LIBERTY KENYA HOLDINGS Plc (FORMERLY LIBERTY KENYA HOLDINGS LIMITED)

Annual Report & Financial Statements 2017

LIBERTY


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NOTICE OF ANNUAL GENERAL MEETING

TO THE SHAREHOLDERS OF **LIBERTY KENYA HOLDINGS Plc (FORMERLY LIBERTY KENYA HOLDINGS LIMITED)**

NOTICE IS HEREBY given that the 13th Annual General Meeting of the Company will be held Nairobi on **7 June 2018,** at **The Sarova Stanley Hotel Nairobi,** at **11.00 a.m**. to transact the following business:

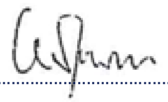
1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive, consider and if approved, adopt the Annual Report and the Audited Financial Statements for the year ended 31 December 2017, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To declare a final dividend of Kenya Shillings fifty cents (-/50) per ordinary share for the year ended 31 December 2017.
5. To elect Directors:

   In accordance with Article 111 of the Company's Articles of Association, Dr Susan Mboya-Kidero and Mr Peter Gethi retire by rotation and being eligible, offer themselves for re-election.
6. To approve the Directors' remuneration and the Directors' Remuneration Report for the year ended 31st December 2017 as provided for in the Financial Statements.
7. To reappoint KPMG Kenya to continue in office as External Auditors of the Company by virtue of Section 721(2) of The Companies Act, 2015 and to authorise the Directors to fix their remuneration.
8. Sale of Subsidiary:

   For the purposes of regulation G.06 (b) of the Fifth Schedule to the Capital Markets (Securities) Public Officers, Listing and Disclosures) Regulations 2002, to consider and if thought fit to pass the following resolution as an Ordinary Resolution:

"THAT the sale by The Heritage Insurance Company Kenya Limited (a subsidiary of Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) of the entire issued share capital in Azali Limited to Emerg Investments Limited, be ratified."

By Order of the Board



Caroline Kioni
Company Secretary
Date: 28th March 2018

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 not later than Friday 11.00 a.m. 5th June 2018. 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 at the address or the Company's registered office at Liberty House, Processional Way, Nairobi.

CORPORATE INFORMATION

DIRECTORS

S. Mboya	Kenyan	Chairman
M. L. du Toit	South African	Managing
P. Gethi	Kenyan	Non-Executive
G. R May	British	Non-Executive
S. Hlophe	South African	Non-Executive-Resigned 31 January 2017
P. Odera	Kenyan	Non-Executive
J. Hubbard	South African	Non-Executive-Appointed 6 June 2017

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 (formerly CfC House)
Mamlaka Road
P.O. Box 30390 - 00100
Nairobi

SUBSIDIARIES

- Liberty Life Assurance Kenya Limited (100%)
- The Heritage Insurance Company Kenya 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

PRINCIPLE 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

"The 2018 World Bank report projects Kenya's economic growth to rebound to 5.5 percent in 2018."

Dr. S. MBOYA

CHAIRMAN'S STATEMENT

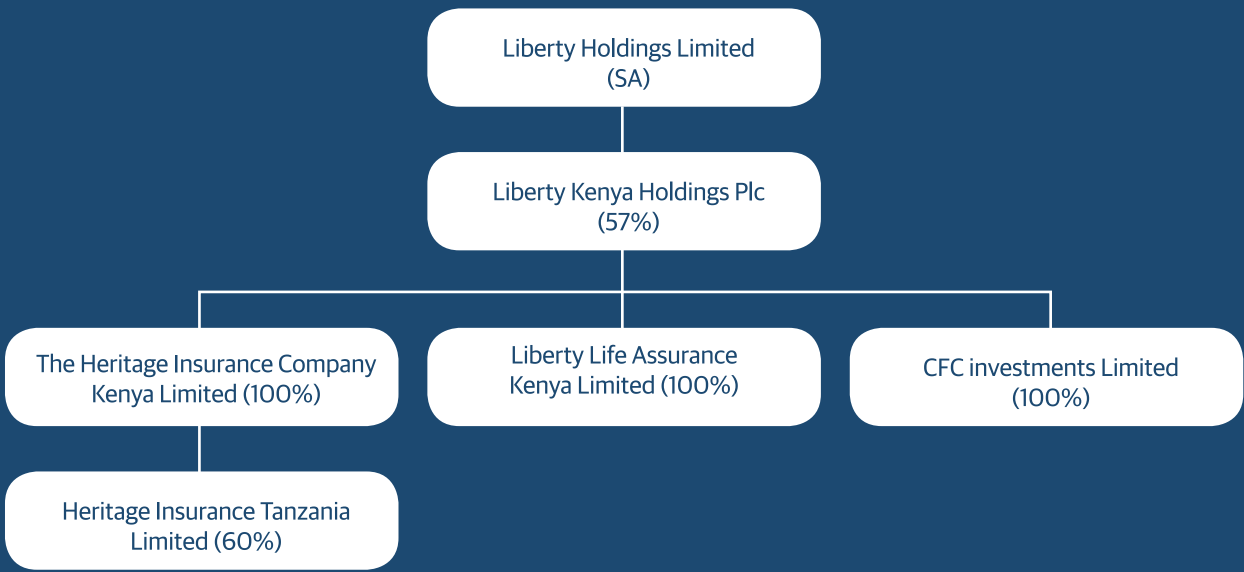
for the Annual Report and Financial Statements 2017

DEAR SHAREHOLDERS,

It is my great pleasure to present to you the Annual Report and Financial Statements for Liberty Kenya Holdings Plc for the year ended December 31, 2017.

GROUP STRUCTURE

Liberty Kenya Holdings Plc is listed on the main segment of the Nairobi Stock Exchange ("NSE") and owns subsidiaries engaged in insurance business.



Through its two main 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.

CHAIRMAN'S STATEMENT (CONT'D)

GROUP FINANCIAL HIGHLIGHTS

The group delivered solid results against the backdrop of a difficult trading environment. The Kenya business recorded growth in premiums and in solid investment returns. Overall, the benefit of payment growth was in line with premium income. Management expenses increase was occasioned by a more prudent approach to premium debtors that led to additional impairment.

During the year, the Group sold, Azali Limited, a special purpose vehicle created to manage Heritage House in Naivasha, as it had become surplus to needs.

The Tanzania businesses gross written premium was down on prior year by 28%, whilst the claims costs reduced to compensate for lower premium earnings.

In keeping with the Group's strong corporate governance and risk management practices, all entities within the Group reflected strong solvency in the reporting period.

Group Key Financial highlights are shown below:

		Group
Net insurance premium revenue	▲	0.5%
Investment return	▲	18%
Total assets	▲	6%
Net insurance benefits and claims	▲	7%
Operating Expenses	▲	7%
Profit for the year	▲	35%
Loss from sale of subsidiary		Kshs. 10million

KEY ACHIEVEMENTS FOR THE YEAR

During the year, Heritage enhanced it's efficiency in various spheres of business operations by the adoption of emerging technology trends in key areas of focus. The business has been aggressive in automating core areas of activity including bank payments through a host to host system that has quickened all payments. In addition, customers were encouraged to pay premiums by offering multiple online payment options.

Customers can now pay premiums from the comfort of their homes or offices via M-PESA or credit cards (Visa) by simply turning to our website and selecting E-Pay.

In addition, the company also connected to the government's Integrated Population Registration System (IPRS) which is the registration bureau of identity cards. This has sped up the processing of new business within an authenticated and accurate system.

Cyber Security has been a key area of focus for the company. During the year, the business subscribed to Mimecast which scans all emails, thereby helping to eliminate fraud and spam mail,in addition to filtering out viruses.

As to new products, we introduced a Trade Credit policy that seeks to cover businesses that supply goods on credit against loss of revenue from buyers who fail to honour their payment obligations.

At the same time, Liberty Life launched the Business Customer Service Charter. Regular customer feedback surveys were conducted to track the implementation of it's customer value proposition and customer service charter. We have created milestones and this can be attested to by Liberty Life Assurance Kenya Limited's winning the "Company of the Year Award" for customer service in the 2017 offered by Think Business Awards.

Management also completed the implementation of our Electronic Data Management System that has contributed measurably to cost containment in terms of document archiving and retrieval of files. To enhance process efficiencies, management also embarked on an end to end business process review. As a result of the review, management is now in the process of implementing Straight Through Processing (STP) to enhance efficiencies concerning business acquisition and in processing and issuance of new business policy contracts.

Significant product development efforts were applied in the year as well and this led to the launch of an education product (KCB Elimisha), developed in conjunction with the KCB Insurance Agency. This is an endowment product that pays out a fixed sum assuredupon the death of the life assured or upon maturity of the policy.

REGULATORY ENVIRONMENT

The Insurance Act has undergone various revisions in 2017. That said, the changes related largely to harmonizing the risk-based capital provisions within the Act and the creation of perpetual licenses for insurance companies. The Insurance Regulatory Authority (IRA) in Kenya also issued the following guidelines to assist in the risk-based supervision:

- The Insurance (Valuation of Technical Provisions for General Business) Guidelines, 2017.
- The Insurance (Investments Management) Guidelines, 2017

CHAIRMAN'S STATEMENT (CONT'D)

• The Insurance (Capital Adequacy) Guidelines, 2017

The Insurance (Amendment) Act 2016 took effect on 13 January 2017 and was amended to operationalize risk-based solvency requirements that were introduced by the Finance Act, 2013.

THE STATUTE LAW (MISCELLANEOUS AMENDMENTS) ACT, 2017

The Insurance Act was amended by changing the date when insurance companies are expected to fully comply with the Risk-Based Capital Requirement, from 30th June 2018 to 30 June 2020.

In the context of the region, there were regulatory changes in Tanzania as outlined below:

In June 2017, the Tanzanian Parliament passed the Written Laws (Miscellaneous Amendments Act (No. 2) of 2017, which amended the Insurance Act, with respect to foreign ownership of insurance brokers, the mechanics of payment (and minimums) for insurance premiums and the requirement to obtain insurance only through Tanzanian insurers.

The changes require Insurance Brokers must in future be at least two thirds (over 66 percent) owned and controlled by Tanzanian citizens. This is a 100 percent increase from the previous local-participation requirement of one third (above 33 %). Further, customers have to pay insurance underwriters all premiums directly, even where they are using brokers.

Brokers are only entitled to receive their commissions directly from the insurers (instead of taking them out of premiums from customers) and there are heavy penalties for contravention.

Insurance cover for a Tanzanian resident person or company may only be placed with a Tanzanian registered insurer. The exception to this, where classes of insurance are not available from a Tanzanian registered insurer, is now even further curtailed. The changes make it clear that all ground transport insurance, marine insurance and air cargo insurance covers for Tanzanian imports must be effected by a Tanzanian insurer.

THE INSURANCE SECTOR

The insurance industry in Kenya is among the top insurance markets in Africa in terms of attractiveness, growth potential and sustainable investment ventures.

In the first half of 2017, insurance premiums grew by 13%, largely driven by an accelerating long-term insurance business segment growth.

As a matter of records the general insurance business segment grew by 6.3%, whilst the long-term business counterpart grew by 26.1% during the period to June 2017. However, the general insurance contributes the largest portion of insurance premiums at 62.3% of total industry premiums.

An Insurance Regulatory Authority report indicates that reinsurers reported premium income of Kshs 10.13 billion during the first six months of 2017, represented a growth of 6.5% over the prior year. Gross premium income reported under life reinsurance business amounted to Kshs 1.60 billion whilst that under general reinsurance amounted to Kshs 8.53 billion.

In the context of claims and underwriting expenses, the loss ratio under general insurance for the period under review was 63.5% (2016: 62.3%). Claims incurred by general insurers were Kshs 45.07 billion in the second quarter of 2017, an increase of 4.5% compared to Kshs 43.15 billion incurred during the previous year. Net spending on commissions decreased by 4.9% from Kshs 6.18 billion in the first half of 2016 to Kshs 5.88 billion a year later.

Management expenses grew by 10.6% from Kshs 18.12 billion reported in the first half of 2016 to Kshs 20.03 billion in the corresponding period of 2017. Commissions and management expense ratios under general insurance business were 7.4% and 31.0% respectively, resulting in a combined ratio of 102%.

SOLVENCY MARGIN REQUIREMENTS

There is no longer a distinction in the solvency margin requirements of an insurer carrying out general insurance business and one carrying out long-term insurance in Kenya. Both are now required to keep total admitted assets of not less than the total admitted liabilities and the capital adequacy ratio, as may be determined by the Insurance Regulatory Authority (IRA). In addition, the IRA has the discretion to prescribe the method of determining admitted assets and liabilities.

Former regulations concerning minimum capital requirements have been substituted by new provisions. These require not only an increase in the essential monetary value but also introduce additional components, such as risk-based capital or a percentage of net-earned premiums or liabilities.

CHAIRMAN'S STATEMENT (CONT'D)

THE INSURANCE SECTOR (CONT'D)

FRAUD

Fraud remains one of the greatest challenges facing the insurance industry. Estimates, generally put, indicate fraud at around 10% of the property or casualty insurance industry's incurred losses and loss adjustment expenses each year.

Fraudulent claims are particularly prevalent in motor and medical claims although it is difficult to tell the exact magnitude of the menace. The industry lobby body, Association of Kenya Insurers (AKI), is developing a data sharing platform that should help industry players exchange information more freely to assist stakeholders into understanding customer trends.

PROCESSES PRODUCTS AND CHANNELS

Liberty Kenya strives to offer innovative long-term products and solutions. Heritage provides short-term insurance products and is justifiably proud of its history of prompt claims payment record. This has earned the company major awards for the "Outstanding Insurance Underwriter in Claims Settlement" as nominated by members of the Association of Insurance Brokers of Kenya.

We are also rated AA- by Global Rating Company (GRC) for, amongst other reasons, our commendable claims paying ability. This is one of the highest international ratings ever given to recognize a Kenyan insurer, meanwhile we continue to develop systems and processes to meet the modern demands of ever-enlightened customers.

This, therefore leads to investing in the expansion of our distribution channels and networks to make it easier for our customers to have access to all our services at their convenience.

In summary, we have gained cumulative experience in understanding our customers' needs and preferences and have been largely successful in providing solutions relative to their their needs.

STAFF

Our policy is to offer opportunities to all potential employees or job applicants and does not discriminate in any way because of gender, race, colour, religion, national origin, sex, physical or mental disability, or age. The Group encourages staff development by offering both professional and internal training opportunities.

