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Notice of Annual General Meeting

To the Shareholders of **LIBERTY KENYA HOLDINGS LIMITED**

NOTICE IS HEREBY given that the 12th Annual General Meeting of the Company will be held Nairobi on Tuesday 6th June 2017, at The Sarova Stanley Hotel Nairobi, at 11.00 a.m. to transact the following business:

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

2. To read the notice convening the meeting.

3. To receive, consider and if approved, adopt the Annual Report and the Audited Financial Statements for the year ended 31st December 2016, together with the Chairman's, Directors' and Auditors' Report thereon.

4. To note that the Directors do not recommend payment of dividend for the year ended 31st December 2016.

5. To elect Directors:

   i) In accordance with Article 88 of the Company's Articles of Association, Messrs Philip Odera and Jeff Hubbard, directors appointed to fill casual vacancies, retire at the dissolution of the meeting and, being eligible, offers themselves for re-election.

6. To approve the Directors' remuneration for the year ended 31st December 2016 as provided in the Financial Statements.

7. To note that Messrs KPMG Kenya, continue in office as the auditor in accordance with the Kenyan Companies Act, 2015 and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

8. To consider and if thought fit, pass the following resolution as a Special Resolution:-
   "That the name of the Company be and is hereby changed from "Liberty Kenya Holdings Limited" to "Liberty Kenya Holdings Plc" with effect from the date set out in the Certificate of Change of Name issued in that regard by the Registrar of Companies.

By order of the Board

Caroline Kioni
Company Secretary
Date: 16 March 2017

NOTES:

1. A 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.

2. A form of proxy may be obtained from the Company's Share Registrar, Comprite Kenya Limited, Crescent Business Centre, The Crescent off Parklands Road opp. MP Shah Hospital, Nairobi, the Company's registered office, Liberty House, Processional Way, Nairobi or the Company's website www.libertykenya.co.ke. To be valid, the form of Proxy must be duly completed by the member and returned to the Share Registrar Comprite Kenya Limited, Crescent Business Centre, The Crescent off Parklands Road opp. MP Shah Hospital, Nairobi, not later than Friday 11.00 a.m. 2nd June 2017. In the case of a body corporate the Proxy must be under its seal.

3. A copy of the entire Annual Report and Accounts may be viewed at the Company's website www.libertykenya.co.ke or a printed copy may be obtained from the Company's Share Registrar, Comprite Kenya Limited, Crescent Business Centre, The Crescent, off Parklands Road opp. MP Shah Hospital, Nairobi or the Company's registered office at Liberty House, Processional Way, Nairobi.

Corporate information

DIRECTORS

S A Mboya	Chairman
M L du Toit*	Managing Director
P Gethi	Non-Executive
G R May**	Non-Executive
Sandile Hlophe*	Non-Executive (Resigned 31 January 2017)
Phillip Odera	Non-Executive (Appointed 2 September 2016)

**British
*South African

SECRETARY
C Kioni (Ms)
P.O. Box 30390 - 00100 Nairobi

INDEPENDENT AUDITOR
KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612 - 00100 Nairobi

REGISTERED OFFICE
LR No 209/8592/2
Liberty House
Mamlaka Road
P.O. Box 30390 - 00100 Nairobi

SUBSIDIARIES
Liberty Life Assurance Kenya Limited (100%)
The Heritage Insurance Company Kenya Limited (100%)
Azali Limited (100%)
CfC Investments Limited (100%)
The Heritage Insurance Company Tanzania Limited (60%)

SHARE REGISTRAR
Comprite Kenya Limited
Crescent Business Centre Parklands
Off Parklands Road
P.O. Box 63428 - 00619 Nairobi

LAWYERS
Coulson Harney Advocates
5th floor, ICEA Lion Centre Riverside Park
Chiromo Road
P.O. Box 10643 - 00100 Nairobi

BANKERS
Stanbic Bank Limited
Stanbic Centre
Chiromo Road
P.O. Box 72833 - 00200 Nairobi

NIC Bank Limited
NIC House
Masaba Road
P.O. Box 44599 - 00200 Nairobi

Board of Directors

Dr Susan Mboya (52)

Chairman

Dr. Susan Mboya Joined Liberty Kenya Board in 2012 and was appointed chairman on 29 November 2012. She is the Chairman of the Company and the Group Director, Eurasia, Africa Group (EAG) for Women's Economic Empowerment at Coca Cola. In this role, Susan is leading the Group's deployment of an initiative undertaken by the Coca-Cola Company from September 2010to empower five million women entrepreneurs across the Coca-Cola System by 2020. In May 2009, Dr Mboya was awarded a honorary Doctorate in Humanities from Lakeland College in Wisconsin, for her work on the Zawadi Africa Educational Fund. In December 2010 she was awarded the Elder of the Burning Spear (EBS), the highest civilian award from the Kenya Government in recognition of her dedication and service to the Country's youth through the Zawadi Africa Educational Fund

Gayling May (74)

Director

Mr. Gayling R. May, who was appointed to the Board in December 2009, has an extensive accounting background having worked for PricewaterhouseCoopers in various countries for 37 years. He is a Fellow of The Institute of Chartered Accounts in England and Wales (FCA), a member of the Institute of Certified Public Accountants of Kenya (CPA) and a member of the Institute of Certified Public Secretaries of Kenya (CPS). He holds directorships in Swissport Kenya Limited, British American Tobacco Kenya Limited, Liberty Life Assurance Company Kenya Limited, Heritage Insurance Company Kenya Limited, Liberty Kenya Holdings Limited. He is currently the Regional Representative of the Eastern Africa Association, a business information service based in Nairobi, and active throughout East Africa.

Peter Gethi (51)

Director

Mr. Peter Gethi was appointed to the Board on 17 December 2009. He holds a BSc (Hons) degree in Agriculture Economics and has expansive managerial experience in Agriculture Business Management. He has been a General Manager with Kilimanjaro Plantations Limited (TZ) and Senior Group Manager with SCEM Limited (formally Standard Chartered Estate Management). He currently works both as an Agricultural Consultant and is involved with Real Estate Development as Managing Director of Nebange Ltd. He is also the Chairman of Heritage Insurance Company Kenya Limited and Liberty Life Assurance Company Kenya Limited and a director of The Heritage Insurance Company Tanzania Ltd, Stanbic Holdings Limited and Stanbic Bank Limited. He serves on the Audit and Risk Committees of Liberty Kenya Holdings Limited, and Heritage Insurance Company Tanzania Limited.

Mike Du Toit (55)

Managing Director

Mr. Mike du Toit joined Liberty in 2010. He is the Company's Managing Director and Liberty Group's Regional Executive for East and Central Africa responsible primarily for strategic growth initiatives, governance and stakeholder engagement. Prior to this he was Managing Director of Stanbic Bank Limited having led the merger of the Stanbic and CfC Groups. As a career banker, he has extensive experience in the financial services field across sub-Sahara Africa having worked and lived in, amongst others Botswana, Mozambique, South Africa and Uganda. He also sits on the boards of all Group associated insurance and asset management companies across the region.

Phillip Odera (57)

Director

Mr Philip Odera was appointed the Chief Executive of Stanbic Bank Limited on 2nd March, 2015. Mr Odera has been with Standard Bank for 15 years where he joined as General Manager at Stanbic Bank Kenya Limited. He has served Standard Bank in various capacities as Country Head and Managing Director in Kenya, Malawi and Uganda. Prior to joining Standard Bank, he served as Consumer Bank Head at Citibank NA, Kenya. He has 29 years of experience in banking and financial services industry, rising from position of Commodities Analyst in Boston (USA) at Kramer Brokerage Company to his current position as Chief Executive, Stanbic Bank Limited. He holds a Bachelor of Arts degree (Economics) from St Lawrence University, New York and a Master of Business Administration (Finance) from Suffolk University, Boston both in the United States of America.

He sits as an Executive Director in the Stanbic Bank Board and Non-Executive Director on the Board of SBG Securities Limited.

Sandile Hlophe (45)

Director

Mr. Sandile Hlophe joined Liberty in 2015. He is the Chief Executive – Group Arrangements. He holds a BAcc (UKZN), PGDip Acc (UKZN), CA(SA). He has extensive executive management and corporate finance experience. He joined liberty from EY Africa where he led a Pan Africa Corporate finance practice and served in the executive Committee. He spent three years at the Standard Bank Group and was also a partner and Board member at KPMG South Africa.

Caroline Kioni

Company Secretary

Board of Directors
continued

Chairman's Statement

It is my pleasure to present the annual report and financial statements for Liberty Kenya Holdings Limited ("Liberty Kenya") for the year ended 31 December 2016.

Group structure

Liberty Kenya is a subsidiary of South African-based Liberty Holdings Limited, which is in turn majority owned by the Standard Bank Group, also of South Africa. Whilst Liberty Kenya is listed on the Nairobi Securities Exchange, both its immediate and ultimate majority shareholders are listed on the Johannesburg Stock Exchange in South Africa.

Liberty Kenya owns subsidiaries that engage in both short term and long term insurance business. Through its two operating entities, Liberty Life Assurance Kenya Limited (Liberty Life) and The Heritage Insurance Company Kenya Limited (Heritage), the Group continues to be a key player in the insurance sector, both in Kenya and Tanzania. The Group's interest in Tanzania is through a 60% shareholding in Heritage Insurance Company Tanzania Limited.

2016 Economic Environment

Equities market

Equity market weakness that started in 2015 persisted in 2016. The NSE 20 index and the NASI declined by 21.1% and 8.5% respectively in 2016. This downturn was precipitated by a host of global and local factors and the recent bank failures. In addition, the amendment of the Banking Act, capping the lending and deposit rates contributed further to decline in the listed bank stocks.

The market was characterized by lower activity in 2016 dominated by foreign investors with the equity market turnover declining by 30% to KShs.147b from KShs.209b posted in 2015. Higher yields from fixed income assets encouraged investors to make higher allocations to fixed income.

Experts from Stanlib Kenya believe the Equity market valuations are significantly lower than in previous years, offering potential for competitive risk adjusted returns in coming periods.

Bond market

The short end of the curve experienced higher volatility during the year while the mid to long end tenors were less. This was mainly due to skewed liquidity conditions and higher fiscal expenditure requirements. In its FY16/17 budget statement, the Government set the domestic borrowing target at KShs.229.3b compared to a target of KShs.191b in the 2015/2016 fiscal year. The borrowing target for FY16/17 was however revised upwards by KShs.58.5b later in 2016.Several 10 year,15 year and 20 year treasury bonds were issued during the year to lengthen the Government debt profile. Going forward, the CBK's liquidity management through Open Market operations and high appetite for funds by Government is likely to support elevated rates.

Stanlib Kenya experts believe the short end of the yield curve may experience some upward pressure; while the medium to long term is likely to hold at current levels in Q1 2017. Appetite for domestic funding by the Treasury, inflation and currency outlook will be key in determining the bond yields.

Interest rates

There was a noted decline in interest rates in 2016 as compared to 2015. The 91 day rate averaged 8.6% compared to 11.0% for 2015. The 182 day and the 364 day Treasury Bills averaged 10.9% and 11.7% compared to 12.2% and 12.9% respectively in 2015. In 2016, the Central Bank lowered its policy rate twice by a total of 150bps to 10.0% in a bid to enhance private sector credit growth. KBRR was revised downwards to 8.9% from 9.9%. Throughout the year, CBK's Open market operations were active to control market liquidity and support the currency. Market credit risk remained high in the year resulting in skewed liquidity favoring the larger banks. Going forward policy actions taken to contain inflation and support the currency are likely to cause an upward bias on short-term interest rates.

Stanlib Kenya experts believe the Interest rates especially on the short-medium tenors are likely to increase in Q1-2017 given the current fiscal and monetary policy outlook

Inflation

Headline inflation closed the year at 6.4% compared to 8.01% in

- **Gross earned premium revenue at Shs 9.35 Bn is up 3%.**
- **Investment income at Shs 2.55 Bn up 39%.**
- **Net insurance benefits and claims at Shs 3.95 Bn up 26%.**
- **The Shareholders' funds grew by 8.3% to 6.75Bn.**

December 2015. The decrease is due to lower global and local fuel prices. Overall annual inflation averaged 6.3% in 2016 as compared to 6.6% in 2015-within CBK's upper limit. Core annual inflation at 4.6%, was within the CBK's 5% target. Food inflation was elevated in the second half of the year as erratic rainfall led to higher food prices. It closed the year at 10.6%. The upward trend in food prices is expected to persist into 2017, unless the weather patterns improve. On the other hand, Fuel inflation remained muted throughout the year supported by the lower global oil prices that prevailed during the year. Upward pressure on global oil prices is likely to increase after OPEC and some non-OPEC members agreed to cut oil production. Murban oil price increased by 46% in 2016, ending the year at US$ 54.15 per barrel.

Stanlib Kenya experts believe the Inflation is expected to increase during Q1-2017 but remain within the Central Bank's target of 2.5% and 7.5% in Q1'17.

Exchange rate

The local currency stability persisted in 2016 supported by monetary policy measures taken by CBK, resilient diaspora remittances and healthy forex reserves. The Shilling weakened by 0.2% and 12.8% against the US Dollar and the South African Rand while gaining by 3.0% and significantly by 16.1% against the Euro and Sterling Pound respectively. It however gained by 6.9%, 0.8% and 9.3% against Uganda shilling, the Tanzanian shilling and Rwandan franc respectively. Import cover remained above the 4 months statutory limit throughout the year. As at December 2016 the usable reserves stood at US$ 6,971m which is equivalent to 4.6 months of import cover. Global dollar strengthening, high import demand especially for infrastructure related expenditures and capital outflows are likely to put more pressure on the shilling in 2017. Resilient diaspora remittances, tourism sector recovery and lower oil prices will be positive for the Shilling. The country is yet to tap on the 2 year precautionary IMF credit facility ($1.5m) provided in March 2016. The credit facility requirements review is due in March 2017 and the Government may not be compliant to one of the agreed requirements to narrow its budget deficit to below 6.5% of GDP in the 2016/17 fiscal year and to 5.0% in 2017/18 fiscal year.

Stanlib Kenya experts believe the Kenya Shilling is expected to weaken further in the year. Oil price increases, continued infrastructural spend and a likely shift in portfolio allocation may put pressure on the current account

Group financial highlights

The Group reported a profit after tax of Shs 628Mn for the year ended 31 December 2016, a decline of 15% on the previous year's Shs. 736Mn.

	2016 KShs'000s	2015 KShs'000s	Change %
Heritage Insurance Company Kenya Limited	498,194	386,899	+29
Liberty Life Assurance Kenya Limited	201,574	437,488	-54
Heritage Insurance Company Tanzania Limited	105,636	151,992	-30
Liberty Kenya Holdings Limited	(28,952)	276,074	-110
Azali Limited	2,027	(32,021)	+106
TOTAL	**778,479**	**1,220,432**	**+36**
Consolidation Entries	(150,652)	(484,340)	-69
Profit after tax(PAT)	627,827	736,092	-15

Chairman's Statement continued

Heritage Kenya and its subsidiary Azali had a good 2016. The company's core operating earnings represented by underwriting profit more than doubled in the year under review. Azali limited came from a loss in the year before occasioned by a property valuation loss to return a profit. Liberty Life had a more difficult year occasioned by depressed margins due to competitive pressures especially in the Group life area and further aggravated by increase in claims costs. Our short-term business in Tanzania (Heritage Tanzania) business fundamentals were solid with improved underwriting earnings in the year that exceeded prior year by 28%. The investment earnings were however significantly lower than year before dampening the good underwriting results. Liberty Kenya Holdings Limited (The Company) did not have a good year due to reduced dividend declarations from its operating subsidiaries. The entities chose to retain earnings in order to build sustained capacity to meet increasing regulatory capital requirements between 2016-2018. Insurance companies are required to maintain capital adequacy of 1.5x in 2016, 1.8x in 2017 and 2.0x in 2018.

Key Achievements for the year under review are summarized as follows:

- Profit after tax for the year 2016 was Shs 628mn, a 15% decline.
- Gross earned premium revenue at Shs 9.35 Bn is up 3%.
- Investment income at Shs 2.55 Bn up 39%.
- Net insurance benefits and claims at Shs 3.95 Bn up 26%.
- The Shareholders' funds grew by 8.3% to 6.75Bn.
- Both Liberty Life and Heritage show strong solvency levels at 1.6x and 1.95x respectively

Regulations

The Cabinet Secretary to the Treasury announced a raft of measures specifically touching on Insurance Industry in his June 8, 2016 budget speech. Some of the key measures introduced directly affecting insurance sector includes;

a) The Government introduced risk-based regulation for the insurance sector in the Finance Act 2015. To augment this, the Cabinet Secretary proposed Gross Premium Valuation ("GPV") methodology.

b) Also, in recognition of the current developments in the insurance industry, the government proposed to properly house Sharia compliant or Takaful insurance products in the Insurance Act.

c) In a move that favors policy holders, the Cabinet Secretary reduced the maximum time in which an insurance claim should be settled from 90 days to 30 days.

d) Insurance of imported goods to be covered by local insurance companies. Therefore goods are to be imported on Cost and Freight (C&F) terms rather than Cost, Insurance and Freight (CIF) terms.

e) Removal of annual licensing for institutions licensed by the Retirement Benefits Authority (RBA) and in its place implementation of a non-renewable perpetual licence which RBA can withdraw if necessary.

