health, disability and other losses.
2. Providing asset management services – primarily through its subsidiaries, the Group uses its financial skills to provide competitive investment products and investment advice to a broad range of customers.
3. Assuming market risk – through the management of assets backing shareholder funds and of exposures arising from asset-liability mismatches which the Group wishes to retain.

Ultimate responsibility for risk management resides with the Board which ensures that all business unit executives are responsible and are held accountable for risk management within the subsidiaries. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types.

a) Risk management objectives

The Groups key risk management objectives are to:

- Grow shareholder value by generating a long-term sustainable return on capital;
- Ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;
- Meet the statutory requirements of the Kenyan Insurance Act, and other regulators; and
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis.

The management of risks is currently focused on managing shareholder exposures within strategic limits whilst ensuring sufficient allocation of capital on both a regulatory and economic capital basis given the limits in place.

b) Capital management

The capital management strategy seeks to ensure that the Group is adequately capitalised to support the risks assumed by the Group in accordance with the Groups risk appetite. It further seeks to fund working capital and strategic requirements, thereby protecting policyholder and customer interests while optimising shareholder risk adjusted returns and delivering in accordance with the Groups dividend policy.

Due to varying requirements of different stakeholders, the Group reports and manages capital on a number of different bases. The capital management process ensures that the Groups available capital exceeds the capital required both currently and going forward and to ensure that the Gr o u p has unfettered access to its capital at all times to meet its requirements.

Capital management – Company

The Companys objective in capital management is to safeguard the Companys ability to continue as going concern in order to provide returns for share holders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	Company 2011 Shs'000	2010 Shs'000
Total borrowings	660,125	1,063,949
Due to group companies (Note 34)	(124,054)	(538,365)
Total borrowing	**536,071**	**525,584**
Less: cash and cash equivalents (Note 24)	(188,218)	(66,242)
Net debt	347,853	459,342
Total equity	**2,730,426**	**2,204,626**
Gearing ratio	**12.74%**	**20.84%**

Capital management – Group

The Board of Directors at the subsidiary Companies are responsible for monitoring and ensuring compliance with the regulatory framework as established by the Kenyan Insurance Regulatory Authority.

The subsidiaries are regulated by the Kenyan Insurance Act, Companies Act and Insurance Regulatory Authority. The objectives when managing capital are to:

- comply with the capital requirements as set out in the Insurance Act;
- comply with regulatory solvency requirements as set out in the Insurance Act.
- Safeguard the companies ability to continue as going concerns, so that they can continue to provide
- Returns to shareholders and benefits for other stakeholders; and
- provide an adequate return to shareholders by pricing insurance and investment contracts
- commensurately with the level of risk.

5. Financial risk management objectives and policies (Continued)

The Kenyan Insurance Act requires each insurance Company to hold the minimum level of paid up capital as follows;

	Regulatory requirement Shs' 000	CfC Life Assurance Limited Shs' 000	Heritage Insurance (Kenya) Shs' 000
General insurance business	300,000	460,000	300,000
Long-term insurance business	150,000	152,340	150,000

General insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 15% of the net premium income during the preceding financial year.

Long term insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 5% of total admitted liabilities.

- The Tanzanian Insurance Act requires each insurance Company to hold the minimum level of paid up
- capital as follows;
- Composite insurance companies TShs 1,000 million
- General insurance business companies TShs 500 million and
- Long term insurance business companies TShs 500 million

As at period end, the Heritage Insurance Company (T) Limited had a share capital of 40,000 fully paid up shares totalling TShs 4,000 million. This was in excess of the minimum requirement. The solvency margin of the subsidiaries as at 31 December 2011 and 31 December 2010 are set out below:

CfC Life Assurance Limited	Long-term business	Short-term business	Long-term business	Short-term business
	2011	2011	2010	2010
	Shs'000	Shs'000	Shs'000	Shs'000
	13,063,634	-	13,073,715	396,415
Admitted liabilities	(12,371,249)	-	(11,162,949)	(330,898)
Solvency margin	**692,385**	-	**1,910,766**	**65,517**
Required margin	**618,562**	-	**558,147**	**114,812**

