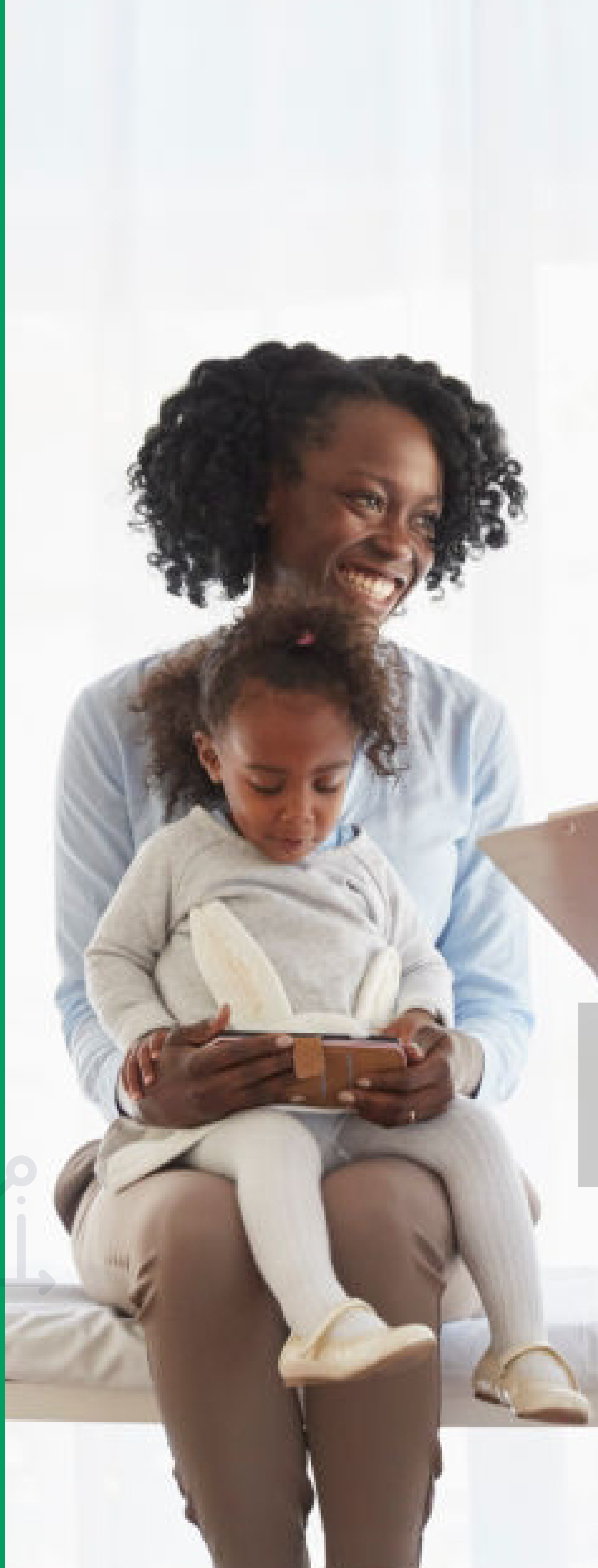
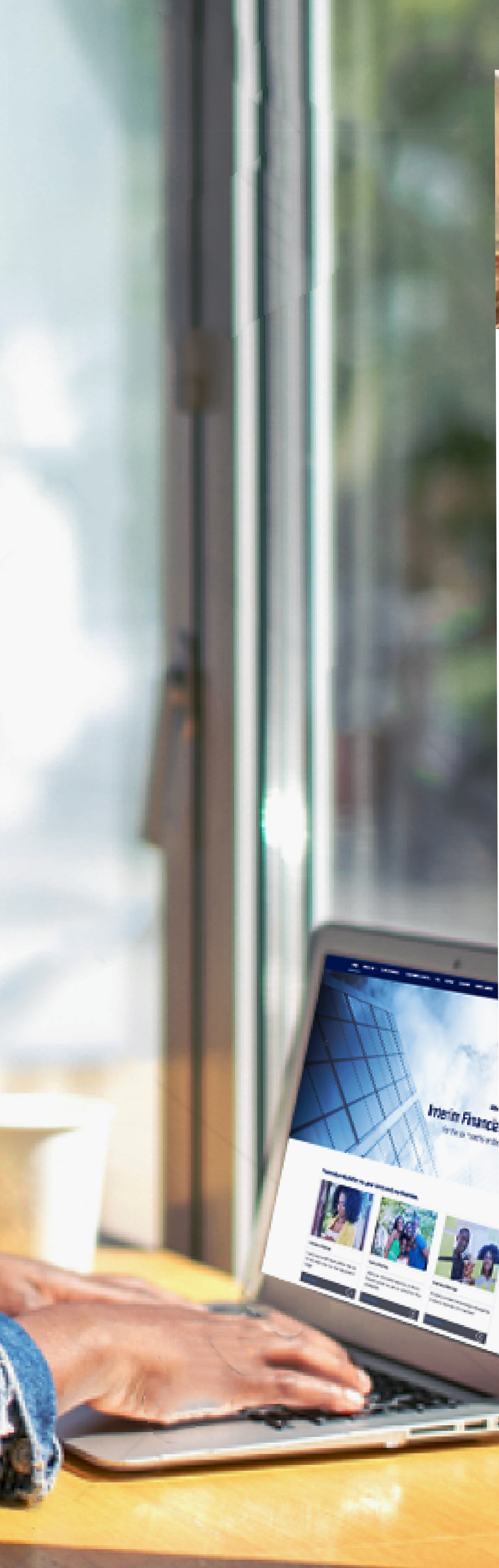