In August 2016, the banking Act was amended introducing restrictions on the rate which banks offer on loans and deposits. This amendment put a cap on lending rates at 4.0% above the Central Bank Rate (CBR) and a floor on the deposit rates at 70% of the CBR. The Monetary Policy Committee (MPC) meeting on January 30, 2017 noted that the available data was inconclusive for assessing the impact of the recent capping of interest rates. With regard to the impact on the banking sector, banks are reviewing their business models aimed at enhancing the resilience of their operations in the new environment.

Business environment

Solvency

The implementation Risk Based Capital ("RBC") continued in 2016 with a lot of engagements to get clarity on some parameters. Some amendments were done in the course of the year to fully align other pieces of regulation with RBC such as changes to the valuation basis that introduced gross premium valuation method. Insurance Companies are required to maintain a Capital Adequacy Ratio of 1.5x by June 2016, 1.8x by June 2017 and above 2.0x in June 2018. These changes require insurance companies to review their business practices to minimize risks that unnecessarily expose them to punitive capital charges. The Group insurance entities exceeded the minimum regulatory capital adequacy requirements. The Group will continue to manage its operations prudently to ensure policyholder and shareholder interests are preserved at all times.

The Insurance Sector

The insurance business in Kenya is characterized by cut throat competition. According to report by the Insurance Regulatory Authority, there were 55 Insurance companies, 186 Brokers and 6,481 Agents licensed as at 31 December 2016. The pressure for growth has mostly resulted in unhealthy competition leading to continuous thinning of margins even as new entrants join the market. Just as in other services, direct selling via the internet and mobile services is gaining momentum and threatens brokers and agents. Already comparison websites are springing up, and mobile platforms are being leveraged. Insurance brokerage business is under threat from bancassurance and from direct selling, although there are many reasons why insurance will continue to depend on face-to-face selling.

Unsurprisingly, the expectations of double-digit premium

Chairman's Statement continued

growth, great potential in all segments, supported by robust technological developments as well as a favorable regulatory regime and opportunity for regional footprint of many local insurers have made the sector an attractive target for foreign investors. Foreign and local capital is likely to continue to flow into the sector, lured not only by the great domestic potential but also by the chance to expand into the sizeable regional market.

Fraud

While there is a lot of potential for growth in the market, there are certainly plenty of challenges, including fraudulent claims. Fraud is particularly prevalent in motor and medical claims. It is difficult to tell the exact magnitude of the menace. The industry lobby body AKI is developing a data sharing platform that should help industry player's share information freely which will enable greater understanding of customer trends.

Processes, Products and Channels

The Group is developing systems and processes to meet the modern demands of customers. This also means expanding our distribution channels to make it easier for customers to have access to services at their convenience. Over time, we have gained cumulative experience in understanding our customers and have been largely successful. The next frontier is to use big data to develop algorithms to profile customers and the Group is excited that the data sharing initiative driven by AKI was recently revived. These initiatives will ultimately enable us to better understand the customer so that we can serve them in the right manner. We cannot however achieve our goal without well trained and committed staff members.

I am pleased to report that the Group is still committed to growth and expansion to enhance its capacity for service delivery. Two additional branches were launched during the year, in Kitengela and Embu. These branches house our short-term and life business under one roof.

Staff

The Group is an equal opportunity employer. We do not discriminate against any employee or job applicant because of race, color, religion, national origin, sex, physical or mental disability, or age. The Group encourages staff development by offering both professional and internal training opportunities.

Corporate Social Responsibility

The Group has a long-term education financial aid program where students from poor backgrounds across the counties are considered for sponsorship. The Group walks with the student the entire journey from Form 1 admission until they graduate from the university and eventual job placement. We consider this to be more useful and sustainable instead of haphazardly sponsoring without follow through and mentoring.

The Group has a well established staff social club which organizes for staff team building activities. This is run by a committee selected by the staff members.

Business Outlook for 2017

The World Bank has upheld Kenya's growth projection for this year at six per cent, largely unchanged from an estimated 5.9 per cent in 2016. The country goes into general elections 2017 and it is pleasing to note that experts expect the economy to grow at the projected rates. Notably, the Kenya Revenue Authority (KRA) was mandated to ensure compliance with the Insurance Act that requires Insurance covers to be placed locally. We expect significant growth in the uptake of Marine insurance as a result.

Following the enactment of risk based capital towards end of 2015, we expect insurers to carefully review their capital adequacy position in order to meet the now more stringent requirements. The Group will continue to review it's risk appetite and dividend policy to insure the company is adequately capitalized to face future challenges.

Dividend

As a result of changes in the regulatory environment in the insurance industry requiring the subsidiary businesses to hold higher capital, the Board of Directors do not recommend the payment of a dividend (2015: Nil).

Appreciation

I wish to thank the Board of Directors for their unrelenting support and guidance throughout the year. To our valued business partners, Brokers, Agents and clients who have remained with us even in the most turbulent times, we thank you and reiterate our unbreakable promise to service.

Finally I wish to thank the management and staff for their dedication and commitment to serve our clients. Together, we will continue to be a trusted brand in insurance in Kenya and the region.

S Mboya
Chairman
16 March 2017

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 Liberty Life Assurance Kenya Limited, Heritage Insurance Company Kenya Limited and Heritage Insurance Tanzania Company Limited, Azali Limited and CfC Investments Limited, the Board of Liberty Kenya Holdings Limited follows principles of openness, integrity and accountability in its stewardship of the organisation's affairs. It recognizes 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 Group's 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 Group's 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. During the year three meetings were held and the attendance by the Directors was as follows:

Directors	24 March 2016	7 June 2016	2 September 2016
Dr. S A Mboya	P	A	P
Mr. G R May	P	P	P
Mr. P Gethi	P	P	P
Mr. P Odera*	N/A	N/A	P
Mr. M L du Toit	P	P	P
Mr. S Hlophe	P	P	P

P Present * Joined on 2nd September 2016 N/A Not Applicable A Apologies

The Board is responsible for setting the direction of the Group through the establishment of strategic objectives, key policies and decision making process 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.

Board Committees

The Group is headed by the Board of Directors, which has ultimate responsibility for the management and strategic guidance and assumes the primary responsibility of fostering the sustainability of the Group's business. The Board has the overall responsibility of establishing oversight of the Group's risk management framework. The performance against financial and corporate governance objectives is monitored by the Board through managements' quarterly reporting.

The implementation of the Group's strategic objectives is done at the individual subsidiary companies, through various established Board and management committees including Audit and Risk Committees ('ARC') and Investment Committees. The Company's ARC meets at least twice a year in accordance with the half yearly financial reporting period adopted by the Group. Attendance during the year is shown below:

Directors	23 March 2016	25 August 2016
Mr. G R May	P	P
Mr. P Gethi	P	P
Mr. S Hlophe	P	P

P Attended

Corporate Governance Report continued

The Company also has a Directors' Affairs Committee comprising the Chairman of the Board, and two Directors, one of whom is Non-Executive. The mandate of this Committee includes ensuring the effectiveness of the Group's governance structures.

Board effectiveness and evaluation

The Board is focused on continued improvements in its effectiveness and corporate governance performance.

Sustainability

Social and environmental responsibility remains an important part of Liberty Kenya Holdings Group culture. The monitoring and reporting of sustainability issues is still an evolving discipline within the organisation. However the Board, through its subsidiaries, is conscious of the fact that, as a Group, its sustainability and success is dependent upon the environment and the communities within which the Group operates. Through our subsidiaries it is our policy to ensure that our activities meet the social, economic and environmental expectations of all our stakeholders.

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 country's social-economic needs change. The Group focus is mainly in the area of education and health with a long term view of sustaining the projects at hand.

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

Liberty Kenya 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 non- executive Directors remuneration is reviewed periodically by the Directors' Affairs Committee.

The amounts paid to directors are included in note 28 which represents the total remuneration paid to executive and non- executive directors for the year under review.

S A Mboya
Chairman

M L du Toit
Managing Director

16 March 2017

CORPORATE SOCIAL R

The Group adopted Kajiado Township Primary School since 2015. Following adoption, we identified that the school needed a clean water source. A borehole therefore commissioned and further rehabilitated in 2015. Inset is Mr. Albert Ngunjiri (Director, Health Insurances) and Mr. Abel Munda (MD, Liberty Life) washing hands from the borehole water.

A library for Kajiado Township Primary School will serve the entire school consisting of 1,000 pupils. Inset is members of the group staff led by Managing Director Liberty Life, Abel Munda and Director, Health Insurance Albert Ngunjiri.

Group staff also participated in the Nairobi Greenline Walk in the Park. This was to create awareness against the encroachment of the Nairobi National Park by planting trees to create a natural boundary. This was a worthy initiative since this is the only national park in the world within the city environs.

ESPONSIBILTY

We identify students from humble backgrounds and walk with them through their academic journey to eventual job placements.

Group staff participate in the annual Mater Heart Run to raise money for open heart surgery for children.

The Group runs a Grants Scholarship program offering both full and partial scholarships to over 200 students all at various stages of academic development. The group organizes mentorship programs conducted yearly, to ensure that we offer a holistic mentorship curriculum.

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2016, in accordance with the Kenya Companies Act, 2015, which disclose the state of affairs of Liberty Kenya Holdings Limited and its subsidiaries (together the "Group") and of Liberty Kenya Holdings Limited (the "Company").

Principal activities

The Group is engaged in the business of insurance and wealth management through its subsidiaries namely Liberty Life Assurance Kenya Limited, Heritage Insurance Company Kenya Limited and Heritage Insurance Tanzania Limited. The Group underwrites classes of long term and general insurance as defined in the Kenyan Insurance Act and Tanzania Insurance Act with the exception of micro insurance. 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 2016 of Shs 627,834,000 (2015: Shs 736,050,000) has been added to retained earnings. The Directors do not recommend the payment of a dividend (2015: 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 5.

Relevant audit information

The directors in office at the date of this report confirm that:

- There is no relevant information of which the Company's auditors are unaware; and
- Each director has taken all the steps that they ought to have taken as a directors so as to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

The company's auditors', KPMG Kenya, continue in office in accordance with the Kenyan Companies Act, 2015.

Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 16 March 2017.

By Order of the Board

C Kioni

16 March 2017

Statement of directors' responsibilities

The Directors are responsible for the preparation of the financial statements that give a true and fair view of Liberty Kenya Holdings Limited set out on pages 28 to 104 which comprise the Group and Company statements of financial position as at 31 December 2016, the statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the Group and Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Accounting policy 1.2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the operating results of the Group and company for that year. It also requires the Directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements (IFRS) give a true and fair view of the state of the financial affairs of the Group and the Company operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Group and the Company's ability to continue as a going concern and have no reason to believe the Group and the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 16 March 2017 and were signed on its behalf by:

Chairman **Managing Director**

16 March 2017

Directors' Remuneration Report

Liberty Kenya Holdings Limited ("Liberty") ambition is to be the trusted leader in Insurance in Kenya with the purpose of making a difference in people's lives by making their financial freedom possible. Innovation and integrity are the key enablers to our vision.

Liberty is pleased to present the Directors' remuneration report for the year ended 31 December 2016. This report is in compliance with Liberty's reward policy, CMA Code of Corporate Governance Guidelines on Directors' remuneration and the Kenyan Companies Act, 2015. A key provision of the Company's principles is that reward will directly support the business strategy with clear and measurable linkage to business performance.

Our reward system seeks to recognize the contribution individuals make to the success of the Company and reflect the value of the roles they are performing, as well as the level to which they perform them. Our approach to recognizing our Directors' contribution to the business is based on the principles of:

- Market: Our reward levels reflect the competitive market and compare favourably with relevant competitors for such skills.

- Communication: We aim to explain to everyone the component value of their total reward package and the criteria which may affect it.

- Effectiveness: We aim to seek out best practice and ensure our reward programs remain effective for the business and individuals.

- Our reward components are reviewed regularly and are subject to external benchmarking to ensure that we continually offer competitive total reward packages. We are committed to ensuring reward and recognition is applied in a fair and consistent manner.

During the financial year, Liberty's Board of Directors consisted of:

- 1 Executive Directors: M L du Toit;
- 5 Non-executive directors: S A Mboya; P Gethi; G R May, S Hlophe and P Odera.

The remuneration of the executive director is contained in a negotiated employment contract. The Non-Executive Directors (NEDs) do not earn any employment remuneration from Liberty as they are members of the board in their individual capacity.

For the financial year ended 31 December 2016, the consolidated directors' fees across all group entities amounted to KShs 23,080,000.

The Company will not be proposing to make any changes to the NEDs remuneration level during the current financial year.

Non-Executive Directors'
Remuneration Policy and Framework

Liberty offers a selection of financial reward and benefits. The precise nature of these is subject to periodic review and may be amended from time to time, taking into account market practice.

The list of the reward components is as follows:

Retainer Fees
This is competitive taking into account market rates of pay. Fees are reviewed by the Directors' Affairs Committee every two years after a survey of prevailing market movements. Any increases are determined in accordance with the business' ability to fund the increase. Retainer Fees are paid on a quarterly basis.

Directors' Remuneration Report continued

Attendance Fees

Non-Executive Directors are paid an attendance fee in recognition of the time spent attending Liberty Board or Committee meetings as well as meetings of the subsidiary companies. These are also benchmarked on market rates and trends.

Insurance Cover

Liberty provides Directors' and Officers' liability insurance cover for all the Directors in line with best practice.

Travel and Accommodation when on Company Business

Liberty caters for travel and accommodation costs in line with its Travel and Entertainment policy in place for the Liberty Executive Committee Members and for the Non-Executive Directors. Non-Executive Directors travel on business class when attending Company related meetings.

By Order of the Board
Carol Kioni (Ms)
Company Secretary
16 March 2017

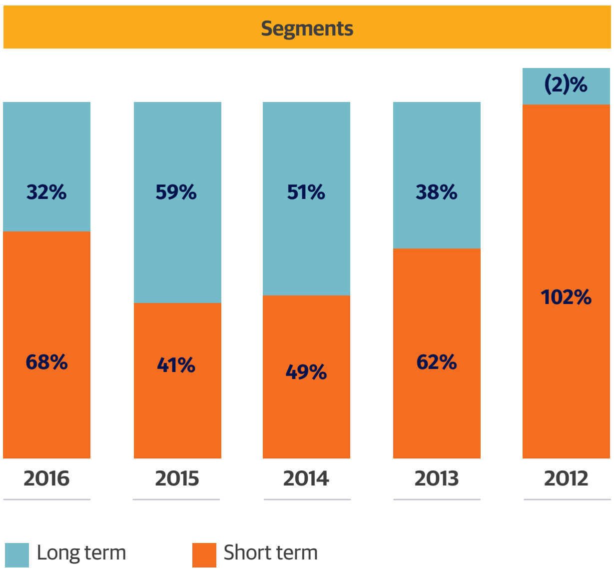
Financial Highlights

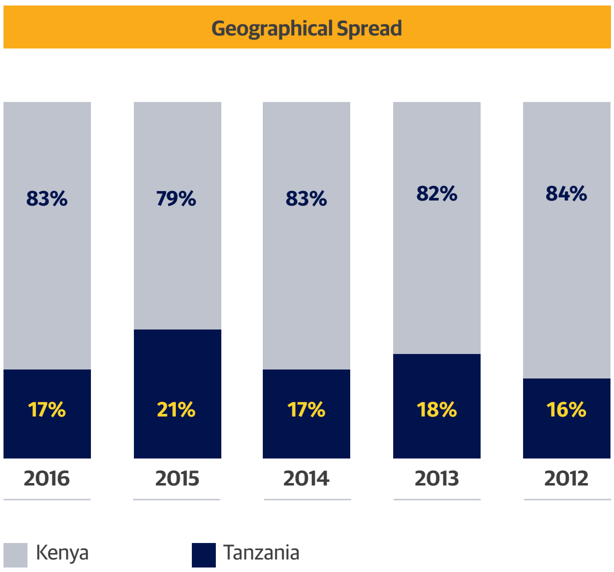
Group

Five Year Consolidated Statement of Profit or Loss

	2016 Shs'000	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000
Net insurance premium revenue	5,573,336	5,525,834	4,692,485	4,067,128	3,982,386
Investment and other income	3,451,537	2,745,822	3,610,067	3,311,482	4,067,013
Total income	**9,024,873**	**8,271,656**	**8,302,552**	**7,378,610**	**8,049,399**
Net insurance benefits and claims	(3,952,115)	(3,126,117)	(3,456,461)	(3,076,841)	(3,761,475)
Operating expenses and commissions	(4,130,873)	(4,191,837)	(3,509,440)	(2,995,520)	(3,137,549)
Result of operating activities	**941,885**	**953,702**	**1,336,651**	**1,306,249**	**1,150,375**
Earnings from associates	-	-	9,918	(7,387)	23,704
Profit before income tax	**941,885**	**953,702**	**1,346,569**	**1,298,862**	**1,174,079**
Income tax expense	(314,051)	(217,652)	(197,584)	(192,942)	(316,230)
Profit for the year	**627,834**	**736,050**	**1,148,985**	**1,105,920**	**857,849**
Costs to income	46%	51%	42%	41%	39%
Earnings per share (Shs)	1.17	1.37	2.14	2.15	1.66

Results from operating activities split per segment and geographical spread.