Our objective is to recruit individuals who are best suited to the particular job on offer based on their relevant abilities, qualifications, experience and skills for the post. Recruitment and selection decisions will always be made on the basis of merit yet aiming to make our Group the most attractive place to work.

The Group is committed to providing the best possible environment for employees. Safeguarding and promoting their welfare is our highest priority. We aim to recruit staff that share and understand our commitment and to ensure that no job applicant is treated unfairly by reason of a protected characteristic as defined under the Employment Act.

CORPORATE SOCIAL RESPONSIBILITY

In 2017, the Group continued with it's clearly defined Corporate Social Responsibility (CSR) programme anchored on two main pillars, Education and Health as part of the wider Liberty Group CSR Policy.

With respect to education, the Group enrolled 10 new secondary school students in Form One from across the country to bring to a total of 52 students who are under the Heritage Scholarship Programme that sponsors tuition fees for students in secondary and tertiary institutions.

Other education programmes undertaken over the period include a celebration of the 2017 Nelson Mandela Day with students from Kajiado Township Primary School. In marking this occasion, the company, through its staff, donated funds towards a school feeding programme that saw all students receive lunch through a Heritage and Liberty Life staff initiative dubbed "Stairwell Challenge" which saw each participating staff raise money towards the programme.

Additionally, the Group made donations towards the education of needy students during the 2017 Starehe Founders Day Celebration in Nairobi.

On health, Heritage ran a vigorous Healthy Living Campaign aimed at sensitizing company staff on the benefits of living a healthy lifestyle. Indeed, it was through this initiative that staff raised funds towards the Kajiado Township Primary School feeding programme.

Other initiatives included support for the Cerebral Palsy Society of Kenya and participation in the Association of Kenya Insurers Medical Camp in Githunguri, Kiambu County.

CHAIRMAN'S STATEMENT (CONT'D)

BUSINESS OUTLOOK FOR 2018

Analysis although more positive than before, still anticipate economic challenges in 2018 in the aftermath of the two disputed 2017 elections. Saddled with the threat of austerity measures, slow credit growth and new accounting rules for banks, Kenya now risks missing the government's forecast of 6% economic growth in 2018.

The World Bank in their latest report dated April 2018 projected Gross Domestic Product (GDP) to grow at 5.5%, depending on the completion of ongoing infrastructure projects, the resolution of slow credit growth, the strengthening of the global economy and a revival of tourism.

DIVIDEND

The Board of Directors have recommend the payment of a final dividend of 50 cents per share (2016: nil)

APPRECIATION

I would like to take this opportunity to sincerely thank the Board of Directors for it's relentless support and guidance throughout the year.

Similarly, let me extend my appreciation to our valued business partners, brokers, agents and clients who have remained with us over the years; we thank you and reiterate our committed promise to service.

As I conclude, I wish to thank the management and all staff of the Group for their dedication and commitment to serve our clients. Together, we will maintain our strong brand as a trusted leader in the insurance industry.

Dr. S. Mboya
CHAIRMAN
LIBERTY KENYA HOLDINGS Plc
(FORMERLY LIBERTY KENYA HOLDINGS LIMITED)
28 March 2018


security

CORPORATE GOVERNANCE REPORT

1. 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 subscribes 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 Company Kenya Limited, The Heritage Insurance Company Kenya Limited, Heritage Insurance Tanzania Limited and CfC Investments Limited, the Board of Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) follows principles of openness, integrity and accountability in its stewardship of the organisation's affairs. It recognises the dynamic nature of corporate governance and continuously assesses the Group's compliance with generally accepted corporate practices. The role of the Board is to ensure conformity 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.

2. 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	16 March 2017	6 June 2017	12 September 2017	14 December 2017
Dr. S. Mboya	A	P	P	P
Mr. G. May	P	P	P	P
Mr. P. Gethi	P	P	P	P
Mr. P. Odera	P	A	P	A
Mr. M. du Toit	P	P	P	P
Mr. J. Hubbard	-	P	A	A

P - Present
A - Apologies

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

CORPORATE GOVERNANCE REPORT (CONT'D)

3. 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 overall responsibility for establishing and 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 within 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. Attendance during the year is shown below:

Directors	13 February 2017	15 March 2017	28 August 2017
Mr. G. May	P	P	P
Mr. P. Gethi	P	P	P

P - Present

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

4. BOARD EFFECTIVENESS AND EVALUATION

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

5. SUSTAINABILITY

Social and environmental responsibility remains an important part of Liberty Kenya Holding 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 community 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.

6. 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.

7. GOING CONCERN

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

8. REMUNERATION

Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) has a clear policy on remuneration of the Group's 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 Boards.

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

The amounts paid to directors are included in note 31 which represents the total remuneration paid to executive and non-executive directors for the year under review.

Dr. S. Mboya
Chairman

M. du Toit
Managing Director

28 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) set out on pages 36 to 107 which comprise the Group and Company statements of financial position as at 31 December 2017, 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 the Company for the year then ended and notes to the consolidated and separate fiancial statements, including 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 of the consolidated and separate financial statements in the circumstances, preparation and presentation of consolidated and separate financial statements 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 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 financial position of the Group and the Company as at the end of the financial year and of the profit or loss 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 consolidated and separate 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 give a true and fair view of the financial position of the Group and the Company and of the Group's and the Company's profit or loss.

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

The Directors have made an assessment of the Group's 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 consolidated and separate financial statements, as indicated above, were approved by the Board of Directors on 28 March 2018:

Chairman

Managing Director

Date: 28 March 2018

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DIRECTORS' REPORT

The directors submit their report together with the audited consolidated and separate financial statements for the year ended 31 December 2017, in accordance with the Kenya Companies Act, 2015, which disclose the state of affairs of Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) and its subsidiaries (together the "Group")

1. CHANGE OF NAME
The Company changed its name from Liberty Kenya Holdings Limited to Limited Kenya Holdings Plc on 1 September 2017.

2. 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 all general insurance as defined in the Kenyan Insurance Act and Tanzania Insurance Act with the exception of bonds investments. It also issues investment contracts to provide customers with asset management solutions for their savings and retirement needs.

3. RESULTS AND DIVIDEND
Profit for the year ended 31 December 2017 of Shs 845,707,000 (2016: Shs 627,834,000) has been added to retained earnings. The Directors recommend a dividend per share of Shs 0.50 (2016: NIL).

4. DIRECTORS
The names of the directors who held office during the year and to the date of this report are set out on page 3.

5. RELEVANT AUDIT INFORMATION
The directors in office at the date of this report confirm that:

a. There is no relevant information of which the Company's auditors are unaware; and

b. Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

6. EMPLOYEES
The number of people employed by the group at the end of the year was 327(2016:339) Out of the 327 members of staff employed by Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) at 31 December 2017, 172 are male and 155 are female.

The group also had an average of 31 employees in management and 296 in non-management(2016: management 32, non-management 307)

7. AUDITORS
The company's auditors', KPMG Kenya, have expressed their willingness to continue in office in accordance with section 721 of the Kenyan Companies Act, 2015.

8. BUSINESS OVERVIEW
The Group earnings for the year ended 31 December 2017 improved by 35% over 2016 The table below shows the key items that had the largest impact on the earnings and how they moved in comparison to 2016.

8. BUSINESS OVERVIEW (CONT'D)

Group Key Financial highlights are shown below:

Highlights	Group	Kenya Life	Kenya Short-term	Tanzania Short-term
Net insurance premium revenue	▲ 0.5%	▲ 4%	▲ 1%	▼ 19%
Investment Return	▲ 18%	▲ 20%	▲ 17%	▲ 68%
Total assets	▲ 6%	▲ 4%	▲ 23%	▼ 12%
Net insurance benefits and claims	▲ 7%	▲ 9%	▲ 11%	▼ 17%
Operating Expenses	▲ 7%	▼ 5%	Flat	▲ 33%
Profit for the year	▲ 35%	▲ 185%	▲ 16%	▼ 51%
Solvency	N/A	2.28x	2.33x	1.95x
Sale of subsidiary	Shs(10m)		Shs 50m	-

Life business had a successful year nearly tripling prior year earnings. The business recorded growth in premium earnings and investment returns. Group risk business performed particularly well due to the increase in premium volumes supplemented by a low loss ratio underpinning the quality of business written in the year.

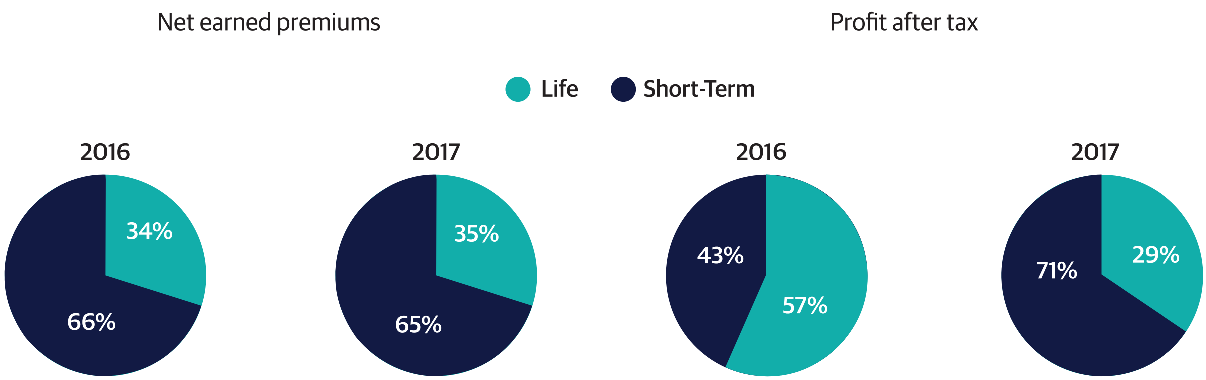
Kenya short-term business growth in net earned premiums was muted though gross written premiums (GWP) grew by 11%. The company experienced a spike in claims costs especially from the Motor and Engineering classes. The expenses of management were however contained to the same level as the prior year.

Tanzania short-term business suffered a reduction in premiums, although an improvement in investment earnings and a modest loss ratio. It's expenses, however, increased mainly due to bad debt impairments as well as a revaluation of some other assets.

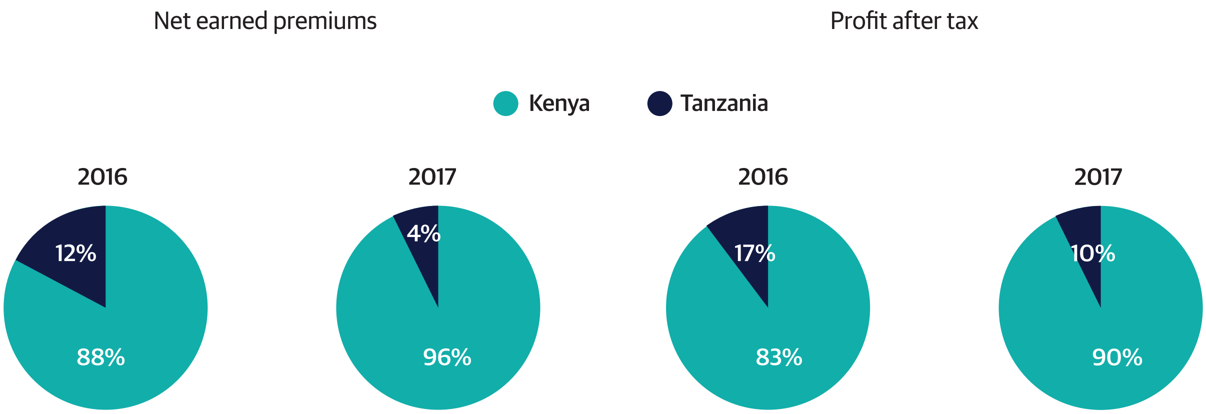
Summary Profit after Tax (PAT) by entity	2017 Shs'000	2016 Shs'000		Change
Heritage Insurance Kenya Limited	427,286	409,096	▲	4%
Heritage Insurance Tanzania Limited	51,596	105,636	▼	51%
Azali Limited	2,038	2,037	▲	0%
Loss from sale of subsidiary	(10,549)	-	▼	-
Heritage Group	**470,531**	**516,769**	▼	**9%**
Liberty Life Assurance Kenya Limited	574,417	201,574	▲	185%
Liberty Kenya Holdings Plc	(188,827)	(88,952)	▼	112%
CfC Investments Limited	-	-		
Total	**856,321**	**629,391**	▲	**36%**
Consolidation Entries	(10,614)	(1,557)	▼	582%
Profit after Tax	**845,707**	**627,834**	▲	**35%**

Graphical representation of results:-

Results by business lines



Results by geographical spread



9. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2018.

By Order of the Board

C. Kioni
Company Secretary
28 March 2018

DIRECTORS' REMUNERATION REPORT

Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) is pleased to present the Directors' Remuneration Report for the year ended 31 December 2017. This report is in compliance with the Liberty's remuneration policy, the Capital Markets Authority Code of Corporate Governance Guidelines on Director's remuneration and the 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 remuneration 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 remuneration levels reflect the competitive market and compare favorably with relevant competitors for such skills.

- **Communication:** We aim to give details to every one of the component value of their total remuneration package and the criteria that may affect it.
- **Effectiveness:** We aim to seek out best practice and ensure our remuneration programs remain effective for the business and individuals.
- **Overall:** Our remuneration 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 appropriate remuneration and recognition is applied in a fair and consistent manner.

Details of directors

Name	Position
Dr. Susan Mboya	Chairman – Non-executive Director
Mr. Mike du Toit	Managing Director
Mr. Gayling May	Non-executive Director
Mr. Peter Gethi	Non-executive Director
Mr. Philip Odera	Non-executive Director
Mr. Jeffrey Hubbard	Non-executive Director (appointed 06.06.2017)
Mr. Sandile Hlophe	Non-executive Director (resigned 31.01.2017)

Non-executive Directors retire on rotation after serving 3 years, and are eligible to seek re-election by shareholders in accordance with the Company's Articles of Association at Annual General Meetings. Non-executive Directors do not have service agreements.