A Legacy that Delivers

LIBERTY KENYA HOLDINGS Plc

Annual Report & Financial Statements 2018



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"Family comes first."

Anonymous

PAGE BREAKER/INSURANCE


A Legacy that Delivers

NOTICE OF ANNUAL GENERAL MEETING

TO THE SHAREHOLDERS OF LIBERTY KENYA HOLDINGS Plc

NOTICE IS HEREBY GIVEN that the 14th Annual General Meeting of the Company will be held at Nairobi on Friday 7th June 2019, at The InterContinental Hotel Nairobi, at 11.00 a.m. to conduct 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 adopt the Annual Report and the Audited Financial Statements for the year ended 31st December 2018, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To declare a final dividend of Kenya Shillings 0.50 per ordinary share for the year ended 31st December 2018.
5. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following, being members of the Group Board Audit and Risk Committee be elected to continue to serve as members of the said Committee:-

- Mr Gayling May
- Mr Peter Gethi
- Mr Rajesh Shah

6. To approve the Directors' remuneration and the Directors' Remuneration Report for the year ended 31st December 2018 as provided for in the Financial Statements.
7. To note that KPMG Kenya will continue in office as External Auditors of the Company in accordance with Section 721(2) and 724 of The Companies Act, 2015 and to authorise the Directors to fix their remuneration.
8. To transact any other business of the Annual General Meeting of which due notice has been received.

By Order of the Board

Caroline Kioni
Company Secretary
Date: 28 March 2019

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. 4th June 2019. In the case of a body corporate, the Proxy must be under its seal.
3. Please ensure your contact details and dividend payment details are up to date with the Company Share Registrar. This can be done through your Broker.
4. 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

			First Appointed to the board
P. Odera	Kenyan	Appointed as Chairman - 24/10/2018	2/09/2016
M. du Toit	South African	Managing	17/12/2008
P. Gethi	Kenyan	Non-Executive	17/12/2009
G. May	British	Non-Executive	17/12/2009
J. Hubbard	South African	Non-Executive	16/06/2017
S. Mboya (Dr.)	Kenyan	Chairman - Resigned - 24/10/2018	29/11/2011

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

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

SUBSIDIARIES

- Liberty Life Assurance Kenya Limited (100%)
- The Heritage Insurance Company Kenya Limited (100%)
- The Heritage Insurance Company Tanzania Limited (60%)

"Family comes first."