Financial Highlights

Five Year Consolidated Financial Position

	2016 Shs'000	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000
Total equity	**6, 753,641**	**6,233,113**	**6,157,189**	**5,464,882**	**4,554,231**
Assets					
Property, equipment and intangible assets	1,194,429	1,185,433	1,100,816	1,136,877	1,165,093
Investment property	789,763	1,035,500	936,000	842,200	710,449
Goodwill	1,254,995	1,254,995	1,254,995	1,254,995	1,254,995
Investment in associates	-	-	-	70,041	61,948
Financial investments	21,896,541	19,064,519	19,098,156	15,949,076	14,083,814
Other assets	4,847,905	5,236,068	4,552,324	5,746,018	4,062,108
Cash and cash equivalents	4,936,638	6,757,174	6,251,762	6,452,983	6,033,693
Total assets	**34,920,721**	**34,533,689**	**33,194,053**	**31,452,190**	**27,372,100**
Liabilities					
Insurance contract liabilities	11,939,589	11,060,752	9,720,729	10,320,927	7,523,118
Deposit administration liabilities	10,367,517	11,463,105	12,047,554	11,103,757	10,465,499
Other liabilities	5,859,524	5,776,721	5,268,581	4,562,624	4,349,456
Borrowings and bank overdraft	-	-	-	-	479,796
Total liabilities	**28,166,630**	**28,300,578**	**27,036,864**	**25,987,308**	**22,817,869**
Net assets	**6,763,641**	**6,233,111**	**6,157,189**	**5,464,882**	**4,554,231**

Independent auditors' report to the members of Liberty Kenya Holdings Limited

Report on the audit of the financial statements

Opinion

We have audited the Group and Company financial statements of Liberty Kenya Holdings Limited set out on pages 28 to 104, which comprise the Group and Company statements of financial position as at 31 December 2016, Group and Company statements of profit or loss, Group and Company statements of other comprehensive income, Group and Company statements of changes in equity and Group and Company statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated and separate financial position of Liberty Kenya Holdings Limited as at 31 December 2016, and of the consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group and Company financial statements of the current period. The matters were addressed in the context of our audit of the Group and Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditors' report to the members of Liberty Kenya Holdings Limited continued

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Insurance and Deposit Administration Contract Liabilities	
See Notes 20 and 21 to the financial statements	
The key audit matter	**How the matter was addressed**
Short term insurance contract liabilities Short term insurance contract liabilities constitute about 10% of the Group's total liabilities. Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported to the Group. Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities. The key assumptions that drive the reserving calculations include graduate development factors, loss ratios, inflation assumptions and claims expense assumptions. The valuation of insurance contract liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise. Consequently, we have determined the valuation of short term insurance contract liabilities to be a key audit matter.	Our audit procedures in this area included, among others; • Evaluating and testing of key controls around the claims handling and reserve setting processes of the Group; • Checking for any unrecorded liabilities at the end of the period; • Checking samples of claims reserves through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters; • Re-performing reconciliations between the data recorded in the financial systems and the data used in the actuarial reserving calculations; • Re-projecting the incurred but not reported reserve balances using the actuarially-determined reserve percentages per class of business; • Using our actuarial specialists to review the reserving methodology applied and analytically review the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; and • We also considered the validity of management's liability adequacy testing by assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of company and industry experience data and specific product features.

Independent auditors' report to the members of Liberty Kenya Holdings Limited continued

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Insurance and Deposit Administration Contract Liabilities (continued)	
See Notes 20 and 21 to the financial statements	
The key audit matter	**How the matter was addressed**
Long term insurance contract liabilities The Group has significant long term insurance contract liabilities and deposit administration liabilities representing about 70% of the Group's total liabilities. This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term policyholder liabilities. Economic and operating assumptions, such as investment returns, mortality and persistency (including consideration of policyholder behaviour), expenses and expense inflation, withdrawals and sensitivity analysis are the key inputs used to estimate these long-term liabilities. The assumptions to be made have high estimation uncertainty and changes in the estimates may lead to material impact on the valuation of the liabilities. The valuation also depends on accurate data extraction from the information systems. If the data used is not complete and accurate then material impacts on the valuation of policyholder liabilities may also arise. As a result of the above factors, insurance and deposit administration contract liabilities was considered to be a key audit matter.	Our audit procedures in this area included, among others; • Comparing the assumptions to expectations based on the Group's historical experience, current trends and our own industry knowledge; • Assessing the unit fund build-up for the unit-linked products; • Evaluating the governance around the overall Group reserving process, including the scrutiny applied by the internal and appointed external actuaries. We assessed qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. Our evaluation of the methodologies and key assumptions enabled us to assess the quality of the challenge applied through the Group's reserving process; • Using our actuarial specialists to review the reserving methodology applied and analytically reviewed the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; • Considering the validity of management's liability adequacy testing by assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of company and industry experience data and specific product features; and • We also considered whether the Group's disclosures in relation to the assumptions used in the calculation of insurance contract and deposit administration liabilities are compliant with the relevant accounting requirements in particular the sensitivities of these assumptions to alternative scenarios and inputs.

Assessment of recoverability of Chase Bank (K) Limited (In Receivership) balances	
See Note 14 to the financial statements.	
The key audit matter	**How the matter was addressed**
The Group has an investment (Corporate Bond) in Chase Bank (K) Limited (In Receivership) amounting to KShs 250 million. The bank is currently under statutory management by the Kenya Deposit Insurance Corporation (KDIC). The estimation of recoverability of this amount was significant to our audit. Due to the high level of judgment in assessing the level of impairment of the balances, we considered this to be a key audit matter.	Our audit procedures in this area included, among others, evaluating the management's assessment of the recoverability of the balance.

KPMG

Independent auditors' report to the members of Liberty Kenya Holdings Limited continued

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Information Technology (IT) systems and controls	
The key audit matter	**How the matter was addressed**
Many financial reporting controls depend on the correct functioning of operational and financial Information Technology (IT) systems, for example interfaces between the operating systems and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. This is an area requiring particular audit attention in our audit due to the complexity of the IT infrastructure and legacy systems which require manual inputs, relative to more automated processes.	In this area our audit procedures included, among others: • Testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; • With the support of our own IT specialists, we tested these controls through examining the process for approving changes to the systems, and assessing the restrictions placed on access to core systems through testing the permissions and responsibilities of those given that access; and • Where general IT controls were not operating effectively and we were therefore unable to rely on the related automated IT controls, we addressed the increased risk that financial information was affected by extending the scope of our work. This included assessing the operation of controls over changes or transactions being recorded in the systems. We also tested manual compensating controls, such as reconciliations between systems and other information sources, and performed additional substantive testing, such as using extended sample sizes and performing data analysis routines over the full population of transactions.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the *Annual Report and Financial Statements,* but does not include the financial statements and our auditors' opinion thereon.

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

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

Independent auditors' report to the members of Liberty Kenya Holdings Limited continued

Report on the audit of the financial statements (continued)

Directors' responsibilities for the financial statements

As stated on page 17, the Directors are responsible for the preparation of the Group and Company financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control, as the Directors determine is necessary to enable the preparation of the Group and Company financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the Group and Company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Group and Company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group and Company financial statements, including the disclosures, and whether the Group and Company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditors' report to the members of Liberty Kenya Holdings Limited continued

Report on the audit of the financial statements (continued)

Auditors' responsibilities for the audit of the financial statements (continued)
We communicate with Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements
As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

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

(ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

(iii) The statement of financial position of the Company is in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha – P/1610.

KPMG Kenya

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612
00100 Nairobi GPO

Date: 16 March 2017

Financial Statements

Statements of Profit or Loss for the year ended 31 December 2016

	Note(s)	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Gross earned premium revenue	4	9,623,170	9,352,567	-	-
Less: Outward reinsurance		(4,049,834)	(3,826,733)	-	-
Net insurance premium revenue		**5,573,336**	**5,525,834**	**-**	**-**
Commissions earned		872,058	794,679	-	-
Investment income	5	2,552,561	1,833,886	60,000	370,000
Administration fees		9,650	9,101	-	-
Other income	6	17,268	108,156	-	-
		3,451,537	2,745,822	60,000	370,000
Total income		**9,024,873**	**8,271,656**	**60,000**	**370,000**
Claims and policyholder benefits	7	(5,230,211)	(4,568,813)	-	-
Change in insurance contract		(478,764)	(177,892)	-	-
Amounts recoverable from reinsurers		1,756,860	1,620,588	-	-
Net insurance benefits and claims		**(3,952,115)**	**(3,126,117)**	**-**	**-**
Commissions payable		(1,176,507)	(1,181,061)	-	-
Other operating expenses	8	(2,954,366)	(3,010,776)	(88,952)	(93,926)
Total expenses and commissions		**(4,130,873)**	**(4,191,837)**	**(88,952)**	**(93,926)**
Result of operating activities		**941,885**	**953,702**	**(28,952)**	**276,074**
Profit (loss) before income tax		**941,885**	**953,702**	**(28,952)**	**276,074**
Income tax expense	11	(314,051)	(217,652)	-	-
Profit (loss) for the year		**627,834**	**736,050**	**(28,952)**	**276,074**
Profit (loss) attributable to:					
Owners of the parent		585,580	675,253	(28,952)	276,074
Non-controlling interest		42,254	60,797	-	-
		627,834	**736,050**	**(28,952)**	**276,074**

The accounting policies on pages 35 to 58 and the notes on pages 59 to 104 form an integral part of the annual report and financial statements.

Financial Statements

Statements of Other Comprehensive Income for the year ended 31 December 2016

	Note(s)	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Profit (loss) for the year		**627,834**	**736,050**	**(28,952)**	**276,074**
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Deferred income tax on statutory and revaluation reserve	27	(4,650)	(2,920)	-	-
Gains and losses on property revaluation	16	15,500	15,500	-	-
Total items that will not be reclassified to profit or loss		**10,850**	**12,580**	**-**	**-**
Items that may be reclassified to profit or loss:					
Foreign currency translation differences		(16,852)	(78,547)	-	-
Other comprehensive income for the year net of taxation		**(6,002)**	**(65,967)**	**-**	**-**
Total comprehensive income (loss)		**621,832**	**670,083**	**(28,952)**	**276,074**
Total comprehensive income (loss) attributable to:					
Owners of the parent		582,295	642,234	(28,952)	276,074
Non-controlling interest		39,537	27,849	-	-
		621,832	**670,083**	**(28,952)**	**276,074**

The accounting policies on pages 35 to 58 and the notes on pages 59 to 104 form an integral part of the annual report and financial statements.

Financial Statements

Statements of Financial Position for the year ended 31 December 2016

		Group		Company	
	Note(s)	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Capital and reserves					
Share capital	12	535,707	535,707	535,707	535,707
Share premium	12	1,490,480	1,490,480	1,490,480	1,490,480
Revenue reserve		2,946,229	2,582,824	1,001,172	1,030,124
Reserves	13	1,449,300	1,290,164	-	-
Equity attributable to owners of the parent		6,421,716	5,899,175	3,027,359	3,056,311
Non-controlling interest		331,925	333,936	-	-
Total Equity		**6,753,641**	**6,233,111**	**3,027,359**	**3,056,311**
REPRESENTED BY:					
Assets					
Property, plant and equipment	16	1,096,106	1,098,712	-	-
Intangible assets	18	98,323	86,721	-	-
Goodwill	14	1,254,995	1,254,995	-	-
Investment property	17	789,763	1,035,500	-	-
Investments in subsidiaries	10	-	-	3,202,333	3,202,333
Financial investments	15	21,896,541	19,064,519	-	-
Deferred acquisition costs		110,053	143,670	-	-
Deferred tax asset	27	131,175	123,915	-	-
Receivables arising from reinsurance		490,076	484,394	-	-
Receivables arising from direct insurance		1,439,313	1,640,417	-	-
Reinsurers' share of insurance liabilities	19	2,315,493	2,315,330	-	-
Other receivables	24	332,236	435,555	-	-
Current income tax		29,559	92,787	-	-
Cash and cash equivalents	20	4,936,638	6,757,174	12,385	17,709
Total Assets		**34,920,271**	**34,533,689**	**3,214,718**	**3,220,042**
Liabilities					
Insurance contract liabilities	21	11,939,589	11,060,752	-	-
Deposit administration liabilities	22	10,367,517	11,463,105	-	-
Unearned premium reserve	23	3,026,221	3,004,505	-	-
Deferred acquisition income		87,318	88,414	-	-
Deferred tax liability	27	859,292	794,888	-	-
Creditors arising from direct insurance		449,403	406,954	-	-
Creditors arising from reinsurance		589,770	618,115	-	-
Other liabilities	25	827,917	863,845	187,359	163,731
Current income tax		19,603	-	-	-
Total Liabilities		**28,166,630**	**28,300,578**	**187,359**	**163,731**
Net Assets		**6,753,641**	**6,233,111**	**3,027,359**	**3,056,311**

The annual report and financial statements and the notes on pages 28 to 104, were approved by the board of directors on 16 March 2017 and were signed on its behalf by:

S A Mboya
Chairman

M L du Toit
Managing Director

G R May
Director

C Kioni
Company Secretary

The accounting policies on pages 35 to 58 and the notes on pages 59 to 104 form an integral part of the annual report and financial statements.

Financial Statements

Statement of Changes in Equity for the year ended 31 December 2016

	Share capital Shs '000	Share premium Shs '000	Currency translation Shs '000	Statutory reserve Shs '000	Revaluation reserve Shs '000	Revenue reserve Shs '000	Non-controlling interest Shs '000	Total equity Shs '000
Group - 2016								
Balance at 01 January 2016	**535,707**	**1,490,480**	**(56,917)**	**1,209,653**	**137,428**	**2,582,824**	**333,936**	**6,233,111**
Profit for the year	-	-	-	-	-	585,580	42,254	627,834
Other comprehensive income	-	-	(1,091)	(9,487)	10,850	(3,557)	(2,717)	(6,002)
Recognition of deferred income tax on revaluation surplus	-	-	-	-	(4,650)	-	-	(4,650)
Foreign currency translation differences	-	-	(1,091)	(9,487)	-	(3,557)	(2,717)	(16,852)
Gain on revaluation of land and buildings	-	-	-	-	15,500	-	-	15,500
Total comprehensive income for the year	**-**	**-**	**(1,091)**	**(9,487)**	**10,850**	**582,023**	**(2,011)**	**621,832**
Additional shares	-	-	-	-	-	-	18,886	18,886
Transfer between reserves	-	-	-	218,618	-	(218,618)	-	-
Deferred tax on undistributed surplus	-	-	-	(59,754)	-	-	-	(59,754)
Interim dividends for 2016	-	-	-	-	-	-	(60,434)	(60,434)
Total contributions with owners of the company	**-**	**-**	**-**	**156,864**	**-**	**(216,618)**	**(41,548)**	**(101,302)**
Balance at 31 December 2016	**535,707**	**1,490,480**	**(58,008)**	**1,359,030**	**148,278**	**2,946,229**	**331,925**	**6,753,641**

The accounting policies on pages 35 to 58 and the notes on pages 59 to 104 form an integral part of the annual report and financial statements.