DIRECTORS' REMUNERATION REPORT (CONT'D)

DIRECTORS APPOINTMENT AND RETIREMENT TERM

	Appointment Date	Retirement date by rotation at the AGM
Dr. Susan Mboya	29 November 2011	June 2018
Mr. Gayling May	17 December 2009	June 2019
Mr. Peter Gethi	17 December 2009	June 2018
Mr. Philip Odera	2 September 2016	June 2020
Mr. Jeffrey Hubbard	6 June 2017	June 2020
Mr. Mike L du Toit	17 December 2008	Subject to contract

Remuneration Policy for the Non-Executive Chairman and Non-Executive Directors

The remuneration of the Non-Executive Chairman and Non-executive Directors is determined by the Directors' Affairs Committee of the Company. These Board members receive annual fees and allowances for attending meetings. Non-Executive roles are not entitled to any performance related pay or pension.

The Non-Executive Chairman and Non-Executive Directors do not have service contracts. The Company's policy is to appoint the Non-Executive Directors for an initial three-year period, which may be extended for a further term by mutual consent or via approval by Members at an Annual General Meeting. The initial appointments and any subsequent reappointments are subject to annual election or re-election by shareholders.

The appointment of non-executive Directors is subject to a formal appointment and induction process. The approval from the Capital Markets Authority is a prerequisite for the formal appointment of any director.

Non-Executive Director Remuneration Policy

The fees for Non-Executive Directors are set at a level that is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. Fees are paid in cash.

The amount of fees reflects the commensurate responsibility and time commitment given to the Board and Board Committees.

Board Evaluation

The performance of Board members and the Board collectively is based on Board Evaluations conducted every year. The evaluation is in form of a questionnaire that is completed individually and reviewed together. The questionnaire is designed to capture key matrixes that are considered important for the strategic direction of the Group. Some of the key matrix assessments are as follows;

- Structure of the board and composition
- Process, training and conduct of meetings.
- Effectiveness

THE LIST OF THE REWARD COMPONENTS ARE AS FOLLOWS:

The Directors' fees and benefits are as follows and are subject to periodic review taking into account market practice and the role of the directors.

1. 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's ability to fund the increase. Retainer fees are paid on a quarterly basis.

2. ATTENDANCE FEES

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

DIRECTORS' REMUNERATION REPORT (CONT'D)

3. INSURANCE COVER

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

4. 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 Directors attending to Board and Company related meetings and matters.

CHANGES TO DIRECTORS' REMUNERATION

There were no substantial changes relating to the directors' remuneration made during the year (2016:None).

For the financial year ended 31 December, 2017, the total Non-executive Directors remuneration in Shs' 000s was Shs 3,547 (2016 – Shs 2,806) and for executive directors was Shs 96,516 (2016 –Shs 99,034).

The total amount of emoluments paid to Directors for services rendered during the Year 2017 is also disclosed in Note 31 to the Financial Statements.

NON-EXECUTIVE DIRECTORS' RENUMERATION

	2017			2016		
	Retainer Fees Shs'000	Attendance Fees Shs'000	Total Shs'000	Retainer Fees Shs'000	Attendance Fees Shs'000	Total Shs'000
Dr. Susan Mboya	432	480	912	432	320	752
Mr. Gayling May	309	1,058	1,367	309	751	1,060
Mr. Peter Gethi	309	959	1,268	309	685	995
Total	**1,050**	**2,497**	**3,547**	**1,050**	**1,756**	**2,806**

i. Retainers and Board attendance fees are only paid to non-executive Directors. Non-executive Directors appointed from related companies do not receive payment for their services other than reasonable reimbursement of expenses for Board attendance.
ii. The cost incurred by the company to purchase insurance cover on behalf of Directors amounted to KShs. 264,000 in both years.
iii. No amount was paid as an expense allowance that is not chargeable to income tax, or would be if the director were an individual, or paid to or receivable by the director in respect of qualifying services.
iv. No compensation for loss of office was paid to or receivable by any director in connection with the termination of qualifying services in the year.
v. No Director is entitled to any compensation upon the termination or end of their tenure as a member of the Board.
vi. There were no other sums paid to third parties in respect of directors' services.

EXECUTIVE DIRECTOR REMUNERATION POLICY

Service Contracts

The Managing Director is the only Executive Director of the Company. He has a service contract with the Company which is terminable by either party giving 3 months' notice.

Name	Date of contract	Type of contract	Unexpired term	Notice period	Amount payable for early termination Shs 000
Mike du Toit	**17 December 2008**	**Renewable contract**	**10 months**	**3 months**	**18,636**

DIRECTORS' REMUNERATION REPORT (CONT'D)

The remuneration of the Managing Director including but not limited to contract terms, monthly pay and participation in the Group short and long incentive plans are set by the Liberty Group Remuneration Committee.

The salary for the Executive Director who is also the Regional Group Executive for East and Central Africa, is set at a level which is considered appropriate to attract an individual with the necessary experience and ability to oversee the businesses accross the region. The salary is paid in cash and is subject to annual review each year. Judgement is used but consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and company performance.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which the Director acquired benefits by means of acquisition of shares in the Company or a long term investment scheme.

2017	Basic Pay	Other Benefits	Bonus	Non-Cash Benefits	Total
	KShs'000	KShs'000	KShs'000	KShs'000	
Mike du Toit	**74,545**	**12,325**	**7,071**	**2,575**	**96,516**
2016	**Basic Pay**	**Other Benefits**	**Bonus**	**Non-Cash Benefits**	**Total**
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Mike du Toit	**68,621**	**11,056**	**16,695**	**2,662**	**99,034**

i. **Other Benefits** comprise Air passage, Accommodation Allowance, Club Membership, Telephone, School Fees, National Social Security Fund and National Hospital Insurance Fund company contributions.

ii. **Non-cash benefits** consist of Company Car benefit.

iii. **Pension/Gratuity:** The Company does not operate a pension or gratuity scheme to the benefit managing Director. All benefits are subjected to tax at prevailing PAYE rates.

Approval of 2016 Directors' remuneration report

At the annual General meeting held on 7 June 2017, the Shareholders approved the Directors' remuneration report for 2016. The report was unanimously approved by the shareholders present and there were no votes cast against nor record of abstention.

Approval of the directors' remuneration report

The Directors confirm that this report has been prepared in accordance with the Kenyan Companies Act 2015, the Capital Markets Authority (CMA) Code and Listing rules and reflects the disclosure requirements under the IFRSs.

By Order of the Board

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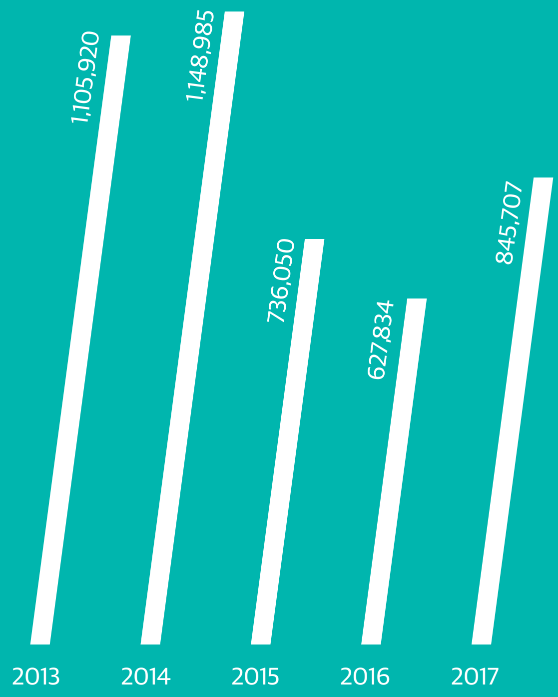
28 March 2018

FINANCIAL HIGHLIGHTS



NET PROFIT FOR THE YEAR (Shs)

NET ASSETS (Shs)

FIVE YEAR CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2017	2016	2015	2014	2013
Net insurance premium revenue	5,599,908	5,573,336	5,525,834	4,692,485	4,067,128
Investment and other income	4,085,672	3,451,537	2,745,822	3,610,067	3,311,482
Total income	**9,685,580**	**9,024,873**	**8,271,656**	**8,302,552**	**7,378,610**
Net insurance benefits and claims	(4,246,498)	(3,952,115)	(3,126,117)	(3,456,461)	(3,076,841)
Operating expenses and commissions	(4,336,513)	(4,130,873)	(4,191,837)	(3,509,440)	(2,995,520)
Result of operating activities	**1,102,569**	**941,885**	**953,702**	**1,336,651**	**1,306,249**
Earnings from associates	-	-	-	9,918	(7,387)
Profit before income tax	**1,102,569**	**941,885**	**953,702**	**1,346,569**	**1,298,862**
Income tax expense	(256,862)	(314,051)	(217,652)	(197,584)	(192,942)
Profit for the year	**845,707**	**627,834**	**736,050**	**1,148,985**	**1,105,920**
Costs to income ratio	45%	46%	51%	42%	41%
Earnings per share (Shs)	1.58	1.17	1.37	2.14	2.15

FIVE YEAR CONSOLIDATED FINANCIAL POSITION

	2017	2016	2015	2014	2013
Total equity	**7,428,571**	**6,753,641**	**6,233,113**	**6,157,189**	**5,464,882**
Assets					
Property, equipment and intangible assets	1,246,615	1,194,429	1,185,433	1,100,816	1,136,877
Investment property	751,500	789,763	1,035,500	936,000	842,200
Goodwill	1,254,995	1,254,995	1,254,995	1,254,995	1,254,995
Investment in associates	-	-	-	-	70,041
Financial investments	24,983,002	21,896,541	19,064,519	19,098,156	15,949,076
Other assets	5,192,948	4,847,905	5,236,068	4,552,324	5,746,018
Cash and cash equivalents	3,689,506	4,936,638	6,757,174	6,251,762	6,452,983
Total assets	**37,118,566**	**34,920,271**	**34,533,689**	**33,194,053**	**31,452,190**
Liabilities					
Insurance contract liabilities	12,808,215	11,939,589	11,060,752	9,720,729	10,320,927
Deposit administration liabilities	9,956,754	10,367,517	11,463,105	12,047,554	11,103,757
Other liabilities	6,925,026	5,859,524	5,776,720	5,268,581	4,562,624
Total liabilities	**29,689,995**	**28,166,630**	**28,300,577**	**27,036,864**	**25,987,308**
Net assets	**7,428,571**	**6,753,641**	**6,233,112**	**6,157,189**	**5,464,882**

BOARD OF DIRECTORS

Dr Susan Mboya (53)
Chairman

Dr. Susan Mboya Joined Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) Board in 2011 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 2010 to 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 (75)
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 Plc (formerly 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 (52)
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 Plc (formerly Liberty Kenya Holdings Limited), and Heritage Insurance Company Tanzania Limited.

Mike du Toit (56)
Managing Director

Mr. Mike du Toit joined Liberty in 2008. 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 is also a member of the boards of all Group associated insurance and asset management companies across the region.

Philip Odera (59)
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 the 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.

Jeffery Hubbard (53)
Group Executive - Business Development

Mr Jeffery Hubbard has 32 years working experience and has extensive experience in financial reporting and management. Having begun his career at Deloitte & Touche in 1985, Mr Hubbard has held several financial director roles for large entities across different industries. He joined Liberty Group in 2004 as a Head of Financial Reporting responsible for group financial and regulatory reporting and oversight and training of business unit CFOs. Mr Hubbard subsequently has held various positions in Liberty including the Group's Chief Financial Officer. During his tenure, Liberty ranked first in the EY's Excellence in Integrated Reporting Awards 2015 and ranked in the top 10 in several other years.

Mr Hubbard is currently the Liberty Group Business Development Cluster Executive which includes responsibility for Liberty's businesses outside of South Africa as well as components of the South African insurance operations. He holds a B.Com (UCT) degree and is a registered Chartered Accountant with SAICA.

Caroline Kioni
Company Secretary

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF LIBERTY KENYA HOLDINGS PLC
(FORMERLY LIBERTY KENYA HOLDINGS LIMITED)
REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

We have audited the consolidated and separate financial statements of Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) (the Group and Company) set out on pages 36 to 107 which comprise the Group and Company statements of financial position as at 31 December 2017, 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 consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings Limited) as at 31 December 2017, and of the consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by 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 consolidated and separate Financial Statements section of our report. We are independent of the Group and the 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 consolidated and separate 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 consolidated and separate financial statements of the current period. The matters were addressed in the context of our audit of the consolidated and separate 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 PLC
(FORMERLY LIBERTY KENYA HOLDINGS LIMITED) (CONT'D)

INDEPENDENT AUDITORS' REPORT (CONT'D)
REPORT ON THE AUDIT OF CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONT'D)

KEY AUDIT MATTERS (CONT'D)
INSURANCE AND DEPOSIT ADMINISTRATION CONTRACT LIABILITIES

See Note accounting policy note 1.2 (d) and 1.3 (e)
See Note 23 to the consolidated and separate 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 graduated development factors, loss ratios, inflation assumptions and claims expense assumptions. The valuation of insurance contract liabilities depends on accuracy of 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; • Using our actuarial specialists to review the reserving methodology applied and analytically reviewing the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examining 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 PLC

(FORMERLY LIBERTY KENYA HOLDINGS LIMITED) (CONT'D)

INDEPENDENT AUDITORS' REPORT (CONT'D)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONT'D)

KEY AUDIT MATTERS (CONT'D)

INSURANCE AND DEPOSIT ADMINISTRATION CONTRACT LIABILITIES (CONT'D)

See Note accounting policy note 1.2 (d) and 1.3 (e)
See Note 23 and 24 to the consolidated and separate financial statements

The key audit matter	How the matter was addressed
Long-term Insurance and deposit administration contract liabilities The Group has significant long-term insurance contract liabilities and deposit administration liabilities representing about 67% 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 accuracy 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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF LIBERTY KENYA HOLDINGS PLC (FORMERLY LIBERTY KENYA HOLDINGS LIMITED) (CONT'D)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONT'D)

KEY AUDIT MATTERS (CONT'D)

INSURANCE AND DEPOSIT ADMINISTRATION CONTRACT LIABILITIES (CONT'D)

The key audit matter	How the matter was addressed
	• 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 5 and 17 (a) to the consolidated and separate 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF LIBERTY KENYA HOLDINGS PLC (FORMERLY LIBERTY KENYA HOLDINGS LIMITED) (CONT'D)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONT'D)

KEY AUDIT MATTERS (CONT'D)

PREMIUM INCOME AND RECEIVABLES

See accounting policy notes:

- 1.2 (d) (ii) (a) recognition and measurement of premium income
- 1.2 (d) (ii) (f) receivables and payables related to insurance contracts and investment contracts
- 1.2 (m) impairment of financial assets

See notes to the consolidated and separate financial statements:

- 3(c) Management of insurance and financial risk (Credit risk)
- 4 Gross earned premiums

The key audit matter	How the matter was addressed
The recognition of premium revenue, determination of unearned premiums and estimation of provisions for uncollected premiums receivables involves significant judgment. There are inherent risks in the valuation of reinsurance assets and insurance receivables. These balances require judgement to be applied by the Company for their valuation and their processing requires manual adjustments to be made. Due to the above factors, we considered premium income and receivables to be a key audit matter.	Our audit procedures in this area included, among others: • Understanding the terms of the insurance and reinsurance programmes in place and conducting relevant substantive procedures and substantive analytical procedures to assess the reasonableness of the insurance and reinsurance receivables relative to gross provisions; • Inspection of management's aged analysis for recoveries as at 31 December 2017; • Evaluation and testing of key controls over the processes designed to record and monitor premium income and insurance and reinsurance receivables; • Testing of the manual adjustments on a sample basis by tracing back to supporting documentation; and • Considering credit ratings for reinsurers, facultative and brokerage entities.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF LIBERTY KENYA HOLDINGS PLC (FORMERLY LIBERTY KENYA HOLDINGS LIMITED) (CONT'D)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONT'D)

KEY AUDIT MATTERS (CONT'D)

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 consolidated and separate 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 we identify the need to perform additional procedures, place reliance on manual compensating controls, such as reconciliation between systems and other information sources or performing additional testing, such as extending the size of our sample sizes, to obtain sufficient appropriate audit evidence over the financial statement balances that were impacted.