Anonymous

A Legacy that Delivers

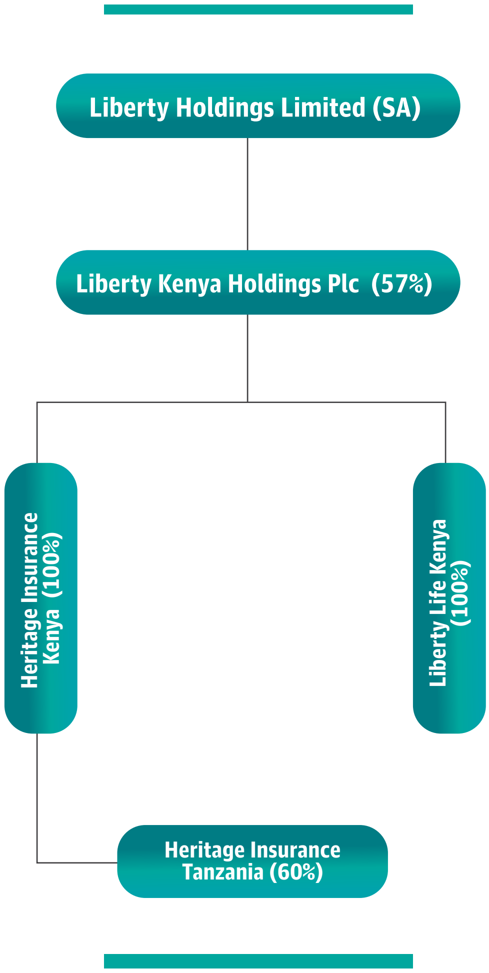
CHAIRMAN'S STATEMENT

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, 2018.

GROUP STRUCTURE

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

GROUP FINANCIAL HIGHLIGHTS

Financial Performance

Overall, the Group profit after tax was down on prior year by 18.5% due to the challenging economic conditions that prevailed throughout 2018. However, our Tanzania business had a solid year nearly doubling their earnings.

The gross written premiums were slightly lower compared to 2017 reflective of the tough insurance market in the year. The net earned premium declined by 0.3% despite the drop in top line mainly due to releases from the prior year's unearned premium reserves. According to the 4th Quarter Insurance Industry Report by the Insurance Regulatory Authority ("IRA"), the industry grew by just 4.2% overall with long term business growing by 5.3% trailed by short-term business at 3.5%. A similar trend was observed in Tanzania where the report by the Tanzania Insurance Regulatory Authority (TIRA) for the 3rd Quarter showed an overall industry growth of 7.7% with Long term business growing by 33.3% trailed by Short-term business at just 4.2%. The Group writes both Short-term and Long-term businesses in Kenya and only Short-term business in Tanzania.

Claim costs were lower especially in our Long-term business on account of lower Investment values due to the impact of depressed investment returns in Kenya markets. Our Tanzania business also reported a 14% reduction in claim costs due to improvements in claims administration and underwriting standards. Management and commission expenses were contained below prior year though commission earned was lower due to changes in the business mix.

Results at a Glance

Key indicator	Value	Change from 2017	
Gross earned premiums	KShs10.2B	2.6%	▼
Net earned premiums	KShs 6.3B	0.3%	▼
Total Income	KShs 9.3B	10.6%	▼
Total Claims and Expenses	KShs 8.4B	10%	▼
Profit after tax	KShs 550M	18.5%	▼
Income tax	KShs 375M	12.7%	▼
Owner's Equity	KShs 7.3B	2%	▲
Dividend per share	KShs 0.50	-	

Operating Environment

Major changes in the regulatory environment continued to impact on the insurance sector in 2018 and are expected to continue shaping the insurance landscape going forward.