Financial Statements

Statement of Changes in Equity for the year ended 31 December 2016 (continued)

	Share capital Shs '000	Share premium Shs '000	Currency translation Shs '000	Statutory reserve Shs '000	Revaluation reserve Shs '000	Revenue reserve Shs '000	Non-controlling interest Shs '000	Total equity Shs '000
Group - 2015								
Balance at 01 January 2015	**535,707**	**1,490,480**	**(38,152)**	**589,425**	**126,578**	**3,070,838**	**382,313**	**6,157,189**
Profit for the year	-	-	-	-	-	675,253	60,797	736,050
Other comprehensive income	-	-	(18,765)	(22,550)	10,850	(2,554)	(32,948)	(65,967)
Recognition of deferred income tax on revaluation surplus	-	-	-	1,730	(4,650)	-	-	(2,920)
Foreign currency translation differences	-	-	(18,765)	(24,280)	-	(2,554)	(32,948)	(78,547)
Gain on revaluation of land and buildings	-	-	-	-	15,500	-	-	15,500
Total comprehensive income for the year	**-**	**-**	**(18,765)**	**(22,550)**	**10,850**	**672,699**	**27,849**	**670,083**
Transfer between reserves	-	-	-	892,859	-	(892,859)	-	-
Deferred tax	-	-	-	(250,081)	-	-	-	(250,081)
Dividends	-	-	-	-	-	(267,854)	(76,226)	(344,080)
Total contributions with owners of the company	**-**	**-**	**-**	**642,778**	**-**	**(1,160,713)**	**(76,226)**	**(594,161)**
Balance at 31 December 2015	**535,707**	**1,490,480**	**(56,917)**	**1,209,653**	**137,428**	**2,582,824**	**333,936**	**6,233,111**

The accounting policies on pages 35 to 58 and the notes on pages 59 to 104 form an integral part of the annual report and financial statements.

Financial Statements

Statement of Changes in Equity for the year ended 31 December 2016 (continued)

	Share capital Shs '000	Share premium Shs '000	Revenue reserve Shs '000	Total equity Shs '000
Company - 2016				
Balance at 01 January 2016	**535,707**	**1,490,480**	**1,030,124**	**3,056,311**
Loss for the year	-	-	(28,952)	(28,952)
Balance at 31 December 2016	**535,707**	**1,490,480**	**1,001,172**	**3,027,359**
Company - 2015				
Balance at 01 January 2015	**535,707**	**1,490,480**	**1,021,904**	**3,048,091**
Profit for the year	-	-	276,074	276,074
Dividends	-	-	(267,854)	(267,854)
Balance at 31 December 2015	**535,707**	**1,490,480**	**1,030,124**	**3,056,311**

The accounting policies on pages 35 to 58 and the notes on pages 59 to 104 form an integral part of the annual report and financial statements.

Financial Statements

Statements of Cash Flows for the year ended 31 December 2016

	Note(s)	Group 2016 Shs '000	Group 2015 Shs '000	Company 2016 Shs '000	Company 2015 Shs '000
Cash flows from operating activities					
Cash used in operations	28	(1,240,070)	(508,535)	(65,324)	(162,047)
Net interest received		2,452,437	2,458,401	-	-
Income tax paid		(196,628)	(256,892)	-	-
Net cash from operating activities		**1,015,739**	**1,692,974**	**(65,324)**	**(162,047)**
Cash flows from investing activities					
Additions to property and equipment	16	(77,075)	(144,372)	-	-
Additions to investment property		(27,188)	-	-	-
Additions to intangible assets	18	(41,119)	(68,769)	-	-
Proceeds from the sale of equipment		5,625	2,058	-	-
Proceeds on sale of investment property		375,000	-	-	-
Purchase of quoted shares	15(b(i))	(5,996,382)	(770,107)	-	-
Purchase of government securities and corporate bonds		(2,561,057)	(3,632,698)	-	-
Net investment in loans and receivables	15(c)	(137,326)	(89,019)	-	-
Proceeds from sale of quoted shares	15(b(i))	3,168,645	852,312	-	-
Proceeds from sale of unquoted shares	15(b(ii))	-	(3,989)	-	-
Proceeds from sale of government securities and corporate bonds		2,302,751	2,833,055	-	-
Dividend, rental and other income received		199,846	219,376	60,000	370,000
Net cash from investing activities		**(2,788,280)**	**(802,153)**	**60,000**	**370,000**
Cash flows from financing activities					
Dividend paid		-	(344,080)	-	(267,854)
Total cash movement for the year		**(1,772,541)**	**546,741**	**(5,324)**	**(59,901)**
Cash and cash equivalents at the beginning of the year		6,757,174	6,251,762	17,709	77,610
Currency translation differences		(47,995)	(41,329)	-	-
Total cash at end of the year	20	**4,936,638**	**6,757,174**	**12,385**	**17,709**

The accounting policies on pages 35 to 58 and the notes on pages 59 to 104 form an integral part of the annual report and financial statements.

Notes to the Financial Statements

Accounting Policies

1. Presentation of annual report and financial statements

1.1 General information

Liberty Kenya Holdings Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability Company, and is domiciled in Kenya. The address of its registered office is:
LR No 209/8592/2
Liberty House, Mamlaka Road
P.O. Box 30390-00100
Nairobi

The Company was listed on the Nairobi Securities Exchange on 21 April 2011. For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account represented by the statement of profit or loss in these financial statements.

1.2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below and relate to both the Company's and the Group's activities. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention, as modified by the carrying of investment property and available-for-sale investments at fair value and actuarially determined liabilities at their present value.

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 Group's 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 Accounting policy 1.3.

b) Changes in accounting policy and disclosures

The Group has adopted the following new standards and amendments during the period/year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2016.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

The nature and effects of the changes are explained below:

New standards and amendments

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
- Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- IFRS 14 Regulatory Deferral Accounts
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)
- Annual improvements cycle (2012-2014) – various standards

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41. The new requirements are effective from 1 January 2016.

The amendment is not expected to have any impact on the Group's and Company's financial statements as the Group and Company do not have bearer plants.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

The amendment is not expected to have any impact on the Group's and Company's financial statements as the Group does not have joint ventures.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016.

The adoption of this standard is not expected to have an impact on the Group's and Company's financial statements given that it is not a first time adopter of IFRS.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	**Changes in methods of disposal.** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	**Servicing contracts.** Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. **Applicability of the amendments to IFRS 7 to condensed interim financial statements.** Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 Employee Benefits	**Discount rate: regional market issue.** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'.** Clarifies the meaning of ‹elsewhere in the interim report› and requires a cross-reference

The adoption of these changes did not have a significant impact on the financial statements of the Group.

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016
A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below;

New standard or amendments	Effective for annual periods beginning on or after
• Disclosure Initiative (Amendments to IAS 7)	1 January 2017
• Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments (2014)	1 January 2018
• Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (continued)

The Company does not plan to adopt these standards early. These are summarised below;

New standard or amendments	Effective for annual periods beginning on or after
• Applying IFRS 9 Financial Instruments with IFRS 4 • Insurance Contracts (Amendments to IFRS 4)	1 January 2018
• IFRS 16 Leases	1 January 2019
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	To be determined

Disclosure Initiative (Amendments to IAS 7)
The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities «for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities». It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The adoption of these changes will not have a significant impact on the financial statements of the Group.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

The carrying amount of an asset does not limit the estimation of probable future taxable profits.

Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The adoption of these changes will not have a significant impact on the financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

- ***Accounting for cash-settled share-based payment transactions that include a performance condition***

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

- ***Classification of share-based payment transactions with net settlement features***

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- ***Accounting for modifications of share-based payment transactions from cash-settled to equity-settled***

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.

Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The adoption of these changes will not affect the amounts and disclosures of the Group.

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

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately proceeds 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The Group is assessing the potential impact on its financial statements of applying the amendments.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.
- depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

- short-term leases (i.e. leases of 12 months or less) and;
- leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The Group is assessing the potential impact on its financial statements resulting from application of IFRS 16.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

c) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at fair value However, non-controlling interest's that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are recognised at either fair value or proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured 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. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies. The consolidated financial statements incorporate the financial statements of Liberty Kenya Holdings Limited and its subsidiaries, Liberty Life Assurance Kenya 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 2016.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

c) Consolidation (continued)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss as appropriate. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit or loss of an associate' in the profit or loss.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising from investments in associates are recognised in profit or loss.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

d) Insurance contracts

(i) 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 1.2 (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

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, 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 a 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.

General insurance business

It is insurance business of any class or classes that is not long term insurance business. Classes of general Insurance include 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).

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

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. It also includes business of effecting and carrying out contracts of insurance against risk of persons insured incurring medical expenses.

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, damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

(ii) Recognition and measurement

(a) 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 un expired terms of policies in force at the financial reporting date, and is computed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

(b) 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 un expired 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.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

d) Insurance contracts (continued)

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.

(c) Commissions earned and payable and deferred acquisition costs ("DAC")
Commissions earned and payable are recognised in the period in which relevant premiums are written. A proportion of commissions' 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.

(d) 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 as part of claims incurred.

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.

(e) Reinsurance contracts held
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 reinsures, 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 reinsures 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.

f) 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 profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial statements.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

g) 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) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The consolidated financial statements are presented in 'Kenyan Shillings (Shs) rounded to the nearest thousand, which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

e) Functional currency and translation of foreign currencies (continued)

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. Exchange differences arising are recognised in other comprehensive income.

f) Revenue recognition

(i) Insurance premium revenue
The revenue recognition policy relating to insurance contracts is set out under note (c) above

(ii) Commissions
Commissions receivable are recognised as income in the period in which they are earned.

(iii) Rendering of services
Revenue arising from asset management and other related services offered by the Group are recognised in the accounting period in which the services are rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument.

These services comprise the activity of trading financial assets in order to reproduce the contractual returns that the Group's customers expect to receive from their investments. Such activities generate revenue that is recognised by reference to the stage of completion of the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Group recognises these fees on a straight-line basis over the estimated life of the contract. Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid.

The Group charges its customers for asset management and other related services using the following different approaches:

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and
- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period; fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

(iv) Interest income
Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognised within 'investment income' (Note 7) in the profit or loss using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

(v) Rental income

Rental income is recognized as income in the period in which it is earned. All investment income is stated net of investment expenses.

(vi) Realised / unrealised gains and losses

Realised / unrealised gains and losses recorded in the income statement on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

g) 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 (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 and 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.

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 Group's 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 Group's 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.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

g) Investment contracts (continued)

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 liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

h) Property and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Property and equipment are reviewed annually for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are taken into account in determining operating profit. Buildings are revalued on an annual basis with the change credited/debited to revaluation reserves in equity.

Decreases that offset previous increases of the same asset are charged against the revaluation reserves.

On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

h) Property and equipment (continued)

- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

i) Intangible assets

(i) Computer software

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed seven years.

(ii) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates. It represents the excess of the consideration transferred over the Group's 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 cash generating units (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.

j) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

k) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and which are not occupied by the Group are classified as investment property. Investment property is treated as a long term investment and is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in investment income in the profit or loss. Land held under operating lease is classified and accounted for as investment property if and only if the property meets the definition of an investment property.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

k) Investment property (continued)

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss.

Properties under construction and development sites with projected use as investment properties are valued at projected fair values taking into account current market conditions, outstanding investment costs and a risk loading according to the progress of the project.

l) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held-for-trading.

Financial assets are designated at fair value through profit or loss when:

(i) Doing so significantly reduces or eliminates a measurement inconsistency; or

(ii) They form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

These assets are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments and realised gain and loss are recognised in the income statements.

Financial assets at fair value through profit or loss comprise quoted shares, government securities commercial paper and corporate bonds.

(b) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as held for trading and those that the Group on initial recognition designates as at fair value through profit or loss; (b) those that the Group upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

The Group's receivables out of direct insurance and reinsurance arrangements, mortgage loans, loans to policy holders, deposits with financial institutions under the cash category, reinsurer's share of insurance liabilities, receivables from related parties and other receivables are classified in this category.

The assets in this category had a total carrying value of Shs 1,912,604,000 as at 31 December 2016 (2015:Shs 1,775,278,000).

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

l) Financial assets (continued)

(c) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

Certain investments in government securities and corporate bonds are classified in this category. The assets in this category had a total carrying value of Shs 5,474,556,000 at the financial reporting date of 31 December 2016 (2015:Shs 6,529,389,000).

m) Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated such as:

(i) significant financial difficulty of the borrower;

(ii) a breach of contract, such as default or delinquency in interest or principal repayments;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties;

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- Adverse changes in the payment status of borrowers in the group; or
- National or local economic conditions that correlate with defaults on the assets in the group; or

(vii) Significant or prolonged decline in the fair value of investments in equity instruments below their cost and its identification is determined by management for each identified portfolio.

(i) Assets carried at amortised cost

The Company assesses whether objective evidence of impairment exists for individual financial assets. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instruments fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

m) Impairment of financial assets (continued)

(ii) Re-negotiated loans
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

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

n) Employee benefits

(i) Retirement benefit obligations
The Group operates a defined contribution retirement benefit scheme for its employees

A defined contribution plan is a pension plan under which the Group companies pay 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 Group and all its employees also contribute to the appropriate national Social Security Fund, which are defined contribution schemes.

The Group's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

(ii) Other entitlements
Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the date of financial reporting. The estimated monetary liability for employees' accrued annual leave entitlement at the financial reporting date is recognised as an expense accrual.

o) Taxation

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

o) Taxation (continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

p) 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 profit or loss over the period of the borrowings.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

q) Dividends

Dividends payable to the Group's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

r) 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. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds net of tax.

s) Comparatives

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

1.3 Critical accounting estimates and judgements 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.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.3 Critical accounting estimates and judgements in applying accounting policies (continued)

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 13.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 13.

b) Fair values of financial assets

Fair values of certain financial assets recognised in the financial statements may be determined in whole or part using valuation techniques based on assumptions that are supported by prices from current market transactions or observable market data. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair values, they are validated and periodically independently reviewed by qualified senior personnel. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use observable data. However, areas such as credit risk (both own and counter-party) volatilities and correlations require management to make estimates.

c) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's 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) Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying certain non-derivative financial assets with fixed or determined payments and fixed maturity, as held-to-maturity. This classification requires judgement of the Group's ability to hold such investments to maturity. Held to maturity investments comprises bonds on lien. Investments are initially recognised at fairvalue plus transaction costs. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gains and losses on held-to-maturity assets are recognised on impairment, derecognition and through the amortisation process.

e) Insurance contract liabilities

Estimates are made for short-term business claims and claims Incurred But Not Reported (IBNR) as at the period end based on the historical claims development statistics and evaluation of the current, past and future assumptions. Using the BF model, the Group has developed estimates of expected claims outstanding.

The Group determines its liabilities on its long-term insurance contracts on a realistic basis, namely the Gross Premium Valuation (GPV) method. The GPV method makes explicit assumptions on expected future mortality, investment returns, lapses, expenses and bonuses as well as margins for uncertainty on these assumptions. Assumptions used are based on recent experience investigations conducted by the Group while taking into consideration prior year assumptions and the outlook of future experience.

Notes to the Financial Statements continued

Accounting Policies (continued)

1.3 Critical accounting estimates and judgements in applying accounting policies (continued)

f) Mortality

An appropriate base table of standard mortality is applied in the valuation of all contract types and classes of business. 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 Company 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 Group 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. The results from previous investigations consistently show that the company's mortality experience has been lower than that of both South African and Kenyan standard tables hence the adoption of the latest Kenyan tables ke07/10 which are lighter than the mortality tables used previously. The results of the investigation are used to monitor actual experience against the valuation assumptions and make adjustments to assumptions to better reflect the company's experience.

g) 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.

h) 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.

i) Correlation

No correlations between assumptions are allowed for.

Notes to the Financial Statements continued

2. 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 management 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. profit or loss 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 Group's internal reporting to management.

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

a) Long term 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.