Heritage Insurance Kenya Limited	Long-term business	Short-term business	Long-term business	Short-term business
	2011	2011	2010	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Total admitted assets	1,957,813	3,400,001	1,832,603	2,953,372
Total admitted liabilities	(1,705,395)	(3,042,349)	(1,702,340)	(2,899,308)
Solvency margin	**252,418**	**357,652**	**130,263**	**54,064**
Required margin	**85,270**	**152,117**	**85,117**	**144,965**

5. Financial risk management objectives and policies (Continued)

Heritage Insurance Tanzania Limited	Short-term business	Short-term business
	2011	2010
	Shs' 000	Shs' 000
Admitted assets	1,550,009	981,826
Admitted liabilities	(1,255,572)	(809,693)
Solvency margin	**294,437**	**172,133**
Required margin	**35,973**	**105,384**

c) Credit risk

Definition

Credit risk refers to the risk of loss or of adverse change in the financial position resulting, directly or indirectly from fluctuations in the credit standing of counterparties and any debtors to which shareholders and policyholders are exposed. Credit risk is a function of exposure at default and probability of default and comprises default, settlement and spread risk.

- Default risk is the risk of credit loss as a result of failure by counterparty to meet its financial and/or contractual obligations. It has three components:
  - Issuer risk: the exposure at default (EAD) arising from traded credit products.
  - Primary credit risk: the EAD arising from lending and related product activities. Primary credit risk generally refers to non-tradable, illiquid or hold-to-maturity credit risk.
- Settlement risk is the risk of loss from a transaction settlement, where value is exchanged, failing which the counter value is not received in whole or part.
- Spread risk (also known as credit migration risk) is the result of changes to spreads due to changing circumstances (micro and macro). It is the risk that a portfolio or counterpartys credit quality will materially deteriorate over time without allowing for a repricing of the exposure to compensate CfC Insurance Holdings Limited for the now higher default risk being carried.

Key activities that result in the origination of credit risk are:

- financial asset instruments including debt instruments (including bonds, loans and term deposits and investment policies);
- reinsurance assets including amounts due from reinsurers in respect of claims already paid;
- certain debtor accounts within the financial position categories of prepayments, insurance and other receivables;
- rental due where tenants have signed lease contracts for space within the Groups investment properties; and
- cash and cash equivalents.

Counterparty types to which the Group is exposed to credit risk include sovereigns (governments), state owned enterprises, financial institutions and corporate entities. In addition, the Group is also exposed to credit risk through investment in securitisation issuance, mutual funds and investment policies.

c) Credit risk (Continued)

Reinsurance assets

Reinsurance is used to manage insurance risk and consequently, in the liability valuation process, reinsurance assets are raised for expected recoveries on projected claims. This does not, however, discharge the Groups liability as primary insurer. In addition, reinsurance debtors are raised for specific recoveries on claims recognised.

Creditworthiness is assessed when appointing reinsurers. Financial position strength, performance, track record, relative size and ranking within the industry and credit ratings of reinsurers are taken into account when determining the allocation of business to reinsurers. Credit exposure to reinsurers is also limited through the use of several reinsurers. A review of these reinsurers is continuously done. Furthermore to mitigate credit exposures to reinsurers, reassurance management performs the following annual checks on reinsurers:

- Copies of reinsurers claim paying abilities, as assessed by reputable rating agencies, and copies of valuators certificates are obtained and analysed;
- Meetings and administration process audits are conducted with reinsurers with whom the Group has larger exposures; and
- Reinsurance agreements are reviewed and amended as appropriate with accurate and complete records kept up to date.
-

Insurance and other receivables

The Group has formalised procedures in place to collect or recover amounts receivable. In the event of default, these procedures include industry supported lists that help to prevent rogue agents, brokers and intermediaries from conducting further business with CfC Insurance Holdings Limited. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

Credit assessment changes recognised in the income statement

Fair value instruments

The Group invests in both listed and unlisted debt instruments. Changes to credit spreads for listed instruments are based on available market information and/or a proxy (where appropriate), combined with management input and override depending on the liquidity of the listed asset. Unlisted financial assets are generally not actively traded and changes to the credit spread for these instruments are fair valued with reference to proxy listed assets (where appropriate), combined with management input and override, market research and other compelling evidence which is all collated to form a view on current value.