Kenya

The Finance Act 2018 introduced a number of changes affecting the insurance industry. These include:

1. Introduction of withholding tax on demurrage charges and insurance premiums payable to a non-resident person. The withholding tax rates are 20% and 5% for the demurrage charges and insurance premiums respectively. This is expected to increase the cost of reinsuring risks with foreign reinsurance companies due to pricing risks to cover the tax.
2. Capital gains tax on transfer of property by general insurance companies.
3. Introduction of National Housing Development Fund (NHDF). Under the new provision, the employer and employee will each

CHAIRMAN'S STATEMENT - (continued)

contribute 0.5% of the employee's gross monthly earnings subject to a maximum of KShs 5,000 to the NHDF.

4. Stamp duty on life and accident policies will now be paid on monthly declarations
5. Changes to the RBA Act making it more punitive for employers who fail to remit employee contributions.
6. Clarification on what is defined to be a deemed dividend.

Insurance Act Miscellaneous amendments

The Finance Bill also proposed amendment to the Insurance Act to deter insurance companies from assuming a risk in respect of insurance business unless the premium thereon is received by the insurer.
In addition, intermediaries are not to receive any premiums on behalf of an insurer. These proposals are being considered by Parliament.

The board is supportive of these proposals.

Other proposals include the introduction of index based insurance to diversify from the traditional indemnity-based insurance. This will encourage growth in the insurance sector as it will enable product diversification by insurance companies into the agricultural sector which is currently under-insured, despite agriculture being the main stay of the economy.

Significantly, insurance fraud, which has been a thorn in the flesh in the industry has been criminalised to manage the loss ratios in the sector. Insurance fraudsters can now be prosecuted under the criminal penal code unlike in the past where prosecution was under the civil procedure code.

Tanzania

In Tanzania the market continued to realign to the regulations introduced in 2017. Some of the regulations that had the greatest impact on the conduct of insurance in 2018 included; a Cash and carry rule for insurance transactions, stoppage of insurance intermediaries from receiving insurance premiums on behalf of underwriters and limiting reinsurance of local risk to local underwriters. The limiting of reinsurance of local risk to local underwriters had a great positive impact on the growth of business for local insurance companies and Heritage Tanzania being one of the major underwriters benefited significantly.

On the regional front, the East African Community bloc's insurance regulators from Kenya, Uganda, Rwanda, Tanzania and Burundi have taken initial steps towards harmonisation of laws and policies in a bid to boost insurance penetration and promote seamless cross-border operations.

Competitive landscape

The Kenyan Insurance sector remained relatively stable and resilient. According to the Insurance Industry Quarter 4 Report for 2018, the industry recorded KES 216 billion in premium (2017: KES 207 billion) translating to a nominal growth of 4.3% (-1.3% in real terms). Long term insurance business grew by 5.3% (0.4% in real terms) whilst general insurance business grew by 3.5% (-2.11% in real terms). Despite marginal nominal growth, general insurance business still dominated the industry at 60.4% of total premium revenue.
Insurance penetration, which is the ratio of Gross Direct Insurance Premiums to Gross Domestic Product (GDP), remained relatively low at 2.7% compared to a world average of 6.1% and 3.0% for Africa. The insurance density increased from KES 4,300 in 2016 to KES 4,455 in 2017, indicative of a modest increase in spending on insurance.
On the flipside the industry still faces penetration hurdles such as existing cultural practices, market malpractices and increasing fraud which all add up to an increase in the cost of doing business.

In Tanzania, according to recent reports from the African Development Bank (AFDB), real GDP growth in 2018 was said to be 6.7% down from 7.1% in 2017. The annual inflation rate eased to an average of 3.8% from 5.3% in 2017. However, inflation is projected to rise to 5.2% in 2019 and to 5.1% in 2020 due to increased government spending.