Notes to the Financial Statements continued

2. Segmental Reporting (continued)

Results by business units

	31 December 2016		
	Long term business Sh '000	Short term business Sh '000	Total Sh '000
Net insurance premium revenue	**1,882,199**	**3,691,137**	**5,573,336**
Commissions earned	95,116	776,942	872,058
Investment income	2,098,747	453,814	2,552,561
Administration fees	9,650	-	9,650
Other income	-	17,268	17,268
	2,203,513	**1,248,024**	**3,451,537**
Total income	**4,085,712**	**4,939,161**	**9,024,873**
Net insurance benefits and claims	**(2,280,298)**	**(1,671,817)**	**(3,952,115)**
Total expenses and commissions	(1,547,877)	(2,582,996)	(4,130,873)
Results of operating activities	**257,537**	**684,348**	**941,885**
Income tax expense	(55,963)	(258,088)	(314,051)
Profit for the year	**201,574**	**426,260**	**627,834**
Total assets	**23,463,163**	**11,457,108**	**34,920,271**
Property and equipment	613,665	482,441	1,096,106
Intangible assets	82,382	15,941	98,323
Investment property	675,200	114,563	789,763
Financial investments	18,273,741	3,622,800	21,896,541
Reinsurers' share of insurance liabilities	120,847	2,194,646	2,315,493
Other assets	3,697,328	5,026,717	8,724,045
Total liabilities	**21,188,943**	**6,977,687**	**28,166,630**
Insurance contract liabilities	9,286,865	2,652,724	11,939,589
Payable under deposit administration	10,367,517	-	10,367,517
Unearned premium reserves	99,383	2,926,838	3,026,221
Other liabilities	1,435,178	1,398,125	2,833,303
Additions to property and equipment	28,591	48,484	77,075
Additions to intangible assets	41,119	-	41,119

Notes to the Financial Statements continued

2. Segmental Reporting (continued)

Results by business units (continued)

	31 December 2015 Long term business Sh '000	Short term business Sh '000	Total Sh '000
Net insurance premium revenue	**1,919,956**	**3,605,880**	**5,525,834**
Commissions earned	71,136	723,543	794,679
Investment income	1,536,592	297,294	1,833,886
Administration fees	9,101	-	9,101
Other income	-	108,156	108,156
	1,616,829	**1,128,993**	**2,745,822**
Total income	**3,536,785**	**4,734,871**	**8,271,656**
Net insurance benefits and claims	**(1,463,493)**	**(1,662,624)**	**(3,126,117)**
Total expenses and commissions	(1604, 815)	(2,587,022)	(4,191,837)
Results of operating activities	**468,477**	**485,225**	**953,702**
Income tax expense	(31,030)	(186,622)	(217,652)
Profit for the year	**437,447**	**298,603**	**736,050**
Total assets	**23,495,801**	**11,037,888**	**34,533,689**
Property and equipment	632,466	466,246	1,098,712
Intangible assets	63,696	23,205	86,721
Investment property	810,500	225,000	1,035,500
Financial investments	16,410,041	2,654,478	19,064,519
Reinsurers' share of insurance liabilities	98,446	2,216,884	2,313,330
Other assets	5,480,652	5,452,255	10,932,907
Total liabilities	**21,355,195**	**6,945,383**	**28,300,578**
Insurance contract liabilities	8,439,043	2,621,709	11,060,752
Payable under deposit administration	11,463,105	-	11,463,105
Unearned premium reserves	171,620	2,832,885	3,004,505
Other liabilities	1,281,427	1,490,789	2,772,216
Additions to property and equipment	91,593	52,779	144,372
Additions to intangible assets	67,809	960	68,769

Notes to the Financial Statements continued

2. Segmental Reporting (continued)

Results by geographical spread

The Tanzania subsidiary contributed approximately 17% of the Group's 2016 consolidated results from operating activities.

	31 December 2016		
	Kenya business Sh '000	Tanzania business Sh '000	Total Sh '000
Net insurance premium revenue	**4,878,528**	**694,808**	**5,573,336**
Commissions earned	665,449	206,609	872,058
Investment income	2,488,052	64,509	2,552,561
Administration fees	9,650	-	9,650
Other income	5,765	11,503	17,268
	3,168,916	**282,621**	**3,451,537**
Total income	**8,047,444**	**977,429**	**9,024,873**
Net insurance benefits and claims	**(3,635,599)**	**(316,516)**	**(3,952,115)**
Total expenses and commissions	(3,625,902)	(504,971)	(4,130,873)
Results of operating activities	**785,943**	**155,942**	**941,885**
Income tax expense	(263,745)	(50,306)	(314,051)
Profit for the year	**522,198**	**105,636**	**627,834**
Total assets	**31,880,754**	**3,039,517**	**34,920,271**
Property and equipment	1,090,913	5193	1,096,106
Intangible assets	98,323	-	98,323
Investment property	789,763	-	789,763
Financial investments	21,536,501	360,040	21,896,541
Reinsurers' share of insurance liabilities	1,395,106	920,387	2,315,493
Other assets	6,970,148	1,753,897	8,724,045
Total liabilities	**25,956,924**	**2,209,706**	**28,166,630**
Insurance contract liabilities	11,335,493	604,096	11,939,589
Payable under deposit administration	10,367,517	-	10,367,517
Unearned premium reserves	2,118,271	907,950	3,026,221
Other liabilities	2,135,643	697,660	2,833,303
Additions to property and equipment	74,167	2,908	77,075
Additions to intangible assets	41,119	-	41,119

Notes to the Financial Statements continued

2. Segmental Reporting (continued)

Results by geographical spread

The Tanzania subsidiary contributed approximately 21% of the Group's 2015 consolidated results from operating activities.

	31 December 2015 Kenya business Sh '000	Tanzania business Sh '000	Total Sh '000
Net insurance premium revenue	**4,815,958**	**709,876**	**5,525,834**
Commissions earned	621,137	173,542	794,679
Investment income	1,768,955	64,931	1,833,886
Administration fees	9,101	-	9,101
Other income	7,067	101,089	108,156
	2,406,260	**339,562**	**2,745,822**
Total income	**7,222,218**	**1,049,438**	**8,271,656**
Net insurance benefits and claims	**(2,794,360)**	**(331,757)**	**(3,126,117)**
Total expenses and commissions	(3,679,828)	(512,009)	(4,191,837)
Results of operating activities	**748,030**	**205,672**	**953,702**
Income tax expense	(163,972)	(53,680)	(217,652)
Profit for the year	**584,058**	**151,992**	**736,050**
Total assets	**31,378,705**	**3,154,984**	**34,533,689**
Property and equipment	1,093,403	5,309	1,098,712
Intangible assets	86,721	-	86,721
Investment property	1,035,500	-	1,035,500
Financial investments	18,541,781	522,738	19,064,519
Reinsurers' share of insurance liabilities	1,287,940	1,027,390	2,315,330
Other assets	9,331,360	1,599,547	10,932,907
Total liabilities	**25,980,435**	**2,320,143**	**28,300,578**
Insurance contract liabilities	10,384,781	675,971	11,060,752
Payable under deposit administration	11,463,105	-	11,463,105
Unearned premium reserves	2,056,422	948,083	3,004,505
Other liabilities	2,076,127	696,089	2,772,216
Additions to property and equipment	138,808	5,564	144,372
Additions to intangible assets	68,769	-	68,769

Notes to the Financial Statements continued

3. Management of insurance and financial risk

Liberty Kenya 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 Group's main value creation activities can be summarised into the following categories:

1. ***Providing risk cover*** - Liberty Kenya Holdings Limited's 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 Group's 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 Group's 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 Group's dividend policy.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

b) Capital management (continued)

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 Group's available capital exceeds the capital required both currently and going forward and to ensure that the Group has unfettered access to its capital at all times to meet its requirements.

(i) Company

The Company's objective in capital management is to safeguard the Company's 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.

		2016 Shs'000	2015 Shs'000
Total borrowings	25	187,359	163,731
Due from group companies	25	(148,170)	(122,268)
Net borrowings		39,189	41,463
Less: Cash and cash equivalents	20	(12,385)	(17,709)
Net debt		26,804	23,754
Total equity		3,027,359	3,056,311
Gearing ratio		0.89%	0.78%

(ii) 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 and Tanzanian Insurance Regulatory Authorities.

The subsidiaries are regulated by the Kenyan Insurance Act, the Tanzanian Insurance Act, Companies Act, Retirement Benefit Authority 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.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

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

	Regulatory requirement Shs'000	Liberty Life Assurance Shs'000	Heritage Insurance (Kenya) Shs'000
General insurance business	300,000	-	500,000
Long term insurance business	150,000	612,430	-

There have been changes in the capital requirements of insurance companies in Kenya. In the Revised Kenyan Insurance Act 2015, the Regulatory Capital required to be held by insurers will be assessed as the higher of:

a) Shs 400m for Life Insurers and Shs 600m for General Insurers
b) Risk Based Capital (RBC) determined from time to time; or
c) 5% of the total liabilities for Life insurers and 20% of previous year's Net Earned premium for General Insurers

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

- 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 year end, the Heritage Insurance Company (T) Limited had a total of 100,000 ordinary shares with a par value of Tsh. 100,000 of which 70,000 share capital were issued and fully paid. (2015: 60,000 with a par value of Tshs 100,000 each) This was in excess of the minimum requirement.

(iv) Capital management

The solvency margins of the subsidiaries as at 31 December 2016 and 31 December 2015 are set out below:

Liberty Life Assurance Kenya Limited	Long-term business 2016 Shs'000	Long-term business 2015 Shs'000
Total Capital available	**1,570,170**	**1,665,783**
Minimum Capital required (Risk Based Capital - applicable w.e.f 1 January 2016)	982,483	1,089,391
Total minimum requirement	**982,483**	**1,089,391**
Solvency margin	**587,687**	**576,392**
Solvency Ratio	**1.60**	**1.53**

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

(iv) Capital management (continued)

Heritage Insurance Company Kenya Limited	Short-term business 2016 Shs'000	Short-term business 2015 Shs'000
Total Capital available	**2,295,431**	**1,856,461**
Minimum Capital required (Risk Based Capital - applicable w.e.f 1 January 2016)	1,176,800	1,279,003
Total minimum requirement	**1,176,800**	**1,279,003**
Solvency margin	**1,118,631**	**577,458**
Solvency Ratio	**1.95**	**1.45**
Heritage Insurance Company Tanzania Limited		
Total admitted assets	1,551,393	1,619,191
Total admitted liabilities	(1,201,999)	(1,204,339)
Solvency margin	**213,205**	**275,770**
Required margin (20% of previous year's Net Premium Income)	**136,189**	**139,083**
Solvency ratio	**2.57**	**2.98**

c) Credit risk

Definition

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

- receivables arising out of direct insurance arrangements;
- receivables arising out of reinsurance arrangements; and
- reinsurers' share of insurance liabilities.

Other areas where credit risk arises include cash and cash equivalents, corporate bonds, commercial papers, loans receivable, government securities and deposits with banks and other receivables.

The Group has no significant concentrations of credit risk. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

c) Credit risk (continued)

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

The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the company. Management information reported to the company includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit makes regular reviews to assess the degree of compliance with the company procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the company risk department.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the external credit ratings if available or historical information about counterparty default rate. None of the Company's credit counterparties has an external credit rating other than the government of Kenya which has a Standard and Poor's rating of B+. For credit risk counterparties without an external credit rating, the group classifies them as follows.

Group 1- New customers/related parties

Group 2- Existing customers/related parties with no defaults in the past

Group 3- Existing customer/related parties with some defaults in the past. All defaults were fully recovered

Maximum exposure to credit risk before collateral held

- 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 Liberty Kenya Holdings Limited. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

Credit assessment changes recognized 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.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

c) Credit risk (continued)

Mortgages and loans, comprising policy loans, are impaired when the amount of the loan exceeds the policyholder's 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 instrument's carrying value and the present value of the asset's estimated future cash flows, including any recoverable collateral, discounted at the instrument's 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.

The amount that best represents the Group's maximum exposure to credit risk at 31 December 2016 is made up as follows:

Maximum exposure to credit risk before collateral held

		Group		Company	
	Credit Quality	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Financial investments (Note 15)		21,896,541	19,064,519	-	-
Receivables arising from reinsurance	Group 2	490,076	484,394	-	-
Receivables arising from direct insurance	See analysis below	1,439,313	1,640,417	-	-
Reinsurers' share of insurance liabilities (Note 19)	Group 2	2,315,493	2,315,330	-	-
Other receivables (Note 24)	Group 2	332,236	435,555	-	-
Cash and bank balances (Note 20)	Group 2	4,936,638	6,757,174	12,385	17,709
		31,410,297	**30,697,389**	**12,385**	**17,709**

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

		Group	
	Credit Quality	2016 Shs'000	2015 Shs'000
Neither past due nor impaired	Group 2	59,899	82,801
Past due but not impaired	Group 2	1,379,414	1,557,616
Impaired		330,954	319,716
Gross		**1,770,267**	**1,960,133**
Less: allowance for impairment		(330,954)	(319,716)
Net		**1,493,313**	**1,640,417**

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

c) Credit risk (continued)

	Group	
	2016 Shs'000	2015 Shs'000
Past due but not impaired:		
- by up to 30 days	262,170	422,876
- by 31 to 60 days	91,670	225,528
- Over 61 days	1,025,574	909,212
Total past due but not impaired	**1,379,414**	**1,557,616**

All receivables past due by more than 360 days are carried at their estimated recoverable value. No collateral is held on impaired debts.

Allowance for impairment

Receivables arising out of direct insurance arrangements Direct insurance arrangements

Past due but not impaired		
- brokers	166,622	224,812
- agents	124,556	48,774
- insurance companies	836	21,328
- direct clients	38,940	24,802
	330,954	**319,716**

Consideration of own credit risk for financial liabilities measured at fair value through profit or loss

Liberty Kenya 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 the Group's 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 recognized as a distinct risk category which the Group strives to manage within acceptable levels through sound operational risk management practices. The Group's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organizational maturity and particular business environments.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

d) Operational risk (continued)

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 Group's resources, minimize losses and utilize 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 management's 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;
- 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 Group's business;
- ensure that staff apply consistent processes throughout the Group; and
- help management to develop operating processes.

Policies are approved at the appropriate governance level subject to compliance with Group policy principles. Once identified, operational risks are assessed to determine the potential impact to the Group should the risk events occur, and reviewed against the Group's risk appetite. Mitigating actions are developed for any operational risks that fall outside of management's assessment of risk appetite.

Risk management activities in relation to operational risks include but are not limited to:

Information Technology (IT) risk: The Group is highly dependent on and constantly increasing its use of information technology to ensure improved operations and customer service. The Group's IT systems enable it to take its products to markets across the East African Region and so carry out its expansion strategy.

The Group is, therefore, exposed to various IT risks which include the disruption of transaction processing, information loss and/or malicious attacks from third parties.

Maintaining technological advantage requires a strong IT risk management culture and function that allows the Group to identify and manage IT risks effectively. In order to prevent potential risk events and ensure best practice levels of continuous IT service and security, management review and ensure compliance with relevant IT policies and procedures, conduct control and risk self-assessments and are subject to internal and external audits.

Process risk: The Group's approach to process improvement focuses on process efficiency and work quality. The processes undergoing improvement incorporate input from risk and compliance specialists, as well as other generic process stakeholders and Group finance.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

d) Operational risk (continued)

Regulatory risk: The regulatory environment is monitored closely to ensure that the Group implements new or amended legislation requirements promptly to ensure compliance and avoid unnecessary fines and penalties or the revocation of any business license.

Compliance risk: The risk of regulatory sanctions, financial loss or damage to reputation as a result of not complying with legislation, regulation or internal policies is managed through the established compliance functions within the Group and a compliance policy. The policy ensures that compliance requirement are identified and implemented through the development of approriate policies and procedures and that regular monitoring and reporting of breaches is carried out within the business and at the center to provide the board with assurance on the status of compliance within the organization.

Human resources: The Group remains concerned about the availability of specialist technical skills available in East Africa to provide first world financial services. It focuses on recruitment, development and retention through a number of Group-wide initiatives.

Business continuity management (BCM): BCM is implemented to reduce the risk of not continuing normal business activities should a crisis occur. BCM is an integral component of the Group's risk management framework. The various subsidiaries are regularly exposed to deployment of updated methodologies, testing and training to ensure increased capability to deal with interruptions to business. The Group's has established a BCM site at Mlolongo along Mombasa road where critical staff and core services can be relocated incase of disruptions to business at the usual business premises.

Internal and external fraud: The Group adopts a 'zero-tolerance' approach to fraud. The Group internal audit function supports management in meeting their objective of minimising fraud risk. In terms of the Group's anti- fraud policy, line management is responsible for ensuring that controls at all stages of a business process are adequate for the prevention and detection of fraud. Prevention and detection measures are periodically rolled out by forensic services to support management.

e) Liquidity risk

Definition

Liquidity risk is the risk that the Group, although solvent, is not able to settle its obligations as they fall due because of insufficient cash in the Group.

This might arise in circumstances where the Group's assets are not marketable, or can only be realised at excessive cost. The principal risk relating to liquidity comprises the Group's exposure to policyholder behaviour.

Ownership and accountability

The ownership and accountability for liquidity risk is the same as for market risk. Liquidity requirements are reviewed on an ongoing basis as part of the Group's normal operating activities at the subsidiary level.

Liquidity profile of assets

The Group's assets are liquid however given the quantum of investments held relative to the volumes of trading a substantial short-term liquidation may result in current values not being realised due to demand-supply principles. It is considered highly unlikely, however, that a short-term realisation of that magnitude would occur.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

e) Liquidity risk (continued)

Liquidity risks arising out of obligations to policyholders

On unit-linked business, liquidity risk and asset-liability matching risk arising as a result of changes in lapse and withdrawal experience is limited through policy terms and conditions that restrict claims to the value at which assets are realised. Similarly the liquidity and asset-liability matching risk arising from a change in withdrawal experience on business with DPF is limited through policy terms and conditions that permit withdrawal benefits to be altered in the event of falling asset prices.