Mortgages and loans, comprising policy loans, are impaired when the amount of the loan exceeds the policyholders investment balance. The mortgages and loans are recoverable through offset against their respective liabilities (policy benefits) at policy maturity date.

The impairment loss is determined on an incurred loss approach as the difference between the instruments carrying value and the present value of the assets estimated future cash flows, including any recoverable collateral, discounted at the instruments original effective interest rate. To provide for latent losses in a portfolio of loans where the loans have not yet been individually identified as impaired, impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods.

(c) Credit risk (continued)
The amount that best represents the Groups maximum exposure to credit risk at 31 December 2011 is made up as follows:

Maximum exposure to credit risk before collateral held

	Group		Company	
	2011	2010	2011	2010
	Shs '000	Shs '000	Shs '000	Shs '000
Financial investments	14,510,876	15,084,710	-	-
Receivable arising from reinsurance	216,266	155,715	-	-
Receivable arising from direct insurance	740,559	544,816	-	-
Reinsurers' share of insurance liabilities	2,117,135	1,410,496	-	-
Other receivables	300,121	170,737	-	-
Deposits with financial institutions	2,038,661	2,181,279	-	-
Cash and bank balances	660,945	648,923	188,218	66,242
	20,584,563	**20,196,676**	**188,218**	**66,242**

None of the above assets are past due or impaired except for insurance receivables (which are due upon invoicing):

	Group	
	2011	2010
	Shs '000	Shs '000
Neither past due nor impaired	465,600	117,161
Past due but not impaired	274,959	427,655
Impaired	153,165	145,646
Gross	**893,724**	**690,462**
Less: allowance for impairment	(153,165)	(145,646)
Net	**740,559**	**544,816**

	Group	
	2011	2010
Past due but not impaired:	Shs '000	Shs '000
- by up to 30 days	72,296	98,558
- by 31 to 60 days	41,720	73,931
- by 61 to 150 days	149,240	55,612
- by 151 to 360 days	11,703	199,554
Total past due but not impaired	**274,959**	**427,655**

All receivables past due by more than 360 days are considered to be impaired, and are carried at their estimated recoverable value.

5. Financial risk management objectives and policies (Continued)

Consideration of own credit risk for financial liabilities measured at fair value through profit or loss
CfC Insurance Holdings Limited has considered the impact of changes in credit risk in the fair value measurement of its policyholder investment contract liabilities. Credit risk changes will only have a significant impact in extreme circumstances, when CfC Insurance Holdings Limiteds ability to fulfil the contract terms is considered to be under threat. The Group remains well capitalised and accordingly no adjustment to the valuation for credit risk has been made for the years under review.

d) Operational risk
Definition

Operational risk is the risk of loss caused by inadequate or failed internal processes, people and systems, or from external events. Operational risk is therefore pervasive across all financial institutions and all other operational companies.

Operational risk is recognised as a distinct risk category which the Group strives to manage within acceptable levels through sound operational risk management practices. The Groups approach to managing operational risk is to adopt practices that are fit for purpose to suit the organisational maturity and particular business environments.

Executive management defines the operational risk appetite at a Group and subsidiary level. This operational risk appetite supports effective decision-making and is central to embedding effective risk management. The objective in managing operational risk is to increase the efficiency and effectiveness of the Groups resources, minimise losses and utilise opportunities.

Ownership and accountability
Management and staff at every level of the business are accountable for the day-to-day identification and management of operational risks. It is also managements responsibility to report any material operational risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

Risk identification, assessment and measurement
The process of operational risk management starts with the operational risk assessment of identified areas. Consideration is then given to the need for a Group or business unit policy to define the approach to mitigating this risk.

Risk and compliance policies are developed where necessary to:

- ensure compliance with internal principles and with legal and regulatory requirements,
- address associated risks in the business, define roles, responsibilities and expectations at all levels,
- guide staff at all levels on how to conduct Groups business
- ensure that staff apply consistent processes throughout the Group, and
- help management to develop operating processes.