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 consolidated and separate financial statements and our auditor's opinion thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 PLC

(FORMERLY LIBERTY KENYA HOLDINGS LIMITED) (CONT'D)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONT'D)

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

As stated on page 13, the Directors are responsible for the preparation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group and the 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 the Company or to cease operations, or have no realistic alternative but to do so.

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 the 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 the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF LIBERTY KENYA HOLDINGS PLC

(FORMERLY LIBERTY KENYA HOLDINGS LIMITED) (CONT'D)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONT'D)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONT'D)

draw attention in our auditors' report to the related disclosures in the consolidated and separate 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 consolidated and seperate financial statements, including the disclosures, and whether the consolidated and separate 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 within group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 also provide the Directors with a statement that we have compiled 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 the Directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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;

a) In our opinion, the information in the report of the directors on pages 15 to 17 is consistent with the financial statements;

b) Our report is unqualified; and

c) The auditable part of the directors' remuneration report on pages 18 to 21 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Alexander Mbai - P/2172.

KPMG Kenya

KPMG Kenya
8th Floor, ABC Towers Waiyaki Way
P O Box 40612
00100 Nairobi GPO
Date: 28 March 2018

peace of mind

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note	Shs'000	Shs'000	Shs'000	Shs'000
Gross earned premium revenue	4	9,762,719	9,623,170	-	-
Less: Outward reinsurance		(4,162,811)	(4,049,834)	-	-
Net insurance premium revenue		**5,599,908**	**5,573,336**	**-**	**-**
Commissions earned		965,459	872,058	-	-
Investment income	5	3,082,879	2,552,561	-	60,000
Administration Fees		14,641	9,650		
Loss on disposal of subsidiary	6	(10,549)	-	-	-
Other income	7	33,242	17,268	-	-
		4,085,672	**3,451,537**	**-**	**60,000**
Total income		**9,685,580**	**9,024,873**	**-**	**60,000**
Claims and policyholder benefits	8	(5,354,815)	(5,230,211)	-	-
Change in insurance contracts	8	(663,247)	(478,764)	-	-
Amounts recoverable from reinsurers		1,771,564	1,756,860	-	-
Net insurance benefits and claims		**(4,246,498)**	**(3,952,115)**	**-**	**-**
Commissions payable		(1,171,902)	(1,176,507)	-	-
Other operating expenses	9	(3,164,611)	(2,954,366)	(188,827)	(88,952)
Total expenses and commissions		**(4,336,513)**	**(4,130,873)**	**(188,827)**	**(88,952)**
Profit (loss) before income tax		**1,102,569**	**941,885**	**(188,827)**	**(28,952)**
Income tax expense	13	(256,862)	(314,051)	-	-
Profit (loss) for the year		**845,707**	**627,834**	**(188,827)**	**(28,952)**
Profit (loss) attributable to:					
Owners of the parent		824,925	585,580	(188,827)	(28,952)
Non-controlling interests	12	20,782	42,254	-	-
		845,707	**627,834**	**(188,827)**	**(28,952)**

The accounting policies on pages 43 to 62 and the notes on pages 63 to 107 form an integral part of the financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note	Shs'000	Shs'000	Shs'000	Shs'000
Profit (loss) for the year		**845,707**	**627,834**	**(188,827)**	**(28,952)**
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Deferred income tax on statutory and revaluation reserve	29	(23,250)	(4,650)	-	-
Gains (losses) on property revaluation	18	77,500	15,500	-	-
Total items that will not be reclassified to profit or loss		**54,250**	**10,850**	**(188,827)**	**-**
Items that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations	15(c)	(4,244)	(16,852)	-	-
Other comprehensive income for the year net of taxation		**50,006**	**(6,002)**	**-**	**-**
Total comprehensive income (loss)		**895,713**	**621,832**	**(188,827)**	**(28,952)**
Total comprehensive income (loss) attributable to:					
Owners of the parent		880,533	582,295	(188,827)	(28,952)
Non-controlling interest	12	15,180	39,537	-	-
		895,713	**621,832**	**(188,827)**	**(28,952)**

The accounting policies on pages 43 to 62 and the notes on pages 63 to 107 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note	Shs'000	Shs'000	Shs'000	Shs'000
Share capital	14	535,707	535,707	535,707	535,707
Share premium	14	1,490,480	1,490,480	1,490,480	1,490,480
Revenue reserve	15	3,211,987	2,946,229	812,345	1,001,172
Other reserves	15	1,898,847	1,449,300	-	-
Equity attributable to equity holders		7,137,021	6,421,716	2,838,532	3,027,359
Non-controlling interest		291,550	331,925	-	-
Total equity		**7,428,571**	**6,753,641**	**2,838,532**	**3,027,359**
REPRESENTED BY:					
Assets					
Property, plant and equipment	18	1,096,253	1,096,106	-	-
Intangible assets	20	150,362	98,323	-	-
Goodwill	16	1,254,995	1,254,995	-	-
Investment property	19	751,500	789,763	-	-
Investments in subsidiaries	11	-	-	3,202,333	3,202,333
Financial investments	17	24,983,002	21,896,541	-	-
Deferred acquisition costs		86,182	110,053	-	-
Deferred income tax	29	228,172	131,175	-	-
Receivables arising from reinsurance		764,875	490,076	-	-
Receivables arising from direct insurance		925,690	1,439,313	-	-
Reinsurers' share of insurance liabilities	21	2,379,010	2,315,493	-	-
Other receivables	26	783,548	332,236	101	-
Current income tax	13	25,471	29,559	-	-
Cash and cash equivalents	22	3,689,506	4,936,638	17,349	12,385
Total Assets		**37,118,566**	**34,920,271**	**3,219,783**	**3,214,718**
Liabilities					
Insurance contract liabilities	23	12,808,215	11,939,589	-	-
Deposit administration liabilities	24	9,956,754	10,367,517	-	-
Unearned premium reserve	25	3,007,402	3,026,221	-	-
Deferred acquisition income		59,594	87,318	-	-
Deferred income tax	29	1,046,051	859,292	-	-
Creditors arising from direct insurance		585,119	449,403	-	-
Creditors arising from reinsurance		842,072	589,770	-	-
Other liabilities	27	1,348,277	827,917	381,251	187,359
Current income tax	13	36,511	19,603	-	-
Total Liabilities		**29,689,995**	**28,166,630**	**381,251**	**187,359**
Net assets		**7,428,571**	**6,753,641**	**2,838,532**	**3,027,359**

The financial statements and the notes on pages 36 to 107, were approved and authorised for issue by the board of directors on the Wednesday, 28 March 2018 and were signed on its behalf by:

S. Mboya M. L du Toit G. R May C. Kioni

The accounting policies on pages 43 to 62 and the notes on pages 63 to 107 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Share Capital	Share Premium	Currency translation	Statutory reserve	Revaluation reserve	Revenue reserve	Non controlling interest	Total equity
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Group - 2017								
Balance at 1 January 2017	**535,707**	**1,490,480**	**(58,008)**	**1,359,030**	**148,278**	**2,946,229**	**331,925**	**6,753,641**
Profit for the year	-	-	-	-	-	824,702	20,782	845,484
Other comprehensive income	-	-	(6,914)	(1,623)	63,209	935	(5602)	50,006
Recognition of deferred income tax on revaluation surplus	-	-	-	-	(23,250)	-	-	(23,250)
Foreign currency translation differences	-	-	(6,914)	(1,623)	8,960	935	(5602)	(4,244)
Gain on revaluation of land and buildings	-	-	-	-	77,500	-	-	77,500
Total comprehensive income for the year	**-**	**-**	**(6,914)**	**(1,623)**	**63,210**	**825,860**	**15,180**	**895,713**
Additional shares							18,519	18,519
Transfer between reserves	-	-	-	560,102	-	(560,102)	-	-
Deferred tax on undistributed surplus	-	-	-	(165,228)	-	-	-	(165,228)
Interim Dividends	-	-	-	-	-	-	(74,074)	(74,074)
Total contributions with owners of the company	**-**	**-**	**-**	**394,874**	**-**	**(560,102)**	**(55,555)**	**(219,064)**
Balance at 31 December 2017	**535,707**	**1,490,480**	**(64,922)**	**1,752,281**	**211,488**	**3,211,987**	**291,550**	**7,428,571**

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STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Share Capital	Share Premium	Currency translation	Statutory reserve	Revaluation reserve	Revenue reserve	Non controlling interest	Total equity
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Group - 2016								
Balance at 1 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	-	-	(1,092)	(9,487)	10,851	(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	**-**	**-**	**(1,092)**	**(9,487)**	**10,851**	**582,023**	**39,537**	**621,832**
Additional shares	-	-	-	-	-	-	18,886	18,886
Transfer between reserves	-	-	-	218,618	-	(218,618)	-	-
Deferred tax on undistributed surplus	-	-	-	(59,754)	-	-	-	(59,754)
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(60,434)**	**(60,434)**
Total contributions with owners of the company	**-**	**-**	**-**	**158,864**	**-**	**(218,618)**	**(41,548)**	**(101,302)**
Balance at 31 December 2016	**535,707**	**1,490,480**	**(58,009)**	**1,359,030**	**148,279**	**2,946,229**	**331,925**	**6,753,641**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Share Capital Shs'000	Share Premium Shs'000	Revenue reserve Shs'000	Total equity Shs'000
Company - 2017				
Balance at 1 January 2017	**535,707**	**1,490,480**	**1,001,172**	**3,027,359**
Loss for the year	-	-	(188,827)	(188,827)
Other comprehensive Income				
Total comprehensive Loss for the year	**-**	**-**	**(188,827)**	**(188,827)**
Balance at 31 December 2017	**535,707**	**1,490,480**	**812,345**	**2,838,532**
Company - 2016				
Balance at 1 January 2016	**535,707**	**1,490,480**	**1,030,124**	**3,056,311**
Loss for the year	-	-	(28,952)	(28,952)
Total comprehensive Loss for the year	**-**	**-**	**(28,952)**	**(28,952)**
Balance at 31 December 2016	**535,707**	**1,490,480**	**1,001,172**	**3,027,359**

The accounting policies on pages 43 to 62 and the notes on pages 63 to 107 form an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note	Shs'000	Shs'000	Shs'000	Shs'000
Cash flows from operating activities					-
Cash (used in) generated from operations	30	(880,754)	(1,240,070)	4,964	(65,324)
Net interest received		2,520,967	2,452,437	-	-
Income tax paid	13	(332,863)	(196,628)	-	-
Net cash from operating activities		**1,307,350**	**1,015,739**	**4,964**	**(65,324)**
Cash flows from investing activities					
Additions to property and equipment	18	(124,826)	(77,075)	-	-
Proceeds from the sale of equipment		105,326	5,625	-	-
Purchase of investment property	19	-	(27,188)	-	-
Proceeds from the sale of investment property	19	-	375,000	-	-
Additions to intangible assets	20	(94,010)	(41,119)	-	-
Purchase of quoted shares	17(b(i))	(1,380,335)	(5,996,382)	-	-
Purchase of government securities and corporate bonds	17(a;b)	(12,538,627)	(2,561,057)	-	-
Net investment in loans and receivables	17(c)	(15,948)	(137,326)	-	-
Proceeds from sale of quoted shares	17(b(i))	3,652,113	3,168,645	-	-
Proceeds from sale of government securities and corporate bonds	17(a;b)	7,590,896	2,302,751	-	-
Dividend, rental and other income received		239,653	199,846	-	60,000
Net cash from/(used in) investing activities		**(2,565,758)**	**(2,788,280)**	**-**	**60,000**
Cash flows from operating activities					
Total cash movement for the year		**(1,258,408)**	**(1,772,541)**	**4,964**	**(5,324)**
Cash and cash equivalents at the beginning of the year		4,936,638	6,757,174	12,385	17,709
Currency translation differences		11,276	(47,995)	-	-
Total cash at end of the year	**22**	**3,689,506**	**4,936,638**	**17,349**	**12,385**

The accounting policies on pages 43 to 62 and the notes on pages 63 to 107 form an integral part of the financial statements.

ACCOUNTING POLICIES

1. PRESENTATION OF ANNUAL REPORT AND FINANCIAL STATEMENTS

1.1 GENERAL INFORMATION

Liberty Kenya Holdings Plc (formerly 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 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account 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.

For Kenyan Companies Act, 2015 reporting proposes in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is represented by the Statement of profit or loss.

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) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(i) New standards, amendments and interpretations effective and adopted during the year

The Group has adopted the following new standards and amendments during the year ended 31 December 2017, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2017.

The nature and effects of the changes are as explained herein.

The nature and effects of the changes are explained below:

New standards 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
Annual improvement cycle (2014 – 2016) – various standards	

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

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONT'D)

(i) New standards, amendments and interpretations effective and adopted during the year (cont'd)

Disclosure initiative (Amendments to IAS 7) (cont'd)

be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relateto 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 a 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 apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

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

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.
- 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 standard was 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 did not have a signinicant impact on the financial statements of the Group and the Company.