In 2019, the insurance industry is expected to grow further following to the various initiatives undertaken by the Industry Regulator -to open potential avenues for insurance business in the market. The industry is expected to benefit from the upcoming national infrastructural projects, introduction of Bancassurance and other opportunities in current untapped business sectors. Heritage, being one of the largest players in the market, will be in the lead in offering fresh insurance products to the market.

Products and Channels

In the long-term business, we continued with our track record of providing innovative life and pension products, in line with our intention of improving the lives of people by making financial freedom possible. We partnered with KCB Bank Kenya to launch KCB Elimisha, an affordable education insurance savings plan. KCB Insurance Agency - the Bank's Bancassurance arm – is leading the rollout. The proposition is pegged on an array of benefits such as a 15% premium discount on a second life insured, flexible payment schedules with a discounted premium on quarterly, semi-annual and annual payment. It includes terms ranging from 5 to 20 years, and is flexible with options for upgrade, downgrade and premium escalation.

In the Short-term space, business continued with its focus on developing customised products. This was a follow-up to 2017's launch of Trade Credit Insurance to the market, a product that aims at cushioning suppliers, manufacturers and exporters from payment default risks stemming from buyer insolvency or reneging on payment for various reasons.

In our effort to develop market relevant customer solutions, we commissioned a brand audit survey. This was carried out across the country targeting clients, intermediary and potential customers for their feedback. The results of the analysis informed a number of brand positioning initiatives that are currently being rolled out.

Importantly, the business absorbed critical feedback regarding new products that the market would like introduced to meet some of the vital needs. In this regard, the business has put in long hours to develope a revolutionary new motor product that will be launched in the market in 2019.

The Group is keen on expanding its distribution channels and has adopted the franchising model where upon it has entered in to strategic partnership with a number of enterprises to create a presence in key towns in the country. This is in addition to an already existing broad range of partnerships with Brokers and Agents across the country.

CHAIRMAN'S STATEMENT - (continued)

Rewards and Recognition

Heritage Kenya and Liberty Life were recipients of a number of awards during the year

Heritage Insurance received various awards during the year 2018 that further highlighted our business commitment to service excellence. The Company was crowned the "General Insurer of the Year" in the 2018 Think Business Awards. The Company was also the overall winner in the Risk Management Award, and was the 2nd Runner Up in the Medical Underwriter of the Year and Technology and Digital Application categories. The Company also emerged 1st Runner up during the Champions of Governance (COG) Awards, 2018. The Managing Director, Mr. Godfrey Kioi was awarded the 1st Runner up Chief Executive Officer of the year at the Champions of Governance, while the Company secretary Ms. Carol Kioni was crowned the Company Secretary of the year.

Liberty Life Assurance Kenya Limited was also recognised in the prestigious seventh annual Think Business Insurance Awards. and received the winning prize for "Young Achiever of the Year" and scooped the First runner up award in two categories; Life Insurer of the Year and Customer Service. The company was also awarded Second runner up position in two additional categories; "Most Innovative Insurance Company" and the "Risk Management" category. Other recognitions during the year were the Life Office Management Association (LOMA) Educational Achievement Award, Champions of Governance Award where the company was designated Winner, with the Company Secretary of the Year, as well receiving "AA" Company Rating from Global Credit Rating.

Staff

Our policy is to offer equal opportunity to all potential employees or job applicants and does not discriminate in any manner. 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. 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.

Sustainability

In 2018, the Group continued with its clearly defined Corporate Social Investments (CSI) programme anchored on two main pillars of Education and Health as part of the wider Liberty Group CSI Policy. This is tied to Kenya's national blueprint the Kenya National Development Strategy (The Vision 2030). With regard to education, the strategy revolves around creating impact an in education within the communities in which we operate through offering full scholarships to bright needy students. In addition, "Adopt a school campaign", is a strategic initiative and a one-of-a-kind holistic mentorship program. These programs have been executed in Kajiado County with Kajiado Township Primary School and in Nairobi County with Starehe Boys and Girls Schools.

On health, Heritage ran a vigorous Healthy Living Campaign aimed at sensitising Company staff on the benefits of living a healthy lifestyle with funds directed 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.