The table below presents the cash flows receivable and payable by the Group under financial assets and liabilities by remaining expected maturities at the reporting date.

As at 31 December 2016 Liabilities	**1 - 3 months Shs'000**	**3 - 12 months Shs'000**	**1 - 5 years Shs'000**	**Over 5 years Shs'000**	**Total Shs'000**
Insurance contract liabilities	1,791,590	568,326	1,167,531	8,412,142	11,939,589
Payable under deposit	-	(33,891)	1,296,040	9,105,368	10,367,517
Creditors arising from reinsurance	49,207	540,563	-	-	589,770
Creditors arising from direct insurance	-	449,403	-	-	449,403
Other payables	803,854	24,063	-	-	827,917
Total financial liabilities	**2,644,651**	**1,548,464**	**2,463,571**	**17,517,510**	**24,174,196**
As at 31 December 2016 Assets					
Other receivables	150,207	-	-	-	150,207
Reinsurers' share of insurance liabilities	-	2,315,493	-	-	2,315,493
Receivables arising from reinsurance	-	490,076	-	-	490,076
Financial investment	7,853,772	1,943,514	5,005,465	7,093,790	21,896,541
Receivable arising from direct insurance	594,063	845,250	-	-	1,439,313
Cash and cash equivalents	4,936,638	-	-	-	4,936,638
Total financial assets	**13,534,680**	**5,594,333**	**5,005,465**	**7,093,790**	**31,228,268**
Net liquidity gap	**10,890,029**	**4,045,869**	**2,541,894**	**(10,423,720)**	**7,054,072**

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

e) Liquidity risk (continued)

As at 31 December 2015 Liabilities	1 - 3 months Shs'000	3 - 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Insurance contract liabilities	1,349,449	1,017,072	1,103,610	7,590,621	11,060,752
Payable under deposit	-	(37,472)	1,432,999	10,067,578	11,463,105
Creditors arising from reinsurance	49,307	568,808	-	-	618,115
Creditors arising from direct	-	406,954	-	-	406,954
Other payables	599,458	264,387	-	-	863,845
Total financial liabilities	**1,998,214**	**2,219,749**	**2,536,609**	**17,658,199**	**24,412,771**
As at 31 December 2015					
Assets					
Other receivables	177,480	-	-	-	177,480
Reinsurers' share of insurance	-	2,315,330	- -	-	2,315,330
Receivables arising from direct	-	484,394	-	-	484,394
Cash and cash equivalents	4,769,925	1,404,020	5,739,208	7, 151,366	19,064,519
Receivable arising from direct insurance	870,027	770,390	-	-	1,640,417
Cash and cash equivalents	6,757,174	-	-	-	6,757,174
Total financial assets	**12,574,606**	**4,974,134**	**5,739,208**	**7,151,366**	**30,439,314**
Net liquidity gap	**10,576,392**	**2,773,670**	**3,183,314**	**(10,506,833)**	**6,026,543**

Long term insurance and deposit administration contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated surrenders before the contractual maturity dates. In addition, the Group invests only a limited proportion of its assets in investments that are not actively traded. The Group's listed securities are considered readily realisable, as they are actively traded on the Nairobi Securities Exchange.

Liquidity risk - Company

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by continuous monitoring of banking facilities, cash flow forecast and actual cash flows.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

Liquidity risk - Company (continued)

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows:

At 31 December 2016	Less than 1 year Shs'000	Over 1 year Shs'000	Total Shs'000
Due to group companies (note 25)	148,170	-	148,170
Borrowings	-	-	-
	148,170	**-**	**148,170**
At 31 December 2015			
Due to group companies (note 25)	122,268	-	122,268
Borrowings	-	-	-
	122,268	**-**	**122,268**

Capital requirements

The Group's view is that liquidity risk has to be managed by means other than capital. If assets and liabilities are not well matched by term, even a large amount of capital may provide only a small buffer in an extreme liquidity event.

Liquidity risk is most likely to arise due to a sharp increase in benefit withdrawals or risk-related claims. The liquidity risk arising from withdrawals is largely managed by policy terms and conditions in the contract that enable the Group to reduce withdrawal benefits in the event that asset prices fall. The liquidity risk arising from risk-related claims is managed by having reinsurance arrangements in place for catastrophic events. Liquidity risks arising on maturity benefits are managed by closely monitoring the expected future maturities and realising assets in advance if large outflows are expected.

Liquidity risk is also managed by matching liabilities with backing assets that are of similar maturity, duration and risk nature. The liquidity profile of the total financial position is reviewed on a regular basis to ensure that the cash flow profile of liabilities can be met as they fall due.

As a result of the liquidity risk mitigation measures in place, the Group's exposure to liquidity risk is expected to be small and no allowance is currently made for liquidity risk.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

f) Market risk

Definition

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in equity prices, interest rates and foreign currency exchange rates (as well as their associated volatilities). In addition, in light of the Group's significant investment in investment properties, there is exposure to fluctuation in property values.

The Group's shareholders are exposed to market risk arising from policyholder asset-liability mismatch risk. This is where the Group's property and financial assets do not move in the same direction and magnitude as the obligations arising under its insurance and investment contracts.

The key components of market risk are as follows:

- Price risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of securities price and/or dividend changes;
- Interest rate risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of interest rate changes;
- Currency risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability as a result of changes in exchange rates. This can either be in the form of a mismatch between currencies of assets and liabilities, or on assets supporting capital, or the functional currency of the local entity being different to the reporting currency of the Group; and
- Property market risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of changes in property market prices and/or rental income.

Risk identification, assessment and measurement

In the case of market risks which arise from shareholder funds, the risk can be identified, assessed and measured by considering the market risks that apply to the assets in which these funds have been invested.

In the case of asset-liability mismatches, risks both to the assets and corresponding liabilities need to be assessed together. The Group is exposed to market risk to the extent that these exposures may result in a loss due to the assets increasing by less than the liabilities or the assets falling by more than the liabilities.

The Group assesses its asset-liability mismatch exposures with respect to the key components of market risk at subsidiary level.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

f) Market risk (continued)

i) Price risk

The Group is exposed to equity securities price risk because of investments in quoted and unquoted shares classified as available-for-sale.

The Group is not exposed to commodity price risk.

To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group in the Investment Policy. All quoted shares held by the Group are traded on the Stock Exchange.

ii) Interest rate risk

Fixed interest rate financial instruments expose the Group to fair value interest rate risk. Variable interest rate financial instruments expose the Group to cash flow interest rate risk. The Group's fixed interest rate financial instruments are government securities and deposits with financial institutions. The Group's variable interest rate financial instruments are quoted corporate bonds.

No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments. The Group manages its cash flow interest rate risk by diversification of its portfolio.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rate will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The level of the reduction of the level of interest rate that will trigger an adjustment is an interest rate of 1% (2015: 1%).

Investment contracts with fixed and guaranteed terms, government securities and deposits with financial institutions held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

At 31 December 2016, if interest rates on quoted corporate bonds at that date had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the period would have been Shs 11,594 (2015: Shs 13,068) lower/higher, mainly as a result of higher/lower interest income on floating rate quoted corporate bonds.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

f) Market risk (continued)

iii) Currency risk

The Group operates regionally and is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar. Foreign exchange risk arises from reinsurance transactions with foreign reinsurance brokers. This risk is not significant and is mitigated through the use of dollar-denominated accounts. In the year ending 31 December 2016, the Group had an equivalent of Shs 13.4 Million (2015: Shs. 13.7 Million) in reinsurance balances denominated in foreign currency and foreign currency deposit accounts. The impact of normal exchange fluctuations in the Kenya and Tanzania shilling against the US dollar would not have a material effect on Groups results.

iv) Property market risk

The Group is exposed to tenant default and unlet space within its investment property portfolio affecting property values and rental income. This risk is mainly attributable to the matching policyholder liability and the shareholder exposure is mainly limited to management fees and profit margins. The managed diversity of the property portfolio and the existence of multitenanted buildings significantly reduce the exposure to this risk.

g) Insurance risk

Definition

Insurance risk from management's perspective is the risk that future claims (in relation to death, disability, ill health and withdrawal) and expenses will exceed the allowance for expected claims and expenses in the measurement of policyholder liabilities and in product pricing. In addition to these insurance risks, the Group assumes further risks in relation to policyholder behaviour (including lapses and converting recurring premium policies to paid up) and tax which could have adverse impacts on the Group's earnings and capital if different from that assumed in the measurement of policyholder liabilities. From a risk management perspective, management Groups these risks under insurance risk.

Ownership and accountability

The management and staff in all subsidiaries taking on insurance risk are responsible for the day-to-day identification, management and monitoring of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

The statutory actuaries and the heads of risk in the subsidiaries provide independent oversight of the compliance with the Group's risk management policies and procedures and the effectiveness of the Group's insurance risk management processes.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

g) Insurance risk (continued)

Risk identification, assessment and measurement

Insurance risks arise due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, withdrawal and expenses about which assumptions are made in the measurement of policyholder liabilities and in product pricing. Deviations from assumptions will result in actual cash flows being different from those expected. As such, each assumption represents a source of uncertainty.

Experience investigations are conducted at least annually on all insurance risks to ascertain the reasons for deviations from assumptions and their financial impacts. If the investigations indicate that these deviations are likely to persist in future, the assumptions will be adjusted accordingly in the subsequent measurement of policyholder liabilities.

Insurance risks are assessed and reviewed against the risk appetite. Mitigating actions are developed for any risks that fall outside of management's assessment of risk appetite in order to reduce the level of risk to within the approved tolerance limits.

Risk management

The management of insurance risk is effectively the management of deviations of actual experience from the assumed best estimate of future experience. On the published reporting basis, earnings are expected as a result of the release of margins that have been added to the best estimate assumptions. The risk is that these earnings are less than expected due to adverse actual experience.

The statutory actuaries provide oversight of the insurance risks undertaken by the Group in that they are required to:

- report at least annually on the financial soundness of the life companies within the Group; approve policy for assumptions used to provide best estimates plus compulsory and discretionary margins
- oversee the setting of these assumptions; and
- report on the actuarial soundness of premium rates in use for new business, and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

The Group makes use of reinsurance to reduce its exposures to some insurance risks.

i) Policyholder behaviour risk

Policyholder behaviour risk is the risk of loss arising due to actual policyholder behaviour being different from expected.

The primary policyholder behaviour risk is persistency risk. This arises due to policyholders discontinuing or reducing contributions or withdrawing benefits partially or in total when this is not in line with expectations. This behaviour results in a loss of future charges that are designed to recoup expenses and commission incurred early in the life of the contract and to provide a profit margin or return on capital.

Deterioration in persistency generally gives rise to a loss as the loss of these future charges generally exceeds the charges that the Group applies to the policyholder benefits in these events.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

g) Insurance risk (continued)

ii) Mortality and morbidity risk

Mortality risk is the risk of loss arising due to actual death rates on life assurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health-related claims being higher than expected. The Group has the following processes and procedures in place to manage mortality and morbidity risk:

- Premium are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claim experience.
- Terms are built into the policy contracts that permit risk premiums to be reviewed on expiry of a guarantee period. Delays in implementing increases in premiums, and market or regulatory restraints over the extent of the increases may reduce their mitigating effects.
  Furthermore, charges can only be increased to the extent that they can be supported by gross premiums, although this is not relevant on contracts where gross premiums can be reviewed.
- Underwriting guidelines concerning authority limits and procedures to be followed are in place.
- All retail business applications for risk cover are underwritten. For smaller sums assured this process is largely automated. For retail and corporate business, larger sums assured in excess of specified limits are reviewed by experienced underwriters and evaluated against established processes. For corporate risk business, these specified limits are scheme specific based on the size of the scheme and distribution of sums assured.
- Part of the underwriting process involves assessing the health condition and family medical history of applicants. Terms and conditions are varied accordingly.
- The policy terms and conditions contain exclusions for non-standard and unpredictable risks that may result in severe financial loss (e.g. on life policies, a suicide exclusion applies to the sum assured for death within two years from the date of issue).
- The actual claims experience is monitored on a regular basis so that deteriorating experience can be timeously identified. Product pricing and the measurement of the liabilities is changed if the deteriorating experience is expected to continue and cannot be mitigated. Detailed mortality and morbidity investigations are conducted on a bi-annual basis, but mortality claim ratios are reviewed monthly.
- For morbidity, experienced claims assessors determine the merits of the claim in relation to the policy terms and conditions. In the case of disability annuitants, claim management ensures the continued eligibility for monthly income and includes interventions that may result in the full or partial medical recovery of the claimant. The actual disability experience is highly dependent on the quality of the claim assessments.
- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual and provide cover in catastrophic events.

The Group views mortality and morbidity risks as risks that are core to the business.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

g) Insurance risk (continued)

iii) Longevity risk

Longevity risk is the risk of loss arising due to annuitants living longer than expected. For life annuities, the loss arises as a result of the Group having undertaken to make regular payments to policyholders for their remaining lives, and possibly to the policyholders' spouses for their remaining lives. The most significant risk on these liabilities is continued medical advances and improvement in social conditions that lead to longevity improvements being better than expected.

The group manages longevity risk by:

- Annually monitoring the actual longevity experience and identifying trends over time; and
- Making allowance for future mortality improvements in the pricing of new business and the measurement of policyholder liabilities - this allowance will be based on the trends identified in experience investigations and external data.

iv) Expense risk

Expense risk is the risk of loss arising due to expenses incurred in the administration of policies being higher than expected.

Allowance is made for expected future expenses in the measurement of policyholder liabilities. These expected expenses are dependent on estimates of the number of in-force and new business policies. As a result, the risk of expense loss arises due to expenses increasing by more than expected as well as the number of in-force and/or new business policies being less than expected.

The group manages the expense risk by:

- regularly monitoring actual expenses against the budgeted expenses;
- regularly monitoring new business;
- regularly monitoring withdrawal rates including lapses; and
- implementing cost control measures in the event of expenses exceeding budget or of significant unplanned reductions in inforce policies.

v) Tax risk

Tax risk is the risk of loss arising due to the actual tax assessed being more than the tax expected.

Allowance for tax is made in the measurement of policyholder liabilities at the rates applicable at the financial reporting date. Adjustments may be made for known future changes in the tax regime.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

g) Insurance risk (continued)

v) Tax risk (continued)

The following tables disclose the concentration of insurance liabilities by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy:

Year ended 31 December 2016 (Shs'000)		Shs 0m to Shs 15m	Shs 15m to Shs 250m	Shs 250m to Shs 1,000m	Total
General insurance business					
Personal accident	Gross	31,194,004	13,683,889	623,168	45,501,061
	Net	31,993,829	12,594,453	269,704	44,857,986
Motor	Gross	28,157,345	91,782,264	580,696,108	700,635,717
	Net	28,735,317	82,993,424	38,997,564	150,726,305
Fire	Gross	2,323,014	29,250,340	167,499,112	199,072,466
	Net	8,518,130	43,341,657	99,489,099	151,348,886
Other	Gross	24,288,447	148,646,923	135,511,448	308,446,818
	Net	20,743,132	112,275,120	28,471,373	161,489,625
	Gross	**85,962,810**	**283,363,416**	**884,329,836**	**1,235,656,062**
	Net	**89,990,408**	**251,204,654**	**167,227,740**	**508,422,802**
Life assurance business					
Ordinary life	Gross	38,070,713	531,185	-	38,601,898
	Net	37,421,208	-	-	37,421,208
Annuity	Gross	28,588	-	-	28,588
	Net	28,588	-	-	28,588
Group life	Gross	225,142,613	50,561,021	2,062,945	277,766,579
	Net	156,408,093	-	-	156,408,093
Total	**Gross**	**263,241,914**	**51,092,206**	**2,062,945**	**316,397,065**
	Net	**193,857,889**	**-**	**-**	**193,857,889**

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

g) Insurance risk (continued)

v) Tax risk (continued)

Year ended 31 December 2015 (Shs'000)		Shs 0m to Shs 15m	Shs 15m to Shs 250m	Shs 250m to Shs 1,000m	Total
General insurance business					
Personal accident	Gross	13,816,149	164,105,434	3,352,168	181,273,751
	Net	6,588,768	95,280,925	2,953,468	104,823,161
Motor	Gross	36,129,970	1,217,588	-	37,347,558
	Net	34,880,946	1,217,588	-	36,098,534
Fire	Gross	30,646,693	89,903,890	572,380,993	692,931,576
	Net	24,377,398	63,714,350	18,434,300	106,526,048
Other	Gross	43,145,979	187,708,307	401,632,023	632,486,309
	Net	31,977,011	110,317,307	2,495,646	144,789,964
	Gross	**123,738,791**	**442,935,219**	**977,365,184**	**1,544,039,194**
	Net	**97,824,123**	**270,530,170**	**23,883,414**	**392,237,707**
Life assurance business					
Ordinary life	Gross	23,577,693	328,970	-	23,906,663
	Net	23,175,446	-	-	23,175,446
Annuity	Gross	26,246,140	-	-	26,246,140
	Net	26,246,140	-	-	26,246,140
Group life	Gross	206,516,672	46,378,132	1,892,279	254,787,083
	Net	143,468,526	-	-	143,468,526
Total	**Gross**	**256,340,505**	**46,707,102**	**1,892,279**	**304,939,886**
	Net	**192,890,112**	**-**	**-**	**192,890,112**

The concentration by sector or maximum insured loss at the end of the period is broadly consistent with the prior year.