Annual improvements cycle (2014 - 2016) various standards	
Standards	Amendments
IFRS 1 First-time Adoption of IFRS	Outdated exemptions for first-time adopters of IFRS are removed. The amendments apply prospectively for annual periods beginning on or after 1 January 2018.
IAS 28 Investments in Associates and Joint Ventures	A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by- investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments apply retrospectively for annual periods beginning on or after 1 January 2018; early application is permitted.

The adoption of these changes did not affect the amounts and disclosures of the Group's and the Company's financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONT'D)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017.

The Group and 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
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
Applying IFRS 9 Financial Instruments with IFRS 4. Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRS 16 Leases	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IAS 40 Transfers of Investment property	1 January 2018
IFRIC 23 Income tax exposure	1 January 2019
IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28 Long term Interests in Associates and Joint Ventures	1 January 2019
IFRS 17 Insurance contracts	1 January 2019
Annual improvement cycle (2015 – 2017) – various standards	1 January 2019
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

Annual improvement cycle (2015 – 2017) – various standards	
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted.

The adoption of these amendments is not expected to significantly affect the amounts and disclosures of the group's and the company's financial statements.

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 ñ Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue:

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONT'D)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017. (cont'd)

IFRS 15: Revenue From Contracts With Customers(Cont'd)

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 and the company is assessing the potential impact on its financial statements of applying this ammendment.

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 of applying this ammendment.

Classification And Measurement Of Share Based Payment Transactions (Amendments To IFRS 2)

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.

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.

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.

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

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 this standard will not have a significant impact on the financial statements of the Group and the Company.

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONT'D)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017. (cont'd)

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.

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 precedes 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 entityís activities.

The Group and the Company are assessing the potential impact on its financial statements of applying this ammendment

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 (ëlesseeí) and the supplier (ëlessorí). The standard defines a lease as a contract that conveys to the customer (ëlesseeí) 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:

a) 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

b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; 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.

c) 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

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONT'D)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017. (Cont'd)

IFRS 16: Leases(Cont'd)

a) short term leases (i.e. leases of 12 months or less);
b) 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 and the Company are assessing the potential impact on its financial statements of applying this ammendment.

IFRIC Interpretation 22 Foreign Currency Transactions And Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non monetary asset or non monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non monetary asset or non monetary liability arising from the payment or receipt of advance consideration.

(a) at fair value; or
(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non monetary asset or non monetary liability arising \ from advance consideration (for example, the measurement of goodwill applying IFRS 3 Busines Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group and the Company are assessing the potential impact on its financial statements of applying this ammendment.

Transfers of Investment Property (Amendments To IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

The adoption of this standard will not have a signinicant impact on the financial statements of the Group and the Company.

IFRIC 23 Clarification On Accounting For Income Tax Exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.
IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment.

If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements about:

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

The Group and the company is assessing the potential impact on its financial statements of applying this ammendment.

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONT'D)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017. (Cont'd)

Prepayment Features With Negative Compensation (Amendments To IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

Management is currently evaluating the impact of the new standard to the Group's and the Company's financial statements.

Long Term Interests In Associates And Joint Ventures (Amendment To IAS 28)

The amendments clarify that an entity applies IFRS 9 to long term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

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

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;
(b) reinsurance contracts it holds; and
(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts;

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Group expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making.

Any expected losses arising from loss making, or onerous, contracts are accounted for in profit or loss as soon as the Group determines that losses are expected.

IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONT'D)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017. (Cont'd)

IFRS 17 Insurance Contracts (Cont'd)

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes is expected to affect the disclosures of the Group's financial statements. The impact is in the process of being quantified.

Sale Or Contribution Of Assets Between An Investor And Its Associate Or Company (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 Company 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 Company 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 is expected to affect the disclosures of the Group's and the company's financial statements. The impact is in the process of being quantified.

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 interests 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 Plc (formerly Liberty Kenya Holdings Limited) and its subsidiaries, Liberty Life Assurance Kenya Limited, CfC Investments Limited, The Heritage Insurance Company Kenya Limited and The Heritage Insurance Company Tanzania Limited. The financial statements have been made up to 31 December 2017.

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C) CONSOLIDATION (CONT'D)

(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 loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI (Non controlling interest) and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(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 and are initially recognised at cost.

The Group's share of its associates' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against 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 obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also 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.

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.

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 (g).

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, which are:

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D) INSURANCE CONTRACTS (CONT'D)

(i) Classification(Cont'd)

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).

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 unexpired 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

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D) INSURANCE CONTRACTS (CONT'D)

(ii) Recognition and measurement (Cont'd)

(b) Claims (Cont'd)
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.

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 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..

(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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D) INSURANCE CONTRACTS (CONT'D)

(ii) Recognition and measurement (Cont'd)

(g) Salvage and subrogation reimbursements (Cont'd)

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.

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 (d) 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

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

F) REVENUE RECOGNITION (Cont'd)

(iii) Rendering of services(Cont'd)

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 5) 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.

(v) Dividend income

Dividend income for equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

(vi) Rental income

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

(vii) 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

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

G) INVESTMENT CONTRACTS (CONT'D)

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.

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 or 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;

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

H) PROPERTY AND EQUIPMENT(Cont'd)

- It can be demonstrated how the software product will generate probable future economic benefits;

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.

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.

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

L) FINANCIAL ASSETS (CONT'D)

(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 1,928,552,000 as at 31 December 2017 (2016: Shs 1,912,604,000) (Note 17(c)).

(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 4,846,424,000 at the financial reporting date of 31 December 2017 (2016: Shs 5,474,556,000) (Note 17(a)).

(d) 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, and other short-term highly liquid investments with original maturities of three months or less.

(e) Recognition, de-recognition and measurement

Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held to maturity financial assets are carried at amortised cost using the effective interest rate method. Financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in 'other comprehensive income' until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss. However, interest calculated using the effective interest method is recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the Company's right to receive payment is established.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

L) FINANCIAL ASSETS (CONT'D)

(f) Financial liabilities

All the Company's financial liabilities are measured at amortised cost. These include payables under pension and creditors arising from reinsurance arrangements. Financial liabilities are initially measured at fair value and subsequently at amortised cost. Financial liabilities are derecognised when extinguished.

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

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 fair value

In the case of equity investments classified as fair value through profit or loss, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for fair value through profit or loss financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

(ii) 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.

(iii) 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.

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

M) IMPAIRMENT OF FINANCIAL ASSETS (CONT'D)

(iv) 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.

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 s ubstantially ready for their intended use or sale.

ACCOUNTING POLICIES

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

P) BORROWINGS (CONT'D)

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.

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.

a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 16. 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 16.

b) Fair value 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 comprise bonds on lien. Investments are initially recognised at fair value plus transaction costs. Held-to-maturity investments are subsequently measured at amortised 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 debts, investment returns,

ACCOUNTING POLICIES

1.3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONT'D)

e) Insurance contract liabilities (Cont'd)

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.

i) 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.

An investigation into mortality experience is performed annually. The investigation period extends over the latest four full years for all classes of business. The results of the investigation are used to make decisions on whether to continue using the industry table or change to other appropriate tables that best match experience.

ii) Morbidity

The incidence of disability claims is derived from industry experience studies, adjusted where appropriate for Liberty Life Assurance Kenya Limited's own experience. The same is true for the incidence of recovery from disability.

iii) 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, policy term and company. Typically the rates are higher for risk type products versus investment type products, and are higher at early durations.

iv) Correlation

No correlations between assumptions are allowed for.

f) Impairment of receivables

The Group reviews their portfolio of receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

g) Fair value measurement and valuation process

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting date.

The Group has used a discounted cash flow analysis for various financial assets that are not traded in active markets; or other techniques that have been independently reviewed.

Critical accounting estimates and judgement in applying accounting policies related to longevity, lapses, interest rates, expense inflations, expenses and surrenders have been included in Note 23.

NOTES TO THE FINANCIAL STATEMENTS

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 which includes medical) 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.

c) 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 (CONT'D)

for the year ended 31 December 2017

2. SEGMENTAL REPORTING (CONT'D)

RESULTS BY BUSINESS UNITS

	31 December 2017		
	Long term business	Short term business	Total
	Shs '000	Shs '000	Shs '000
Net insurance premium revenue	**1,948,837**	**3,651,071**	**5,599,908**
Commissions earned	130,825	834,634	965,459
Investment income	2,515,012	567,867	3,082,879
Administration fees	14,641	-	14,641
Loss on sale of subsidiary	-	(10,549)	(10,549)
Other income	-	33,242	33,242
Total income	**4,609,315**	**5,076,265**	**9,685,580**
Net insurance benefits and claims	**(2,485,615)**	**(1,760,883)**	**(4,246,498)**
Total expenses and commissions	(1,512,680)	(2,823,833)	(4,336,513)
Results of operating activities	**611,020**	**491,549**	**1,102,569**
Profit before income tax	611,020	491,549	1,102,569
Income tax expense	(36,603)	(220,259)	(256,862)
Profit for the year	**574,417**	**271,290**	**845,707**
Total assets	**24,494,822**	**12,623,744**	**37,118,566**
Property and equipment	668,924	427,329	1,096,253
Intangible assets	111,146	39,216	150,362
Investment property	751,500	-	751,500
Financial investments	20,555,971	4,427,031	24,983,002
Reinsurers' share of insurance liabilities	118,490	2,260,520	2,379,010
Other assets	2,288,791	5,469,648	7,758,439
Total liabilities	**21,757,161**	**7,932,834**	**29,689,995**
Insurance contract liabilities	9,984,491	2,823,724	12,808,215
Payable under deposit administration	9,956,754	-	9,956,754
Unearned premium reserves	89,016	2,918,386	3,007,402
Other liabilities	1,726,900	2,190,724	3,917,624
Additions to property and equipment	28,121	34,163	62,284
Additions to intangible assets	62,384	31,626	94,010

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2017

2. SEGMENTAL REPORTING (CONT'D)

	31 December 2016		
	Long term business	Short term business	Total
	Shs '000	Shs '000	Shs '000
Net insurance premium revenue	**1,882,249**	**3,691,087**	**5,573,336**
Commissions earned	95,116	776,942	872,058
Investment income	2,098,697	453,864	2,552,561
Administration fees	9,650	-	9,650
Other income	-	17,268	17,268
	2,203,463	**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	(1,558,877)	(2,571,996)	(4,130,873)
Results of operating activities	**246,537**	**695,348**	**941,885**
Profit before income tax	246,537	695,348	941,885
Income tax expense	(44,963)	(269,088)	(314,051)
Profit for the year	**201,574**	**426,260**	**627,834**
Total assets	**23,463,164**	**11,457,107**	**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	3,697,329	5,026,716	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	-	28,591
Additions to intangible assets	41,119	-	41,119

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

2. SEGMENTAL REPORTING (CONT'D)

RESULTS BY GEOGRAPHICAL SPREAD

	31 December 2017		
	Kenya business	Tanzania business	Total
	Shs '000	Shs '000	Shs '000
Net insurance premium revenue	**5,046,838**	**553,070**	**5,599,908**
Commissions earned	779,301	186,158	965,459
Investment income	2,972,861	110,018	3,082,879
Administration fees	14,641	-	14,641
Loss on sale of subsidiary	(10,549)	-	(10,549)
Other income	15,056	18,186	33,242
	3,771,310	**314,362**	**4,085,672**
Total income	**8,818,148**	**867,432**	**9,685,580**
Net insurance benefits and claims	**(3,986,975)**	**(259,523)**	**(4,246,498)**
Total expenses and commissions	(3,806,053)	(530,460)	(4,336,513)
Results of operating activities	**1,025,120**	**77,449**	**1,102,569**
Profit before income tax	1,025,120	77,449	1,102,569
Income tax expense	(231,369)	(25,493)	(256,862)
Profit for the year	**793,751**	**51,956**	**845,707**
Total assets	**34,498,142**	**2,620,424**	**37,118,566**
Property and equipment	1,071,704	24,549	1,096,253
Intangible assets	148,536	1,826	150,362
Investment property	751,500	-	751,500
Financial investments	24,661,534	321,468	24,983,002
Reinsurers' share of insurance liabilities	1,691,154	687,856	2,379,010
Other assets	6,173,714	1,584,725	7,758,439
Total liabilities	**26,969,259**	**2,720,736**	**29,689,995**
Insurance contract liabilities	12,167,351	640,864	12,808,215
Payable under deposit administration	9,956,754	-	9,956,754
Unearned premium reserves	2,444,781	562,621	3,007,402
Other liabilities	2,400,373	1,517,251	3,917,624
Additions to property and equipment	40,252	22,032	62,284
Additions to intangible assets	92,184	1,826	94,010

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

2. SEGMENTAL REPORTING (CONT'D)

RESULTS BY GEOGRAPHICAL SPREAD

The Tanzania subsidiary contributed approximately 17% of the Group's 2016 consolidated income.

	31 December 2016		
	Kenya business	Tanzania business	Total
	Shs '000	Shs '000	Shs '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**
Profit before income tax	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	1,089,436	6,670	1,096,106
Intangible assets	98,323	-	98,323
Investment property	798,763	-	789,763
Financial investments	21,536,502	360,039	21,896,541
Reinsurers' share of insurance liabilities	1,395,106	920,387	2,315,493
Other assets	6,971,624	1,752,421	8,724,045
Total liabilities	**25,956,926**	**2,209,704**	**28,166,630**
Insurance contract liabilities	11,335,494	604,095	11,939,589
Payable under deposit administration	10,367,517	-	10,367,517
Unearned premium reserves	2,118,272	907,949	3,026,221
Other liabilities	2,135,643	697,660	28,333,303
Additions to property and equipment	74,167	2,908	17,075
Additions to intangible assets	41,119	-	41,119

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Liberty Kenya Holdings Plc (formerly 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 Plc's (formerly Liberty Kenya Holdings Limited) 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.

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 shareholders 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

b) CAPITAL MANAGEMENT (CONT'D)

Total capital is calculated as equity plus net debt.

	2017 Shs '000	2016 Shs '000
Due to Group companies	381,251	187,359
Due from Group companies	(362,008)	(148,170)
Net borrowings	19,243	39,190
Less: Cash and cash equivalents	(17,349)	(12,385)
Net debt	1,894	26,804
Total equity	2,310,409	3,027,359
Gearing ratio	0.08%	0.89%

(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, 2015, the Tanzanian Insurance Act, 2009, Companies Act, 2015, Retirement Benefit Authority and Insurance Regulatory Authority. The objectives when managing capital are to:

- Comply with the capital requirements as set out in the Kenyan Insurance Act, 2015 and Tanzania Insurance Act, 2009;
- Comply with regulatory solvency requirements as set out in the Kenyan Insurance Act, 2015 and Tanzania Insurance Act, 2009;
- 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.