2019 outlook

Our businesses in Kenya and Tanzania are looking forward to improved service delivery to our clients through automation of various customer touch points. We will continue leveraging and creating synergies across the various businesses within the group including our relationship with Stanbic Bank.

In addition, we expect to launch exciting new products in the market specially tailored to meet needs expressed through various customer and general public interactions.

Appreciation

I would like to take this opportunity to sincerely thank the Board of Directors for its 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. In the year, Dr. Susan Mboya resigned from the Board. On behalf of the Board of Directors and management, I take this opportunity to express appreciation to Dr. Mboya for her leadership, hard work and dedication to the business. We wish her well in her future endeavours.

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.

PHILIP ODERA

CHAIRMAN

LIBERTY KENYA HOLDINGS Plc

28 March 2019

CORPORATE GOVERNANCE REPORT

1. INTRODUCTION

The Board of Directors of Liberty Kenya Holdings Ltd recognses the significance of integrity, openness and accountability in ensuring the sustainability of the group. The Board also exercises diligence and stewardship in the oversight over the affairs of the company. The Board is committed to upholding the principles of good corporate governance in the oversight of the affairs of Liberty Kenya Holdings Subsidiaries namely;

- Liberty Life Assurance Kenya Limited
- Heritage Insurance Company Kenya Limited
- Heritage Insurance Company Tanzania Limited
- CfC Investments Limited.

The mandate of the Board is to determine the strategic direction of the Group, through the design of tactical objectives and key policies for adoption by the Liberty Holdings subsidiaries. The Board also has the mandate of safeguarding the Group's assets, as well as protection and enhancement of shareholder wealth.

The Board recognises the diverse business operations of its subsidiaries, as well as the need for constant advancement in its corporate governance practices in order to remain relevant and effective in the dynamic operating environment.

2. BOARD OF DIRECTORS

The Liberty Kenya Holdings Ltd Board of directors comprises one executive director and five non-executive directors, with a diverse mix/skills mix and experience.

Member	Independence	Position	26 Apr	7 June	24 Aug	11 Dec
Mr. P Odera	Non-Executive	Chairman	P	P	P	P
*Dr.Susan Mboya	Non-Executive	Chairman	P	P	P	N/A
Mr. G R May	Non-Executive	Director	P	P	P	P
Mr. P Gethi	Non-Executive	Director	P	P	P	P
Mr. J Hubbard	Non-Executive	Director	P	T	P	T
Mr. M L du Toit	Executive	Director	P	P	P	P

T – Board member not present but alternate present

P – Present, A – Absent, N/A – Not Applicable

*Dr. Susan Mboya resigned from the Board and as the Chairman on 24 October 2018.

CORPORATE GOVERNANCE REPORT - (continued)

Director's Remuneration

Liberty Kenya Holdings Limited has a clear remuneration policy for executive and non-executive directors. The policy is deemed to be fair and equitable, as well as benchmarked to the market so as to attract and retain the required skills and experience. The remuneration of the non-executive directors is reviewed by the Directors Affairs Committee. See Directors Remuneration report on page 16 to 18.

The Audit and Risk Committee of the Board

The Board of Directors has the overall responsibility for the financial reporting of the Group. This function is supported through the implementation of an effective Risk Management and Control Framework. In order to ensure efficiency in accounting for the group assets and financial reporting, the Board has constituted an Audit and Risk Committee (ARC). This committee comprises of two members, and meets at least twice every year to approve the half year and annual reports of the company,among othes matters.

In the year 2018, the Audit and Risk Committee held meetings as follows;

Member	Independence	Position	23 Feb (Special Board)	23 March	23 Aug
Mr. G R May	Non-Executive	Chairman	P	P	P
Mr. P Gethi	Non-Executive	Director	P	P	P

P – Present, A – Absent.