Notes to the Financial Statements continued

3. Management of insurance and financial risk (continued)

h) Fair value hierarchy

Introduction

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. IFRS 7 and IFRS 13 requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

- Level 1 - Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Nairobi Securities Exchange, or an international stock or bond exchange.
- Level 2 - Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the balance sheet date. The valuation techniques or models are periodically reviewed and the outputs validated.
- Level 3 - Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

31 December 2016 Fair value through profit and loss financial assets	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Quoted shares	5,842,424	-	-	5,842,424
Unquoted shares	-	-	45,793	45,793
Government securities and bonds	-	8,621,164	-	8,621,164
Investment property	-	789,763	-	789,763
Buildings	-	893,570	-	893,570
	5,842,424	**10,304,497**	**45,793**	**16,192,714**

31 December 2015 Fair value through profit and loss financial assets	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Quoted shares	3,065,010	-	-	3,065,010
Unquoted shares	-	-	42,660	42,660
Government securities and bonds	-	7,652,182	-	7,652,182
Investment property	-	1,035,500	-	1,035,000
Buildings	-	868,162	-	868,162
	3,065,010	**9,555,844**	**42,341**	**12,663,514**

Notes to the Financial Statements continued

	Group		Company	
	2016	2015	2016	2015
4. Gross earned premium revenue	Shs'000	Shs'000	Shs'000	Shs'000
Motor	1,830,184	1,731,232	-	-
Fire	1,721,272	1,516,293	-	-
Personal accident	405,083	450,436	-	-
Medical	1,547,858	1,469,552		
Group life	770,804	764,527	-	-
Others	3,347,969	3,420,527	-	-
	9,623,170	**9,352,567**	**-**	**-**

5. Investment income				
Interest on Government securities	1,845,995	1,339,818	-	-
Interest on bank deposits	321,910	673,515	-	-
Interest from corporate bonds and commercial paper	252,443	323,688	-	-
Interest on loans and receivables	32,089	22,870	-	-
Rental income from investment property	147,922	133,810	-	-
Loss on sale of financial investments	(348,899)	(850,391)	-	-
Fair value gain on investment property	121,875	126,500	-	-
Interest on policy loans	127,302	98,510	-	-
Dividend income	113,681	91,763	60,000	370,000
Other investment expenses	(61,757)	(6,197)	-	-
Impairment of financial assets	-	(120,000)	-	-
	2,552,561	**1,833,886**	**60,000**	**370,000**

The Company's dividend income of Shs 60 million (2015: Shs 370 million) was earned from the subsidiaries in the year.

6. Other income

Profit on sale of property, plant and equipment	345	-	-	-
Profit from Kenya Motor Insurance Pool	1,200	1,200	-	-
Foreign exchange gain	8,789	101,089	-	-
Miscellaneous income	6,934	5,867	-	-
	17,268	**108,156**	**-**	**-**

Notes to the Financial Statements continued

7. Claims and other policy holder benefits payable	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Motor	1,016,793	893,666	-	-
Fire	433,286	645,596	-	-
Personal accident and Medical	1,159,186	1,066,245	-	-
Death, maturity and surrender benefits	1,913,325	1,359,331	-	-
Increase on Interest payable on deposit administration contracts	478,764	177,892	-	-
Others	707,621	426,083	-	-
	5,708,975	**4,568,813**	**-**	**-**

8. Other operating expenses	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Staff costs (Note 9)	1,377,481	1,181,721	-	-
Directors' fees	23,080	22,312	3,547	2,864
Auditors' remuneration	22,064	19,959	2,898	2,392
Depreciation (Note 16)	93,831	98,696	-	-
Amortisation of intangible assets (Note 18)	29,517	19,192	-	-
Advertising	138,734	173,386	-	-
Legal and other professional fees	26,680	30,110	2,695	2,382
Impairment charge for doubtful receivables	84,354	110,791	-	-
Others	982,914	1,171,107	79,812	86,288
Repairs and maintenance	2,660	1,735	-	-
Operating lease rental - land and buildings	173,051	181,767	-	-
	2,954,366	**3,010,776**	**88,952**	**93,926**

Notes to the Financial Statements continued

9. Staff costs	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Employee benefits expense includes the following:				
Salaries and wages	934,866	841,178	-	-
Social security benefits costs	47,820	46,051	-	-
Retirement benefit costs	27,885	24,143	-	-
Other staff emoluments	217,042	175,387	-	-
Annual staff bonus	62,589	12,703	-	-
Contributions to defined contribution plans	995	459	-	-
Group life and medical	86,284	81,800	-	-
	1,377,481	**1,181,721**	**-**	**-**

The number of persons employed by the Group at the end of the year was 339 (2015: 380).

10. Company

The Company's interest in its subsidiaries, all of which are unlisted and all of which have the same year end as the Company, were as follows:

Name of company	Country of incorporation	Beneficial ownership 2016	Beneficial ownership 2015	Carrying amount 2016	Carrying amount 2015
Liberty Life Assurance Kenya Limited	Kenya	100%	100%	1,826,254	1,826,254
The Heritage Insurance Company Kenya Limited	Kenya	100%	100%	741,287	741,287
The Heritage Insurance Company Tanzania Limited	Tanzania	100%	60%	-	-
Azali Limited	Kenya	100%	100%	-	-
CfC Investments Limited	Kenya	100%	100%	634,792	634,792
				3,202,333	3,202,333

Notes to the Financial Statements continued

11. Income tax expense

Major components of the tax expense

The Group's current tax charge is computed in accordance with income tax rules applicable to insurance companies. A reconciliation of the tax charge is shown below:

	Group		Company	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Current income tax	332,043	228,010	-	-
(Over) /under provision of deferred tax in prior years	(10,732)	7,212	-	-
Deferred income tax (Note 27)	(7,260)	(17,570)	-	-
	314,051	**217,652**	**-**	**-**

Reconciliation of the tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

Reconciliation of income tax expense to tax based on accounting profit.

Profit before income tax	941,885	953,702	(28,952)	276,074
Tax at statutory rate of 30% (2015: 30%)	282,566	286,111	(8,686)	82,822
Tax effect of:				
Income not subjected to tax	(52,099)	(159,936)	-	(82,822)
Tax effect of interest income	28,838	39,734	-	-
Prior year tax under/(over) provision	(10,732)	7,212	-	-
Expenses not deductible for tax purposes	66,728	45,031	-	-
Capital gains tax @ 5%	(1,250)	(500)	-	-
Income tax expense	**314,051**	**217,652**	**(8,686)**	**-**

There was no tax charge relating to components of other comprehensive income.

Notes to the Financial Statements continued

12. Share capital	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Authorised number of shares				
535,707,499 ordinary shares with a par value of Shs 1 per share	535,707	535,707	535,707	535,707
Issued and paid up share capital				
As at 1 January and 31 December	535,707	535,707	535,707	535,707
Share premium:				
As at 1 January	1,490,480	1,490,480	1,490,480	1,490,480
As at 31 December	**1,490,480**	**1,490,480**	**1,490,480**	**1,490,480**

All ordinary shares rank equally with regard to the Company's residual assets, are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

13. Revenue and other reserves

Statutory reserve	1,358,887	1,209,653	-	-
Revaluation reserve	148,279	137,428	-	-
Currency translation reserve	(57,866)	(56,917)	-	-
Total other reserves	**1,449,300**	**1,290,164**	**-**	**-**
Revenue reserve	2,946,229	2,582,824	1,001,172	1,030,124
At end of year	**4,395,529**	**3,872,988**	**1,001,172**	**1,030,124**

Other reserves include fair value reserve arising from revaluation surplus on buildings and freehold land, which is a non distributable reserve, and statutory reserve. Currency translation reserve represents exchange rate differences arising on the translation of the foreign subsidiary. Statutory reserve represents:

a) Accumulated surpluses from the life fund whose distribution is subject to the restrictions imposed by the Kenyan Insurance Act. The Insurance Act limits the amounts of surpluses of the life business available for distribution to shareholders to 30% of the accumulated surplus of the life business. A transfer to or from retained earnings is recorded each year to ensure that only amounts available for distribution to shareholders are held in the retained earnings.

Notes to the Financial Statements continued

13. Revenue and other reserves (continued)

b) A contingency reserve is maintained by the Tanzania subsidiary as required by the Tanzania Insurance Act. The reserve is calculated annually as the greater of 3% of net written premium or 20% of the net profit. This reserve shall accumulate until it reaches the minimum paid-up share capital or 50% of the net premiums, whichever is greater.

c) Proposed dividends
The Directors do not recommend payment of a dividend (2015: NIL).

14. Goodwill	**Group 2016 Shs'000**	**Group 2015 Shs'000**
Cost		
As at 1 January	1,254,995	1,254,995
As at 31 December	**1,254,995**	**1,254,995**

For the purpose of impairment testing, goodwill is allocated to the subsidiary which represents the lowest level within the Group at which the goodwill is monitored for internal management purpose. Each subsidiary to which goodwill has been allocated is tested for impairment at least annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount each units exceeded it's carrying amount hence the goodwill allocated to the units was not impaired.

15. Financial investments

Financial investments-held-to-maturity (HTM)	5,474,556	6,529,389
Fair value through profit or loss financial assets	14,509,381	10,759,852
Loans and receivables	1,912,604	1,775,278
	21,896,541	**19,064,519**

The Group has a total of Kshs 250 million invested in the Chase Bank Corporate Bond. In view of the Bank's Receivership status, Management has made an assesment of its recoverability in light of a guidance note issued by the Capital Markets Authority (CMA) and various communication from the Kenya Deposit Insurance Corporation (KDIC) and Central Bank of Kenya (CBK). On the aforementioned basis, Management elected not to accrue any income over the receivership period. Further, the carrying amount has been set at par (Kshs 250 million).

Notes to the Financial Statements continued

15. Financial investments (continued)

a) Held-to-maturity

	Group 2016 Shs'000	Group 2015 Shs'000
Treasury bills and bonds		
Long term	5,474,556	6,529,389
	5,474,556	**6,529,389**
Maturity analysis		
Maturity within 1 year	458,741	1,093,622
Maturity after 1 year but within 5 years	2,566,606	2,822,931
Maturity after 5 years but within 10 years	1,425,362	1,574,423
Maturity after 10 years	1,023,847	1,038,413
	5,474,556	**6,529,389**
Held-to-maturity movement analysis		
As at 1 January	6,529,389	6,446,368
Additions	-	1,044,759
Maturities	(1,054,833)	(961,738)
As at 31 December	**5,474,556**	**6,529,389**
b) Financial assets at fair value through profit or loss		
Quoted shares	5,842,424	3,065,010
Unquoted shares	45,793	42,660
Government securities	8,621,164	7,652,182
	14,509,381	**10,759,852**
i) Quoted shares		
As at start of year	3,065,010	3,830,414
Additions	5,996,382	770,107
Disposals	(3,168,645)	(852,312)
Net fair value losses	(46,128)	(652,440)
Currency translation	(4,195)	(30,759)
As at end of year	**5,842,424**	**3,065,010**

Notes to the Financial Statements continued

15. Financial investments (continued)

b) Financial assets at fair value through profit or loss (continued)

	Group	
	2016 Shs'000	2015 Shs'000
ii) Unquoted shares		
At start of year	42,660	42,341
Disposals	-	3,989
Net fair value gains/ (losses)	3,958	(3,670)
Currency translations	(825)	-
As at end of year	**45,793**	**42,660**
iii) Government securities		
At start of year	7,652,182	7,092,774
Additions	2,561,057	2,587,939
Disposals	(1,247,918)	(1,871,317)
Fair value losses	(342,736)	(174,834)
Currency translation	(1,421)	17,620
As at end of year	**8,621,164**	**7,652,182**

As at 31 December 2016, Liberty Life Assurance Kenya Limited had a total of Shs 1,185,600,000 (2015: Shs 1,185,600,000) of government securities classified as held-to-maturity held under lien in favour of Insurance Regulatory Authority as prescribed by the Insurance Act section 32 (1(a)).

As at 31 December 2016, Heritage Insurance Kenya Company Limited had a total of Shs 300 million (2015: Shs 300 million) of government securities held under lien in favour of Insurance Regulatory Authority.

c) Loans and receivables

Group		
Mortgage loans	650,197	642,611
Policy loans	1,124,276	1,006,269
Other loans and deposits maturing after 90 days	138,131	126,398
As at end of year	**1,912,604**	**1,775,278**
Group		
At start of Year	1,775,278	1,981,149
Loan Advanced	1,127,412	676,378
Loan Repayment	(990,086)	(882,249)
At end of the Year	1,912,604	1,775,278

Notes to the Financial Statements continued

16. Property, plant and equipment

Group: Balances in Shs'000	2016 Cost or revaluation	2016 Accumulated depreciation	2016 Carrying value	2015 Cost or revaluation	2015 Accumulated depreciation	2015 Carrying value
Buildings on leasehold land	895,370	-	895,370	868,162	-	868,162
Motor vehicles	61,933	(51,174)	10,759	61,100	(50,473)	10,627
Furniture and equipment	961,815	(804,804)	157,011	931,257	(738,495)	192,762
Computer equipment	175,510	(142,544)	32,966	159,763	(132,602)	27,161
Total	**2,094,628**	**(998,522)**	**1,096,106**	**2,020,282**	**(921,570)**	**1,098,712**

Reconciliation of property, plant and equipment - Group - 2016

Group: Balances in Shs'000	Opening balance	Additions	Disposals	Revaluations	Currency adjustment	Cumulated on disposals	Depreciation	Total
Buildings on leasehold land	868,162	26,389	-	15,500	-	-	(14,681)	895,370
Motor vehicles	10,627	4,361	(4,058)	-	(32)	4,057	(4,196)	10,759
Furniture and equipment	192,762	30,513	(1,561)	-	(20)	270	(64,953)	157,011
Computer equipment	27,161	15,812	(6)	-	-	-	(10,001)	32,966
	1,098,712	**77,075**	**(5,625)**	**15,500**	**(52)**	**4,327**	**(93,831)**	**1,096,106**

Notes to the Financial Statements continued

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Group - 2015

Group: Balances in Shs'000	Opening balance	Additions	Disposals	Revaluations	Currency adjustment	Cumulated on disposals	Depreciation	Total
Buildings on leasehold land	780,926	83,836	-	15,500	-	-	(12,100)	868,162
Motor vehicles	16,248	5,436	(2,058)	-	(380)	-	(8,619)	10,627
Furniture and equipment	207,830	38,970	-	-	(1,795)	-	(52,243)	192,762
Computer equipment	58,668	16,130	-	-	-	(21,903)	(25,734)	27,161
	1,063,672	**144,372**	**(2,058)**	**15,500**	**(2,175)**	**(21,903)**	**(98,696)**	**1,098,712**

There were no items of property and equipment pledged by the Group to secure liabilities. Buildings were revalued as at 31 December 2016 by Tysons Limited, Lloyd Masika Limited and Kenya Valuers & Estate Agents Limited, independent valuers, on the basis of the market value for existing use. The resultant revaluation surplus was credited to the revaluation reserve.