(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 Shs '000
General insurance business	500,000	-	500,000
Long term insurance business	300,000	612,430	-

The Kenyan Act, 2015 requires general insurance companies to hold the minimum level of paid up capital of Shs 500 million and Shs 600 million by 30 June 2018.

The Kenyan insurance Regulatory Authority (IRA) has set the minimum required capital adequacy ratio of 180% and 200% and above by 30 June 2018

Long-term insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent. The insurance Act requires the insurance company to hold the minimum level of paid up capital of Shs 300 million and Shs 400million by 30 June 2018.

The Tanzanian Insurance Act, 2009, requires each insurance Company to hold the minimum level of paid up capital of Tshs 2,097 million for the year ended 31 December 2017

As at year end, the Heritage Insurance Company (T) Limited had a share capital of 80,000 fully paid up shares totalling to Tsh 8,000 million. This was in excess of the minimum requirement.

(iii) SOLVENCY MARGIN

The solvency margins of the subsidiaries as at 31 December 2017 and 31 December 2016 are set out below:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

b) CAPITAL MANAGEMENT (CONT'D)

(iii) SOLVENCY MARGIN (CONT'D)

Liberty Life Assurance Kenya Limited

	Long-term business 2017 Shs '000	Long-term business 2016 Shs '000
Risk Category		
Credit Risk Capital	565,736	535,516
Market Risk Capital	507,623	518,972
Insurance Risk Capital	199,913	224,141
Operational Risk Capital	235,782	216,978
Risk Based Capital	1,021,723	982,483
Total Capital Available	2,333,684	1,572,323
Absolute amount Minimum	400,000	400,000
Volume of Business Minimum	970,169	959,687
Risk Based Capital Minimum	1,021,723	1,021,723
Minimum Required Capital	1,021,723	995,662
Solvency Ratio	228 %	158%

Heritage Insurance Company Kenya Limited

	Short-term business 2017 Shs '000	Short-term business 2016 Shs '000
Risk Category		
Credit Risk Capital	859,429	865,831
Market Risk Capital	116,783	33,717
Insurance Risk Capital	314,233	261,459
Operational Risk Capital	276,749	271,666
Risk Based Capital	1,199,245	1,176,741
Total Capital Available	2,797,808	2,295,431
Absolute amount Minimum	600,000	600,000
Volume of Business Minimum	612,485	581,871
Risk Based Capital Minimum	1,199,245	1,176,741
Minimum Required Capital	1,199,245	1,176,741
Capital Adequacy Ratio	233 %	195 %

Heritage Insurance Company Tanzania Limited

	Short-term business 2017 Shs '000	Short-term business 2016 Shs '000
Total Admitted assets	1,540,800	1,551,393
Total Admitted liabilities	1,148,905	1,201,999
Net written current period	**522,356**	**680,946**
Add: the greater of Tshs 2,097 million(Shs 97 million) or 20% of net written premium	104,471	136,189
Total liabilities and minimum requirement	1,253,376	1,338,188
Solvency Margin	287,424	213,205

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

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.

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.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

c) CREDIT RISK (CONT'D)

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD

	Credit Quality	Group		Company	
		2017	2016	2017	2016
		Shs '000	Shs '000	Shs '000	Shs '000
Financial investments		24,983,002	21,896,541	-	-
Receivables arising from reinsurance	Group 2	764,875	490,076	-	-
Receivables arising from direct insurance	See analysis below	925,690	1,439,313	-	-
Reinsurers' share of insurance liabilities	Group 2	2,379,010	2,315,493	-	-
Other receivables	Group 2	783,548	332,236	101	-
Cash and bank balances	Group 2	3,689,506	4,936,638	17,349	12,385
Total income		**33,525,631**	**31,410,297**	**17,450**	**12,385**

All mortgage loans have the property secured as collateral while policy loans have the surrender value of the policy secured as collateral. In the case of car loans, the cars are secured as security. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated. None of the above assets are past due or impaired except for insurance receivables (which are due upon invoicing): Financial assets that are past due or impaired.

	Credit Quality	Group	
		2017	2016
		Shs '000	Shs '000
Neither past due or impaired	Group 2	66,079	21,896,541
Past due but not impaired	Group 2	859,611	490,076
Impaired		446,400	1,439,313
Gross		1,372,090	1,770,267
Less: allowance for impairment		(446,400)	(330,954)
Net		**925,690**	**1,439,313**
Past due but not impaired:			
- by up to 30 days		322,128	262,170
- by 31 to 60 days		95,685	91,670
- over 61 days		507,877	1,025,574
Total past due but not impaired		**925,690**	**1,379,414**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

c) CREDIT RISK (CONT'D)

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

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

Liberty Kenya Holdings Plc (fvormerly 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) OPERATION 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.

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;
- 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

d) OPERATION RISK (CONT'D)

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.

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 requirements 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 has established a BCM site at Mlolongo along Mombasa road where critical staff and core services can be relocated in case 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

e) LIQUIDITY RISK (CONT'D)

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.

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 2017	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Liabilities	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Insurance contract liabilities	1,482,714	508,466	1,892,085	8,925,950	12,808,215
Payable under deposit	-	(32,547)	1,244,687	8,744,614	9,956,754
Creditors arising from reinsurance	86,926	755,146	-	-	842,072
Creditors arising from direct insurance	-	585,119	-	-	585,119
Other payables	688,841	659,436	-	-	1,348,277
Total financial liabilities	**2,258,481**	**2,475,620**	**3,136,772**	**17,670,564**	**25,540,437**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

e) LIQUIDITY RISK (CONT'D)

As at 31 December 2017	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Liabilities	Shs '000	Shs '000	Shs '000	Shs '000	Shs
Assets					
Other receivables	783,548	-	-	-	783,548
Reinsurers' share of insurance liabilities	31,968	2,347,042	-	-	2,379,010
Receivables arising from reinsurance	-	764,875	-	-	764,875
Financial investment	6,463,635	5,111,018	4,944,612	8,463,737	24,983,002
Receivable arising from direct insurance	925,690	-	-	-	925,690
Cash and cash equivalents	3,689,506	-	-	-	3,689,506
Total financial assets	**11,894,347**	**8,222,935**	**4,944,612**	**8,463,737**	**33,525,631**
Net liquidity gap	**9,635,866**	**5,747,315**	**1,808,840**	**(9,206,827)**	**7,985,194**

As at 31 December 2016	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Liabilities	Shs '000	Shs '000	Shs '000	Shs '000	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	-	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**
Assets					
Other receivables	150,207	-	-	-	150,207
Reinsurers' share of insurance	-	2,315,493	-	-	2,315,493
Receivables arising from direct	7,853,772	490,076	-	-	490,076
Cash and cash equivalents	-	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

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

e) LIQUIDITY RISK (CONT'D)

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 forecasts and actual cash flows.

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 2017	Less than 1 year	Over 1 year	Total
	Shs '000	Shs '000	Shs '000
Due to group companies (note 31 g (ii))	362,008	-	362,008
	362,008	**-**	**362,008**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

f) MARKET RISK (CONT'D)

DEFINITION(CONT'D)

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.

(i) PRICE RISK

The Group is exposed to equity securities price risk because of investments in quoted and unquoted shares classified at fair value through the income statement.

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.

At 31 December 2017, if the market prices of equity had increased/decreased by 5% all other variables held constant, the fair value of equities held by the Group would have changed by Shs 212,437,356 (31 December 2016: Shs 140,815,700). This would result in a change in profit for the year.

(ii)CASH FLOW AND FAIR VALUE 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, deposits with financial institutions and 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 mix. 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 cause a change to the amount of the liability. 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

f) MARKET RISK (CONT'D)

(iii) FOREIGN EXCHANGE RISK

The Group operates regionally and is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the Tanzania Shilling and 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 2017, the Group had an equivalent of Shs 11.1 Million (2016: Shs. 13.4 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. The Group has a subsidiary in Tanzania whose functional currency is Tanzania Shilling .

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.

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

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

g) INSURANCE RISK (CONT'D)

RISK MANAGEMENT (CONT'D)

- 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.

(h) POLICY HOLDER 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.

(i) 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:

- Premiums 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

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

(j) 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.

(k) 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 in-force policies.

(l) 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

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

(m) CONCENTRATION RISK

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 2017 (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	26,757,422	16,541,822	488,841	43,788,085
	Net	26,194,420	14,822,850	216,857	41,234,127
Motor	Gross	13,471,065	95,546,520	769,950,473	878,978,058
	Net	12,210,822	72,153,176	31,235,323	115,599,321
Fire	Gross	532,707	13,431,303	7,565,382	21,529,392
	Net	478,026	10,811,403	6,685,382	17,974,811
Other	Gross	26,311,168	146,042,438	328,385,285	500,738,891
	Net	30,395,694	136,049,000	150,724,108	317,168,802
Total	**Gross**	**67,072,362**	**271,562,083**	**1,106,399,981**	**1,445,034,426**
	Net	**69,278,962**	**233,836,429**	**188,861.670**	**491,977.061**
Life insurance business					
Ordinary life	Gross	36,818.803	513.718	-	37,332,521
	Net	36,190,656	-	-	36,190,656
Annuity	Gross	29,817	-	-	29,817
	Net	29,817	-	-	29,817
Group life	Gross	56,684,824	128,547.316	-	185,232,140
	Net	46,315,603	-	-	46,315,603
Total	**Gross**	**93,533,444**	**129,061,034**	**-**	**222,594,478**
	Net	**82,536,076**	**-**	**-**	**82,536,076**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

(m) CONCENTRATION RISK (CONT'D)

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	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
Total	**Gross**	**85,962,810**	**283,363,416**	**884,329,836**	**1,253,656,062**
	Net	**89,990,408**	**251,204,654**	**167,227,740**	**508,422,802**
Life insurance 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	73,073,844	50,561,021	2,062,945	125,697,810
	Net	50,764,892	-	-	50,764,892
Total	**Gross**	**111,173,145**	**51,092,206**	**2,062,945**	**164,328,297**
	Net	**88,214,688**	**-**	**-**	**88,214,688**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONT'D)

n) 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 2017.

31 December 2017	Level 1	Level 2	Level 3	Total
Fair value through profit and loss financial assets	Shs'000	Shs'000	Shs'000	Shs'000
Quoted shares	4,027,495	-	-	4,027,495
Unquoted shares	-	-	27,722	27,722
Government securities and bonds	-	14,152,809	-	14,152,809
Investment property	-	-	751,500	751,500
Buildings	-	-	984,976	984,976
	4,027,495	**14,152,809**	**1,742,802**	**19,944,502**
31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Fair value through profit and loss financial assets	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
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	-		895,370	895,370
	5,842,424	**8,621,164**	**1,730,926**	**16,194,514**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

4. GROSS EARNED PREMIUM REVENUE

	GROUP	
	2017	2016
	Shs '000	Shs '000
Motor	1,776,848	1,830,184
Fire	1,564,863	1,721,272
Accident	2,163,690	405,083
Medical	1,906,988	1,547,858
Marine	172,513	134,224
Group life	856,690	770,804
Others	1,321,127	1,333,042
	9,762,719	**9,623,170**

5. INVESTMENT INCOME

	GROUP		COMPANY	
	2017	2016	2017	2016
	Shs '000	Shs '000	Shs '000	Shs '000
Interest on Government securities	1,832,499	1,845,995	-	-
Interest on bank deposits	323,484	321,910	-	-
Interest from corporate bonds and commercial paper	236,753	252,443	-	-
Interest on loans and receivables	22,591	32,089	-	-
Rental income from investment property	127,431	147,922	-	-
Gain/loss on sale of financial investments	492,259	(348,899)	-	-
Fair value gain on investment property	17,500	121,875	-	-
Interest on policy loans	105,640	127,302	-	-
Dividend income	116,373	113,681	-	60,000
Other investment expenses	(4,151)	(61,757)	-	-
Impairment of financial assets	(187,500)	-	-	-
	3,082,879	**2,552,561**	**-**	**60,000**

The Company's dividend income was Nil (2016 : Shs 60 million) from the subsidiaries in the year.

Liberty Life Assurance Kenya Limited impaired Ksh 187.5 million of the total Ksh 250 million invested in the Chase Bank (K) Limited (in receivership) corporate bonds based on Director's assessment of recoverability.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

6. LOSS ON DISPOSAL OF SUBSIDIARY

During the year the group disposed the entire investment in Azali Limited. The loss on disposal is shown below:

	GROUP
	2017
	Shs '000
Proceeds from disposal	95,000
Net assets transferred	(60,164)
Loan ceded to acquirer	(39,736)
Cost of investment	(5,649)
	(10,549)

The Group completed the sale of Azali Limited on 31 August 2017

7. OTHER INCOME

	GROUP	
	2017	2016
	Shs '000	Shs '000
Profit(Loss) on sale of property, plant and equipment	(52)	345
Profit from Kenya Motor Insurance Pool	-	1,200
Foreign exchange gain	25,981	8,789
Miscellaneous income	7,313	6,934
	33,242	**17,268**

8. CLAIMS AND OTHER POLICY HOLDER BENEFITS PAYABLE

	GROUP	
	2017	2016
	Shs '000	Shs '000
Motor	482,806	1,016,793
Fire	518,993	433,286
Personal accident and medical	1,353,705	1,159,186
Death maturity and surrender benefits	2,193,621	1,913,325
Others	805,690	707,621
Subtotal	**5,354,815**	**5,230,211**
Change in insurance contracts	**663,247**	**478,764**
	6,018,062	**5,708,975**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

9. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2017	2016	2017	2016
	Shs '000	Shs '000	Shs '000	Shs '000
Staff costs (Note 10)	1,338,644	1,268,766	-	-
Severance pay (Note 10)	(94,560)	108,715	-	-
Directors' fees	15,428	23,080	3,547	2,806
Auditors remuneration	25,392	22,064	3,075	2,898
Depreciation (Note 17)	95,772	93,831	-	-
Amortisation of intangible assets (Note 19)	41,206	29,517	-	-
Advertising	188,514	181,458	2,695	3,721
Legal and other professional fees	9,464	26,680	(7,617)	2,695
Impairment charge for doubtful receivables	282,341	84,354	-	-
Operating lease rental - land and buildings	184,226	173,051	-	-
Repairs and maintenance	58,349	44,663		
Communication expenses	25,525	26,742	2	2
Office expenses	40,221	40,224	5,957	4,226
Transfer pricing	158,682	135,059		
Premium tax, stamp duty and collection charges	116,764	104,164		
Rent and related expenses	169,548	175,095		
System costs	44,859	46,130		
Agency expenses	276,411	305,562		
Training expenses	27,198	31,647		
Sponsorships and awards	15,172	17,209		
Others	145,455	16,355	181,168	72,604
	3,164,611	**2,954,366**	**188,827**	**88,952**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

10. STAFF COSTS

	GROUP	
	2017	2016
	Shs '000	Shs '000
Employee benefits expense includes the following:		
Salaries and wages	955,280	924,278
Social security benefits costs	52,476	47,820
Social security benefits costs	30,749	27,885
Other staff emoluments	106,885	108,327
Annual staff bonus	116,978	73,177
Contributions to defined contribution plans	55	995
Group life and medical	76,221	86,284
Sub total	**1,338,644**	**1,268,766**
Severance pay	(94,560)	108,715
	1,244,084	**1,377,481**

The number of persons employed by the group at the end of the year was 327 (2016;339). Out of the 327 members of staff employed by Liberty Kenya Holdings Plc (formerly Liberty Kenya Holdings) at 31 December 2017, 172 are male and 155 are female. The group also had an average of 31 employees in management and 296 in non-management (2016: management 32, non-management 307)

Severance pay comprises of employee benefits awarded in a court case in year 2016 and set aside on successful appeal in 2017.

11. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

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:

		GROUP		COMPANY	
		2017	2016	2017	2016
		Shs '000	Shs '000	Shs '000	Shs '000
Name of company	Country of incorporation	Beneficial ownership 2017	Beneficial ownership 2016	Carrying amount 2017	Carrying amount 2016
Liberty Life Assurance Kenya Limited	Kenya	100.00%	100.00%	1,826,254	1,826,254
The Heritage Insurance Company (K) Limited	Kenya	100.00%	100.00%	741,287	741,287
The Heritage Insurance Company (T) Limited	Tanzania	60.00%	60.00%	-	-
Azali Limited	Kenya	- %	100.00%	-	-
CfC Investments Limited	Kenya	100.00%	100.00%	634,792	634,792
				3,202,333	**3,202,333**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

12. NON CONTROLLING INTEREST (NCI)

	Heritage Tanzania 2017	Heritage Tanzania 2016
NCI percentage	**40%**	**40%**
Non-current assets	**122,982**	**97,501**
Current assets	2,498,503	2,941,026
Non-current liabilities		
Current liabilities	(1,892,611)	(2,209,704)
Non-current assets	**728,874**	**828,823**
Net assets atributable to NCI	**291,550**	**331,529**
Revenue	1,978,682	2,313,233
Profit	51,956	105,635
Total comprehensive income	**51,956**	**105,635**
Profit allocated to NCI	**20,782**	**42,254**
OCI allocated to NCI	**(5,602)**	**42,254**
Cashflow flows from operating activities	112,207	110,690
Cashflow flows from investing activities	112,207	(68,606)
Cashflow flows from financing activities	(55,556)	(41,549)
Net increase in cash and cash equivalents	**18,923**	**535**

13. 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	
	2017	2016
Tax recoverable/ (payable) movement	Shs '000	Shs '000
As at 1 January	9,956	22,493
Paid in the year	332,863	308,774
Current income tax charge	(353,859)	(321,311)
As at 31 December	**(11,040)**	**9,956**
Comprising		
Tax recoverable	25,471	29,559
Tax Payable	(36,511)	(19,603)
	(11,040)	**9,956**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

13. INCOME TAX EXPENSE (CONT'D)

Reconciliation of the tax expense(Cont'd)

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.

	GROUP	
	2017 Shs '000	2016 Shs '000
Profit before income tax	1,102,569	941,885
Tax at statutory tax rate of 30% (2016-30%)	330,771	282,566
Tax effect of		
Income not subjected to tax	(131,120)	(52,099)
Tax effect of interest income	33,312	28,838
Prior year tax over provision	(25,747)	(10,732)
Expenses not deductible for tax purposes	50,374	66,728
Capital gains tax @5%	(728)	(4,250)
Income tax expense	**256,862**	**314,051**
Income tax expense		
Current tax	353,859	321,311
Deferred tax (Note 29)	(96,997)	(7,260)
Total	256,862	314,051

14. SHARE CAPITAL

	GROUP		COMPANY	
	2017 Shs '000	2016 Shs '000	2017 Shs '000	2016 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 and 31 December	1,490,480	1,490,480	1,490,480	1,490,480

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for the year ended 31 December 2017

15. REVENUE AND OTHER RESERVES

	GROUP		COMPANY	
	2017	2016	2017	2016
	Shs '000	Shs '000	Shs '000	Shs '000
Statutory reserve	1,752,281	1,359,030	-	-
Revaluation reserve	211,488	148,279	-	-
Currency translation reserve	(64,922)	(58,009)	-	-
Total other reserves	**1,898,847**	**1,449,300**	**-**	**-**
Revenue reserve	3,211,987	2,946,229	812,345	1,001,172
At end of year	**5,110,834**	**4,395,529**	**812,345**	**1,001,172**

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.

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.

Proposed dividends

The Directors recommend a dividend per share of Shs 0.50 (2016: Nil).

16. GOODWILL

	GROUP	
	2017	2016
	Shs '000	Shs '000
Cost		
As at 1 January	1,254,995	1,254,995
As at 31 December	**1,254,995**	**1,254,995**

16. GOODWILL (CONT'D)

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.

17. FINANCIAL INVESTMENTS

	GROUP	
	2017	2016
	Shs '000	Shs '000
Financial investments-held-to-maturity (HTM)	4,846,424	5,474,556
Fair value through profit or loss financial assets	18,208,026	14,509,381
Loans and receivables	1,928,552	1,912,604
	24,983,002	**21,896,541**

The Group made a decision out of prudence and after careful review of its assets, to impair Shs 187.5 million worth of loans and receivables.

a) Held-to-maturity

	GROUP	
	2017	2016
	Shs '000	Shs '000
Government securities	3,035,032	3,155,776
Corporate bonds	1,811,392	2,318,780
	4,846,424	**5,474,556**
Maturity analysis		
Maturity within 1 year	283,976	458,741
Maturity after 1 year but within 5 years	1,429,549	2,566,606
Maturity after 5 years but within 10 years	1,933,923	1,425,362
Maturity after 10 years	1,198,976	1,023,847
	4,846,424	**5,474,556**

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17. FINANCIAL INVESTMENTS (CONT'D)

a) Held-to-maturity (Cont'd)

	GROUP	
	2017 Shs '000	2016 Shs '000
Held-to-maturity movement analysis		
As at 1 January	5,474,556	6,529,389
Additions	237,903	-
Maturities	(690,114)	(1,054,833)
Impairment of corporate bond	(187,500)	
Accrued Interest	11,579	
As at 31 December	**4,846,424**	**5,474,556**

b) Financial assets at fair value through profit or loss

	GROUP	
	2017 Shs '000	2016 Shs '000
Quoted shares	4,027,495	5,842,424
Unquoted shares	27,722	45,793
Government securities	14,152,809	8,621,164
As at end of year	**18,208,026**	**14,509,381**
I) QUOTED SHARES		
As at start of year	5,842,424	3,065,010
Additions	1,380,335	5,996,382
Disposals	(3,652,113)	(3,168,645)
Net fair value gains	458,840	(46,128)
Currency translation	(1,991)	(4,195)
As at end of year	**4,027,495**	**5,842,424**
II) UNQUOTED SHARES		
As at start of year	45,793	42,660
Net fair value losses	(17,181)	3,958
Currency translation	(890)	(825)
As at end of year	**27,722**	**45,793**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

17. FINANCIAL INVESTMENTS (CONT'D)

b) Financial assets at fair value through profit or loss (Cont'd)

	GROUP	
	2017 Shs '000	2016 Shs '000
III) GOVERNMENT SECURITIES		
At start of year	8,621,164	7,652,182
Additions	12,300,724	2,561,057
Disposals	(6,900,782)	(1,247,918)
Fair value gains	50,600	(342,736)
Accrued interest	85,108	-
Currency translation	(4,005)	(1,421)
As at end of year	**14,152,809**	**8,621,164**

As at 31 December 2017, Liberty Life Assurance Limited had a total of Shs 1,235,600,000 (2016: 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)).

Liberty Life impaired Shs 187.5 million of the total Shs 250 million invested in the Chase Bank (K) Limited (in receivership) corporate bonds based on Directors assesment of recoverability.

As at 31 December 2017, Heritage Insurance Kenya Company Limited had a total of Shs 450 million (2016: Shs 300 million) of government securities held under lien in favour of Insurance Regulatory Authority.

c) Loans and receivables

	GROUP	
	2017 Shs '000	2016 Shs '000
Mortgage loans	687,811	650,197
Policy loans	1,096,368	1,124,276
Other loans and deposits maturing after 90 days	144,373	138,131
	1,928,552	**1,912,604**
Group		
At start of the year	1,912,604	1,775,278
Loan advanced	1,155,123	1,127,412
Loan repayment	(1,139,175)	(990,086)
	1,928,552	**1,912,604**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

18. PROPERTY, PLANT AND EQUIPMENT

GROUP	2017			2016		
	Cost or revaluation Shs '000	Accumulated depreciation Shs '000	Carrying value Shs '000	Cost or revaluation Shs '000	Accumulated depreciation Shs '000	Carrying value Shs '000
Buildings on leasehold land	1,451,976	(467,000)	984,976	895,370	-	895,370
Motor vehicles	50,294	(35,637)	14,657	61,933	(51,174)	10,759
Furniture and equipment	522,287	(471,374)	50,913	961,815	(804,804)	157,011
Computer equipment	202,122	(156,415)	45,707	175,510	(142,544)	32,966
Total	**2,226,679**	**(1,130,426)**	**1,094,253**	**2,094,628**	**(998,522)**	**1,096,106**

Reconciliation of property, plant and equipment - Group - 2017

	Opening Balance Shs '000	Additions Shs '000	Disposals Shs '000	Revaluations Shs '000	Currency adjustment Shs '000	Cumulated on disposals Shs '000	Depreciation Shs '000	Total Shs '000
Buildings on leasehold land	895,370	45,637	(18,523)	77,500	-	-	(15,008)	984,976
Motor vehicles	10,759	14,446	(3,860)	-	(41)	-	(6,647)	14,657
Furniture and equipment	157,011	40,170	(82,784)	-	(1,000)	-	(62,484)	50,913
Computer equipment	32,966	24,573	(159)	-	-	(40)	(11,633)	45,707
	1,096,106	**124,826**	**(105,326)**	**77,500**	**(1,041)**	**(40)**	**(95,772)**	**1,096,253**

Reconciliation of property, plant and equipment - Group - 2016

	Opening Balance Shs '000	Additions Shs '000	Disposals Shs '000	Revaluations Shs '000	Currency adjustment Shs '000	Cumulated on disposals Shs '000	Depreciation Shs '000	Total Shs '000
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**

Included in property and equipment as at 31 December 2017 are fully depreciated assets with a cost of Shs 840,907,016 (31 December 2016 - Shs 738,439,853). The notional annual depreciation charge on these assets would have been Shs 144,177,168 (2016 - Shs 130,529,299).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

19. INVESTMENT PROPERTY

GROUP	2017			2016		
	Cost / Valuation Shs '000	Accumulated depreciation Shs '000	Carrying value Shs '000	Cost / Valuation Shs '000	Accumulated depreciation Shs '000	Carrying value Shs '000
Investment property	751,500	-	751,500	789,763	-	789,763

Reconciliation of investment property - Group - 2017

	Opening balance Shs '000	Disposal Shs '000	Fair value adjustments Shs '000	Total Shs '000
Investment property	789,763	(94,563)	56,300	751,500

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

Investment properties are stated at fair value. This has been determined based on independent valuations performed by Tysons Limited, a registered independent valuer as at 31 December 2017. 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 is performed on an annual basis and the fair value gains and losses are recognised as investment gains in the income statement. The investment property rental income earned by the Group from its investment property leased out under operating leases as at 31 December 2017 amounted to Shs 136,675,259 (2016: Shs 157,612,378 million). Direct operating expenses arising on the investment property amounted to Shs 57,000,967 (2016: Shs 50,593,841.47).

20. INTANGIBLE ASSETS

GROUP	2017			2016		
	Cost / Valuation Shs '000	Accumulated amortisation Shs '000	Carrying value Shs '000	Cost / Valuation Shs '000	Accumulated amortisation Shs '000	Carrying value Shs '000
Intangible assets	483,596	(333,234)	150,362	446,425	(348,102)	98,323

Reconciliation of investment property - Group - 2017

	Opening balance Shs '000	Additions Shs '000	Amortisation Shs '000	Total Shs '000
Intangible assets	98,323	94,010	(41,971)	150,362

Reconciliation of investment property - Group - 2016

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

21. REINSURERS' SHARE OF INSURANCE LIABILITIES

	GROUP	
	2017	2016
	Shs '000	Shs '000
Reinsurers' share of:		
Unearned premium	1,555,234	1,637,480
Notified claims outstanding	671,595	570,485
Claims incurred but not reported	152,181	107,528
	2,379,010	**2,315,493**

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

22. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2017	2016	2017	2016
	Shs '000	Shs '000	Shs '000	Shs '000
Cash at bank and in hand	610,775	309,957	17,349	12,385
Deposits with financial institutions	3,078,731	4,626,681	-	-
Cash and cash equivalents	**3,689,506**	**4,936,638**	**17,349**	**12,385**

23. INSURANCE CONTRACT LIABILITIES

	GROUP	
	2017	2016
	Shs '000	Shs '000
Short-term (non-life) insurance contracts:		
Reported claims and claims handling expenses	2,238,853	2,048,629
Claims incurred but not reported	584,869	604,095
Long term insurance contracts:		
Reported claims and claims handling expenses	319,559	294,933
Actuarial value of long term liabilities	9,664,908	8,991,932
	12,808,215	**11,939,589**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

23. INSURANCE CONTRACT LIABILITIES (CONT'D)

Movements in insurance liabilities and reinsurance assets are shown in note 23.
The Company 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. In the year the company adopted fully the actuarial reserving basis of IBNR.

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.