17. Investment property

Group :Balances in Shs'000	2016			2015		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	789,763	-	789,763	1,035,500	-	1,035,500

Reconciliation of investment property - Group - 2016

	Opening balance	Additions	Disposals	Fair value adjustments	Total
Investment property	1,035,500	27,188	(375,000)	102,075	789,763

Notes to the Financial Statements continued

17. Investment property (continued)

Reconciliation of investment property - Group - 2015

Group: Balances in Shs'000	Opening balance	Fair value adjustments	Total
Investment property	936,000	99,500	1,035,500

Investment properties are stated at fair value. This has been determined based on independent valuations performed by Lloyd Masika Limited, Tysons Limited and Kenya Valuers & Estate Agents Limited (professional valuers) as at 30 November for Liberty Life and 31 December 2015/16 for Heritage Insurance Company Kenya Limited. The fair values represent the amount at which the assets could be exchanged between knowledgeable willing buyer and seller at an arm's length transaction at the date of the valuation. The valuations are performed on an annual basis and the fair value gains and losses are recognised as investment gains in the income statement. The property rental income earned by the Group from its investment properties, leased out under operating leases as at 31 December 2016, amounted to Shs 157,612,378 (2015: Shs 126,572,258). Direct operating expenses arising on the investment property amounted to Shs 50,593,841.47 (2015: Shs 58,006,471).

18. Intangible assets

Group: Balances in Shs'000	2016			2015		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Intangible assets	446,425	(348,102)	98,323	405,306	(318,585)	86,721

Reconciliation of intangible assets - Group - 2016

Group: Balances in Shs'000	Opening balance	Additions	Amortisation	Total
Intangible assets	86,721	41,119	(29,517)	98,323

Reconciliation of intangible assets - Group - 2015

Group: Balances in Shs'000	Opening balance	Additions	Amortisation	Total
Intangible assets	37,144	68,769	(19,192)	86,721

Notes to the Financial Statements continued

19. Reinsurers' share of insurance liabilities	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Reinsurers' share of:				
Unearned premium	1,637,480	1,027,058	-	-
Notified claims outstanding	570,485	546,582	-	-
Claims incurred but not reported	107,528	741,690	-	-
	2,315,493	**2,315,330**	**-**	**-**

Amounts due from reinsurers in respect of claims already paid by the Group on contracts that we reinsured are included in reinsurance receivables on the statement of financial position.

20. Cash and cash equivalents

	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Cash and cash equivalents consist of:				
Cash at bank and in hand	309,957	527,187	12,385	17,709
Deposits with financial institutions	4,626,681	6,229,987	-	-
Cash and cash equivalents	**4,936,638**	**6,757,174**	**12,385**	**17,709**

21. Insurance contract liabilities

	Group 2016 Shs'000	Group 2015 Shs'000
Short-term (non-life) insurance contracts		
Reported claims and claims handling expenses	2,048,629	1,945,738
Claims incurred but not reported	604,095	675,971
Long term insurance contracts		
Reported claims and claims handling expenses	294,933	301,704
Actuarial value of long term liabilities	8,991,932	8,137,339
	11,939,589	**11,060,752**

Notes to the Financial Statements continued

21. Insurance contract liabilities (continued)

i) Short term insurance contracts

The Group uses Bornehuetter Fergusson (BF) technique to estimate the ultimate cost of claims for the Incurred But Not Reported (IBNR) provision. The BF method recognizes the occasional limitation of the Chain Ladder in using the actual claims paid or reported only but also takes into account the loss ratios of the business classes to provide an additional indication of the expected ultimate claims.

As the data is still sparse and not fully matured for the various classes of business, basic Chain Ladder will be rather volatile. BF was therefore recommended to provide a more stable statistical estimate of the liabilities for the IBNR provisions.

The latest valuation of IBNR was carried out by Ernst & Young as at 31 December 2016.

ii) Long term insurance contracts

The Group determines its liabilities on the long-term insurance contracts on a realistic basis, namely the Gross Premium Valuation (GPV) method.

The GPV method makes explicit assumptions on expected future deaths, investment returns, lapses, expenses and bonuses as well as margins for uncertainty on these assumptions. Assumptions used are based on recent experience investigations conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

The liabilities are determined by the Group on the advice of the consulting actuary and actuarial valuations are carried out on an annual basis. The latest actuarial valuation of the Group's life fund was undertaken as at 31 December 2016 by the consulting actuaries - QED Actuaries and Consultants (Pty) Limited.

Valuation assumptions:

The significant valuation assumptions for the actuarial valuation as at 31 December 2016 are summarised below.

i) Mortality

The GPV basis uses 100% of the SA85/90 ultimate mortality table plus an AIDS allowance of 100% of the AB1 Select and Ultimate tables (2008 ASSA model). Mortality assumption is based on recent mortality investigation conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

For Group Life contracts which are only valued as an IBNR, there is a mitigating effect of changing premium rates on an annual basis as contracts are reviewed annually and no mortality guarantees are offered.

ii) Investment returns

The GPV actuarial valuation as at 31 December 2016 used an expected future investment return of 12.7% compounded annually for individual long term insurance contracts and annuity business. On the GPV basis the valuation interest rate assumption allows for a margin over the expected future investment return, hence strengthening the prudence in the GPV valuation basis.

Notes to the Financial Statements continued

21. Insurance contract liabilities (continued)

ii) Investment returns (continued)

The weighted average rate of return on a Fair Value basis as earned by the assets backing the life fund for the year ended 31 December 2016 was 10.08% p.a. (2015: 7.85% p.a.) and the average over the last three years was 9.06% p.a.

iii) Expenses and expense inflation

The current level of management expenses is taken to be an appropriate expense base for the GPV basis. The expense assumption is derived from the recent expense investigation. The purpose of the investigation was to split of expenses between initial and renewal expenses. The result of the investigation showed that the initial and renewal expenses decreased in real terms comparative to prior year.

For the GPV basis an appropriate assumption is made on the increase of renewal expenses. An expense inflation of 10.8% (2015: 11.1%) is assumed.

iv) Withdrawals

The GPV method allows assumptions to be set on the rate of termination of an insurance contract following a failure to pay premiums (lapse) or the voluntarily termination before the insurance contract maturity (surrender) per policy year.

The withdrawal assumption is derived from recent withdrawal experience investigation conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

v) Sensitivity analysis

The sensitivity of the GPV results has been tested to certain key assumptions by calculating the effect of assumptions not being met. The results of the sensitivity analysis (in KShs'000) can be summarized as follows:

Main basis	19,359,449	-%
Expenses plus 10%	19,470,779	0.6%
Mortality and other claim experience plus 10%	19,369,314	0.1%
Interest rate less 1%	19,348,331	0.4%
Expense inflation plus 1%	19,397,732	0.2%
Withdrawals plus 10%	19,341,765	(0.1)%

As can be seen from the above table, the valuation results depend on the assumptions made. If these assumptions are not realized in practice, then the surplus in the Life Fund would differ from that expected.

It should be noted that the sensitivity calculations have been done independently. This means that interactions between various factors have not been considered. For instance, in the event of withdrawals increasing, it is likely that per policy expenses will also increase. Thus, when considering various scenarios, one needs to use an interplay of the above figures. This has not been allowed for in the above analysis.

Notes to the Financial Statements continued

22. Deposit administration liabilities	Group 2016 Shs'000	Group 2015 Shs'000
As at 1 January	11,463,105	12,047,554
Pension fund deposit received	1,276,993	1,652,286
Surrenders and annuities paid	(2,851,346)	(2,401,518)
Interest payable to policyholders	528,307	231,178
Gross Premiums Valuation liabilities adjustment	(49,542)	(66,395)
As at 31 December	**10,367,517**	**11,463,105**

It should be noted that the sensitivity calculations have been done independently. This means that interactions between various factors have not been considered. For instance, in the event of withdrawals increasing, it is likely that per policy expenses will also increase. Thus, when considering various scenarios, one needs to use an interplay of the above figures. This has not been allowed for in the above analysis.

23. Unearned premium reserve

This reserve represents the liability for short term business contracts where the Group's obligations are not expired at the year end. Movements in the reserve are shown below:

As at 1 January	3,004,505	2,768,235
Increase in the year	30,664	305,629
Currency adjustment	(8,948)	(69,359)
	3,026,221	**3,004,505**

24. Other receivables

Amounts due from related parties	14,351	41,098
Prepayments	182,029	258,075
Operating lease receivables	1,477	1,477
Other receivables	134,379	134,905
	332,236	**435,555**

Notes to the Financial Statements continued

25. Other liabilities	**Group 2016 Shs'000'**	**Group 2015 Shs'000'**	**Company 2016 Shs'000'**	**Company 2015 Shs'000'**
Amounts due to related companies	15,963	31,718	148,170	122,268
Accrued expenses	386,565	449,544	39,189	41,463
Other liabilities	425,389	382,583	-	-
As at 31 December	**827,917**	**863,845**	**187,359**	**163,731**

26. Contingent liabilities and commitments

As is common with the insurance industry in general, the Group is subject to litigation arising in the normal course of insurance business. The Directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the Group.

Capital commitments

Capital expenditure on property and equipment contracted for at the reporting date amounted to Shs 91.8 million (2015: Shs 52.7 million).

Not later than 1 year	91,828	41,719
Later than 1 year and not later than 5 years	-	11,000
	91,828	**52,719**

Operating lease commitments

The Group leases various outlets under non-cancellable operating lease. The lease terms are between 1 and 5 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

As Lessee

Not later than 1 year	11,512	14,266
Later than 1 year and not later than 5 years	23,163	13,254
	34,675	27,520
As Lessor		
Not later than 1 year	49,839	62,869
Later than 1 year and not later than 5 years	164,775	2,520
	214,614	65,389

Notes to the Financial Statements continued

27. Deferred income tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of a 30% (2015: 30%). The movement on the deferred tax account is as follows:

	Group	
	2016 Shs'000	2015 Shs'000
a) Deferred tax asset		
As at start of year	123,915	108,076
(Credit)/Charge to profit or loss	7,260	17,570
Charge to equity	-	(1,731)
As at 31 December	**131,175**	**123,915**

2016	1 January 2016 Shs'000	Credit/(Charge) to IS Shs'000	Charge to equity Shs'000	31 December 2016 Shs'000
Property and equipment	18,954	3,819	-	22,773
Other provisions	121,700	6,811	-	128,511
Fair value gains	(21,143)	(3,658)	-	(24,801)
Currency translation	4,404	288	-	4,692
Net deferred tax asset	**123,915**	**7,260**	**-**	**131,175**

2015	1 January 2015 Shs'000	Credit/(Charge) to IS Shs'000	Charge to equity Shs'000	31 December 2015 Shs'000
Property and equipment	16,808	2,146	-	18,954
Other provisions	104,354	19,077	(1,731)	121,700
Fair value gains	(13,363)	(7,780)	-	(21,143)
Currency translation	277	4,127	-	4,404
Net deferred tax asset	**108,076**	**17,570**	**(1,731)**	**123,915**

b) Deferred tax liability		
As at 1 January	794,888	541,887
Charge to other comprehensive income	4,650	2,920
Charge to statement of changes in equity	59,754	250,081
As at 31 December	**859,292**	**794,888**

Notes to the Financial Statements continued

28. Cash generated from operations		Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Profit before income tax		941,885	953,702	(28,952)	276,074
Adjustments for:					
Interest income		(2,452,437)	(2,458,401)	-	-
Depreciation	16	93,831	98,696	-	-
Amortisation of intangible assets	18	29,517	19,192	-	-
Revaluation gain on building on leasehold land		(15,500)	(15,500)	-	-
Fair value gain on investment property	17	(102,075)	(99,500)	-	-
Dividend and rental income	5	(261,603)	(225,573)	(60,000)	(370,000)
Other net investment expenses		61,757	6,197	-	-
Gain on sale of financial investment		384,906	830,944	-	-
Changes in working capital:					
Technical provisions		46,850	546,653	-	-
Trade and other payables		(70,520)	(67,038)	23,628	(68,121)
Trade and other receivables		103,319	(97,907)	-	-
		(1,240,070)	(508,535)	(65,324)	(162,047)

29. Related parties

The Group is controlled by Liberty Holdings Limited incorporated in the Republic of South Africa. The ultimate parent of Liberty Holdings Limited is Standard Bank Group Limited, which is incorporated in South Africa. There are other companies which are related to Liberty Kenya Holdings Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

a) Gross premiums written	2016	2015
Stanbic Bank Kenya Limited	320,208	321,524
STANLIB Kenya Limited	11,780	6,443
Azali Limited	248	-
	332,236	327,967

Notes to the Financial Statements continued

29. Related parties (continued)	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
b) Claims incurred				
Stanbic Bank Kenya Limited	176,234	202,767		
	176,234	**202,767**		
c) Rental income				
Stanbic Bank Kenya Limited	34,538	7,950		
STANLIB Kenya Limited	9,608	6,851		
	44,146	**14,801**		
d) Interest income				
Stanbic Bank Kenya Limited	24,228	24,926	-	-
STANLIB Kenya Limited	-	42,101	-	-
	24,228	**67,027**	**-**	**-**
e) Dividend income				
The Heritage Insurance Company Kenya Limited	-	-	60,000	370,000
	-	**-**	**60,000**	**370,000**
f) Investment management expenses				
STANLIB Kenya Limited	57,214	63,334		
	57,214	**63,334**		

g) Outstanding balances with related parties

i) Accounts receivable	Group 2016 Shs'000	Group 2015 Shs'000
STANLIB Kenya Limited	1,998	-
Stanbic Bank Kenya Limited	-	112
Liberty Life Assurance Uganda Limited	2,478	8,864
Liberty Health (RSA) Limited	-	1,765
Liberty Holdings Limited	9,875	-
Heritage Insurance Company Tanzania Limited	-	22,359
Liberty Life Assurance Kenya Limited	-	7,998
	14,531	**41,098**

Notes to the Financial Statements continued

29. Related parties (continued)

g) Outstanding balances with related parties (continued)

	Group		Company	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
ii) Accounts payable				
Stanbic Bank Kenya Limited	175	1,623	-	-
Liberty Life Assurance Kenya Limited	-	15,451	38,601	7,998
CfC Investments Limited	-	-	106,669	106,669
The Heritage Insurance Company Kenya Limited	-	22,245	2,099	7,601
STANLIB Kenya Limited	12,105	6,700	-	-
Liberty Holdings Limited	3,683	(14,430)	-	-
Strategis Insurance Tanzania Limited	-	129	-	-
	15,963	**31,718**	**147,369**	**122,268**

These amounts are unsecured and have no specific repayment period.

h) Financial investments				
Stanbic Bank Kenya Limited balances and deposits	569,046	52,409	-	-
Stanbic Bank Kenya Limited corporate bonds	89,300	165,428	-	-
Stanbic Holdings Limited equity investments	18,894	22,110	-	-
	677,240	**239,947**	**-**	**-**
i) Director's remuneration				
Other remuneration	70,187	76,332	-	-
Fees for service as a director	23,080	22,312	3,547	2,864
	93,267	**98,644**	**3,547**	**2,864**
(ii) Key management compensation				
Post employment and other short-term benefits	246,694	271,265		
	246,694	**271,265**		

Supplementary Information

1. Shareholding

i) Top ten shareholders

Liberty Holdings Limited	309,333,535	57.74%
African Liaison and Consultant Services Limited	92,236,289	17.22%
Standard Chartered Kenya Nominees Ltd A/C KE22446	33,974,282	6.34%
Standard Chartered Kenya Nominees Non - Resd. A/C 9866	28,493,763	5.32%
Genghis Nominee A/C 029	26,700,000	4.98%
Archer & Wilcock Nominees Limited	6,490,959	1.21%
Stanbic Nominee Ltd A/C NR1031142	4,864,167	0.91%
The Permanent Secretary to the Treasury of Kenya (On behalf of the Govt of Kenya)	4,602,008	0.86%
Standard Chartered Kenya Nominees Ltd A/C KE22816	3,942,947	0.74%
Stanbic Nominees Ltd A/C NR1030653	1,284,401	0.24%

ii) Distribution of shareholding

1 - 500	2,076	335,764	0.0627%
501 - 1,000	562	406,992	0.0760%
1,001 - 5,000	1,057	2,274,606	0.4246%
5,001 - 10,000	416	3,110,411	0.5806%
10,001 - 50,000	307	5,983,996	1.1170%
50,001 - 100,000	55	3,809,738	0.7112%
100,001 - 500,000	27	5,474,348	1.0219%
500,001 - 1,000,000	2	1,315,892	0.2456%
1,000,001 - 999,999,999,999	11	512,992,752	95.7604%
Total	**4,513**	**535,707,499**	**100.0000%**

NOTES

Proxy Form

To: The Company Secretary
Liberty Kenya Holdings Limited
P. O. Box 30390 - 00100
NAIROBI

I/we ____

of P. O. Box ____

being a member of LIBERTY KENYA HOLDINGS LIMITED hereby appoint

of ____

or failing him ____

of ____

as my/ our proxy to vote on my/ our behalf at the Annual General Meeting of the Company to be held on Tuesday, 6th June 2017 and at any adjournment thereof.

Dated this ____________________ day of __________ 2017

Signed ____

Name ____

NOTE: The Proxy form should be completed and returned to the Company Secretary not later than 48 hours before the meeting or any adjournment thereof.