				SHORT TERM BUSINESS				
Estimate of ultimate claims costs:	**2011 Shs '000**	**2012 Shs '000**	**2013 Shs '000**	**2014 Shs '000**	**2015 Shs '000**	**2016 Shs '000**	**2017 Shs '000**	**Total**
At end of accident year	2,199,467	1,531,634	5,817,104	2,012,270	2,379,655	2,136,277	2,208,048	18,284,455
One year later	1,692,157	1,554,580	5,324,233	1,996,098	1,761,723	2,357,402	-	14,686,193
Two years later	1,539,068	1,377,902	5,286,549	1,427,188	1,477,496	-	-	11,108,203
Three years later	1,614,349	1,427,973	1,680,596	1,542,359	-	-	-	6,265,277
Four years later	1,616,287	1,169,959	1,689,967	-	-	-	-	4,476,213
Five years later	1,027,172	1,139,175	-	-	-	-	-	2,166,347
Six years later	1,024,367	-	-	-	-	-	-	1,024,367
Current estimate of cumulative claims	1,024,367	1,139,175	1,689,967	1,477,496	2,357,402	2,357,402	2,208,04	12,253,857
Less: cumulative payments to date	(968,102)	(1,092,174)	(1,617,071)	(1,292,680)	(1,228,751)	(1,916,569)	(1,236,989)	(9,352,336)
Liability in the statement of financial position	**56,265**	**47,001**	**72,896**	**249,679**	**248,745**	**440,833**	**971,059**	**2,086,478**
Liability in respect of prior years								152,375
Incurred but not reported								584,869
Total gross claims liability included in the balance sheet	**56,265**	**47,001**	**72,896**	**249,679**	**248,745**	**440,833**	**971,059**	**2,823,722**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

23. INSURANCE CONTRACT LIABILITIES (CONT'D)

				SHORT TERM BUSINESS				
Estimate of ultimate claims costs:	**2010 Shs '000**	**2011 Shs '000**	**2012 Shs '000**	**2013 Shs '000**	**2014 Shs '000**	**2015 Shs '000**	**2016 Shs '000**	**Total**
At end of accident year	1,581,189	2,076,143	2,263,910	6,398,300	2,150,154	2,737,272	3,500,411	20,707,379
One year later	2,125,639	1,698,145	2,452,001	2,046,770	6,110,800	2,150,840	-	16,584,195
Two years later	2,187,089	1,570,721	2,381,707	1,875,476	5,420,584	-	-	13,435,577
Three years later	2,097,371	2,266,688	2,273,657	1,905,498	-	-	-	8,543,214
Four years later	1,465,798	2,212,590	2,384,315	-	-	-	-	6,062,703
Five years later	1,443,725	2,284,620	-	-	-	-	-	3,728,345
Six years later	1,471,163	-	-	-	-	-	-	1,471,163
Current estimate of cumulative claims	1,471,163	2,284,620	2,384,315	1,905,498	5,420,584	2,150,840	3,500,411	19,117,431
Less: cumulative payments to date	(1,421,224)	(2,216,808)	(2,314,192)	(1,802,393)	(5,076,370)	(1,794,209)	(2,568,608)	(17,193,804)
Liability in the statement of financial position	**49,939**	**67,812**	**70,123**	**103,105**	**344,214**	**356,631**	**931,803**	**1,923,627**
Liability in respect of prior years								193,285
Incurred but not reported								535,812
Total gross claims liability included in the balance sheet	**49,939**	**67,812**	**70,123**	**103,105**	**344,214**	**356,631**	**931,803**	**2,652,724**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

23. INSURANCE CONTRACT LIABILITIES (CONT'D)

a) 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 2017.

b) 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 2017 by the consulting actuaries – QED Actuaries and Consultants (Pty) Limited.

c) Valuation assumptions:

The significant valuation assumptions for the actuarial valuation as at 31 December 2017 are summarised below.

i) Mortality

The GPV basis uses 100% of the KE 2007/2010 mortality table. 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 2017 used an expected future investment return of 14.5% 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.

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 2017 was 12.11 % p.a. (2016: 10.08% p.a.) and the average over the last three years was 10.01% 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 expenses between initial and renewal expenses. The result of the investigation showed that the initial and renewal expenses decreased in real terms comparative to the prior year.

For the GPV basis an appropriate assumption is made on the increase of renewal expenses. An expense inflation of 9.8% (2016: 10.08%) was assumed.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

23. INSURANCE CONTRACT LIABILITIES (CONT'D)

Valuation assumptions (Cont'd):

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 can be summarized as follows:

	2017		2016	
	Shs '000	% Change	Shs '000	% Change
Main basis	19,621,662	- %	19,359,449	- %
Expenses plus 10%	19,733,492	0.6%	19,470,779	0.6%
Mortality and other claim experience plus 10%	19,631,726	0.1%	19,369,314	0.1%
Interest rate less1%	19,692,784	0.4%	19,438,331	0.4%
Expense inflation plus 1%	19,660,116	0.2%	19,397,732	0.2%
Withdrawals plus 10%	19,601,300	(0.1)%	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.

vi) The table below shows a reconciliation between the IRA (Insurance Regulatory Authority) statutory basis and the current basis (point estimate) used by Liberty Life Assurance Kenya Limited.

	Shs '000	Shs '000	% Change
Retail life	6,495,566	6,675,463	179,897
Lifevest	3,040,321	3,043,427	3,106
Group life	129,021	129,021	-
	9,956,754	**9,847,911**	
Deposit and administration(note 24)	9,956,754	9,956,754	-
	19,621,662	**19,804,665**	**183,003**

The difference is caused by use of yield curve plus 20% risk margin to calculate liabilities as stipulated under the statutory basis compared with liabilities as calculated using a point estimate on the yield curve under the IFRS basis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

24. DEPOSIT ADMINISTRATION LIABILITIES

	GROUP	
	2017	2016
	Shs '000	Shs '000
As at 1 January	10,367,517	11,463,105
Pension fund deposit received	1,330,920	1,276,993
Surrenders and annuities paid	(2,402,365)	(2,851,346)
Interest payable to policyholders	516,511	344,874
Gross Premiums Valuation liabilities adjustment	144,171	(133,891)
As at 31 December	**9,956,754**	**10,367,517**

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.

25. UNEARNED PREMIUM RESERVE

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

	GROUP	
	2017	2016
As at 1 January	3,026,221	3,004,505
Increase in the year	(10,367)	30,664
Currency adjustment	(8,452)	(8,948)
	3,007,402	**3,026,221**

26. OTHER RECEIVABLES

	GROUP		COMPANY	
	2017	2016	2017	2016
	Shs '000	Shs '000	Shs '000	Shs '000
Amounts due from related parties	260,296	14,351	101	-
Prepayments	333,438	182,029	-	-
Operating lease receivables	17,046	1,477	-	-
Other receivables	172,738	134,379	-	-
	783,548	**332,236**	**101**	**-**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

27. OTHER LIABILITIES

	GROUP		COMPANY	
	2017	2016	2017	2016
	Shs '000	Shs '000	Shs '000	Shs '000
Amounts due to related companies	37,984	15,963	362,008	147,369
Accrued expenses	251,523	386,565	19,242	39,990
Other liabilities	1,058,770	425,389	-	-
	1,348,277	**827,917**	**381,250**	**187,359**

28. 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.

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.

	GROUP	
	2017	2016
	Shs '000	Shs '000
At Lessee		
Not later than 1 year	140,081	114,395
Later than 1 year and not later than 5 years	201,300	122,473
	341,381	**236,868**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

29. DEFERRED INCOME TAX

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2016: 30%). The movement on the deferred tax account is as follows:

	GROUP	
	2017 Shs '000	2016 Shs '000
a) Deferred tax asset		
As at start of year	131,175	123,915
Charge to profit or loss	96,997	7,260
As at 31 December	**228,172**	**131,175**

2017	1 January 2017 Shs '000	Credit/(Charge) to IS Shs '000	Credit/(Charge) to equity Shs '000	31 December 2017 Shs '000
Property and equipment	22,773	(868)	-	21,905
Other provisions	128,511	97,045	-	225,556
Fair value gains	(24,801)	-	-	(24,801)
Currency translation	4,692	820	-	5,512
Net deferred tax asset	**131,175**	**96,997**	**-**	**228,172**

2016	1 January 2017 Shs '000	Credit/(Charge) to IS Shs '000	Credit/(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**

	GROUP	
	2017 Shs '000	2016 Shs '000
b) Deferred tax liability		
As at 1 January	857,573	794,888
Charge to other comprehensive income	23,250	4,650
Charge to statement of changes in equity	165,228	58,035
As at 31 December	**1,046,051**	**857,573**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

30. CASH GENERATED FROM OPERATIONS

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note(s)	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax		1,102,569	941,885	(188,827)	(28,952)
Adjustments for:					
Interest income	5	(2,520,967)	(2,452,437)	-	-
Depreciation	17	95,772	93,831	-	-
Amortisation of intangible assets	19	41,971	29,517	-	-
Revaluation gain on building on leasehold land	17	(77,500)	(15,500)	-	-
Fair value gain on investment property	18	(56,300)	(102,075)	-	-
Dividend and rental income	5	(243,804)	(261,603)	-	-
Proceeds on disposal of subsidiary	6	10,549			
Impairment of assets available for sale	16(a)	187,500			
Other net investment expenses	5	4,151	61,757	-	(60,000)
Gain on sale of financial investments	5	(492,259)	384,906	-	-
Changes in working capital:					
Technical provisions		998,516	46,850	-	-
Trade and other payables		520,360	(70,520)	193,892	23,628
Trade and other receivables		(451,312)	103,319	(101)	-
		(880,754)	**(1,240,070)**	**4,964**	**(65,324)**

31. 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 Plc through common shareholdings or common directorships.

The following transactions were carried out with related parties:

	2017	2016
	Shs'000	Shs'000
a) Gross premiums written		
	2017	**2016**
Stanbic Bank Limited	347,625	320,208
STANLIB Kenya Limited	12,240	11,780
Azali limited	-	248
	359,865	**332,236**
b) Claims incurred		
Stanbic Bank Limited	**175,524**	**176,234**
	175,524	**176,234**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

31. RELATED PARTIES (CONT'D)

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
c) Rental income				
Rent paid to:				
Stanbic Bank Limited	39,878	34,538		
STANLIB Kenya Limited	-	9,608		
	39,878	**44,146**		
Rent received from:				
Stanbic Bank Limited	(9,777)	(10,367)		
STANLIB Kenya Limited	(10,181)	(9,608)		
	(19,958)	**(19,975)**		
d) Interest income				
Stanbic Bank Limited	20,137	24,228	-	-
	20,137	**24,228**	-	-
e) Dividend income				
The Heritage Insurance Company Kenya Limited	-	-	-	60,000
	-	-	-	**60,000**
f) Investment management expenses				
STANLIB Kenya Limited	48,408	57,214		
	48,408	**57,214**		
g) Outstanding balances with related parties				
i) Accounts receivable				
STANLIB Kenya Limited	4,023	1,998		
Liberty General Assurance Uganda Limited	386	-		
Liberty Life Assurance Uganda Limited	255,339	2,478		
Liberty Holdings Limited	-	9,875		
Charter Insurance Company Limited	548	-		
	260,296	**14,351**		

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

31. RELATED PARTIES (CONT'D)

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
ii) Accounts payable				
Stanbic Bank Limited	342	175	-	-
Liberty Life Assurance Kenya Limited	-	-	212,248	38,601
CfC Investments Limited	-	-	106,669	106,669
The Heritage Insurance Company Kenya Limited	-	-	43,091	2,099
STANLIB Kenya Limited	7,778	12,105	-	-
Liberty Holdings Limited	29,864	3,683	-	-
	37,984	**15,963**	**362,008**	**147,369**

These amounts are unsecured and have no specific repayment period.

	THE GROUP		THE COMPANY	
h) Financial investments				
Stanbic Bank Limited balances and deposits	449,619	569,046	-	-
Stanbic Bank Limited corporate bonds	85,920	89,300	-	-
Stanbic Kenya Holdings Plc equity investments	32,984	18,894	-	-
STANLIB Fahari I-reit	188,606	205,232	-	-
	757,129	**882,472**	**-**	**-**
i) Key management compensation				
Other remuneration	221,718	203,068	96,516	99,034
Fees for services as a non-executive director	23,755	28,893	3,547	2,806
	245,473	**231,961**	**100,063**	**101,840**

32. SUBSEQUENT EVENTS

There were no events after 31 December, 2017 that would have a material effect; adjusting or non-adjusting, on the financial statements

SUPPLEMENTARY INFORMATION

SHAREHOLDING

i) Top ten shareholders	Number of shares held	Shareholding %
Liberty Holdings Limited	309,333,535	57.74%
African Liaison and Consultant Services Limited	87,236,289	16.28%
Standard Chartered Kenya Nominees Ltd A/C KE22446	34,051,145	6.36%
Standard Chartered Kenya Nominees Non - Resd. A/C 9866	33,974,282	6.34%
Genghis Nominee A/C 029	27,700,000	4.98%
Stanbic Nominees Ltd A/C NR1031142	5,191,348	0.97%
Standard Chartered Kenya Nominees Ltd A/C KE22816	5,039,493	0.94%
The Permanent Secretary to the Treasury of Kenya (On behalf of the Govt of Kenya)	4,602,008	0.86%
John Njuguna Ngugi	1,500,000	0.28%
CIC General Insurance Limited	1,480,000	0.28%

ii) Distribution of shareholding	Number of shareholders	Number of shares held	Shareholding %
1 - 500	2,257	360,333	0.0673%
501 - 1,000	576	423,102	0.0790%
1,001 - 5,000	1,050	2,301,957	0.4297%
5,001 - 10,000	436	3,282,458	0.6127%
10,001 - 50,000	327	6,283,733	1.1730%
50,001 - 100,000	63	4,348,938	0.8118%
100,001 - 500,000	33	6,154,004	1.1488%
500,001 - 1,000,000	3	1,995,892	0.3726%
1,000,001 - 999,999,999,999	11	510,557,082	95.3052%
Total	**4,756**	**535,707,499**	**100.0000%**

The supplementary information presented does not form part of the financial statements and is unaudited


purpose

PROXY FORM

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

I/we ____

of P. O. Box ____

being a member of LIBERTY KENYA HOLDINGS Plc (formerly 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, 7 June 2018 and at any adjournment thereof.

Dated this ____________________ day of ____________ 2018

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.

NOTES

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