Mr. R Shah appointed on 24 August 2018

The Directors' Affairs Committee

The company has a Directors Affairs Committee constituted by the Chairperson of the Board, and two directors', one of whom is a non-executive director. The responsibility of this committee is to monitor the effectiveness of the Group's governance structures, and the interaction among the subsidiary companies.

The Directors' Affairs Committee also facilitates Board evaluations to measure and monitor its performance in corporate governance matters, and general remuneration. The commitee meets when required.

Corporate Social Responsibility

Our Community engagements

The main objective of Corporate Social Investment (CSI) programmes initiated by the Group is to improve the lives of our customers, employees and the communities in which we operate. These initiatives cultivate a sense of customer loyalty and employee satisfaction. We have continually pursued this objective through CSI projects that are external to normal business activities of Group, and which are not for purposes of direct profits. All projects that we undertake must have a strong developmental approach, for which we utilise company resources to benefit and uplift communities, and not primarily driven as marketing initiatives.

Every year, the Liberty Group marks the International Nelson Mandela day by dedicating resources and staff towards a community based initiative as part of the Group's CSI initiatives.

Towards this, Liberty Life Assurance and Heritage Insurance have adopted the Kajiado Township Primary School that is situated in the semi-arid area of Kajiado.

To this end, the two companies set up a water pump to provide water which is now a source of livelihood not only to the school but the neighboring communities where the students come from, renovated the school library and stocked it with books for students across all academic levels. In 2017, a school feeding programme was launched with an aim to ensure all students, have a meal as well as alternative food choices from their usual diet. This feeding programme was sustained in 2018 and is now being supported and funded by staff from the two companies through an initiative called 'Stairwell Challenge'.

Our CSI policy, which has been approved by the Board and is aligned to the Liberty Group policy, mainly focuses on education and health initiatives as the key pillars, while incorporating other areas of national significance. The CSI policy has the following guiding principles:

1. Strategic relevance – concerned primarily with education needs in society.
2. Proportional payback – expenses incurred or resources allocated are covered by the notional value of the benefit
3. Derived from ensuring customer loyalty and employee satisfaction.
4. Substance – sufficient to make a real, measurable impact on society
5. Sustainability – projects should be sustainable to ensure the impact is felt by the intended group

In approving the CSI policy, the Board considered its impact on the company's products, services, operations and procedures, to ensure they balance the needs of all stakeholders comprising shareholders, employees, customers and the community at large.

Education pillar

In 2018, we sponsored with either partial or full scholarships a total of 166 students across various levels of academic development, 58 of whom are needy cases. Qualification for sponsorship is based on performance in the KCPE examination, children of our customers, staff and agents in addition to needy and deserving children whose parents could not afford to pay school fees. This number is set to grow to over 200 children in 2019. Academic progress of each student's performance is monitored through review of their term performances which are sent to us either by the school or the parents.

We continue to leverage our established relationships with Starehe Boys' Centre and Starehe Girls' Centre to provide full scholarships to 10 needy students at the moment. Beneficiaries are usually needy and deserving children whose parents (or guardians) cannot afford secondary school fees. We intend to continue nurturing these partnerships in coming years as we increase the number of full scholarships to benefit yet more needy students, for an enhanced contribution to the education sector.

We aim to select students from different counties every year, which will eventually lead us to cover all 47 counties within the scholarship programme.

In line with our objective to maintain a close relationship with the students on the programme and the schools where they study, we conduct regular visits. The aim of these visits is to not only meet the students, but also have a mentorship session with the entire school community and explore possible further areas of partnership. In undertaking this activity, staff of Group, especially the alumnus, are involved, for an opportunity to impact the young minds. In 2018, we visited Starehe Boys' Centre, Starehe Girls' Centre, Alliance Boys

CORPORATE GOVERNANCE REPORT - (continued)

High School, Pangani Girls' High School and Loreto Limuru Girls' High School.

We also organise mentorship weekends for scholarship beneficiaries during school holidays, where we get to interact with the students. This has enhanced interaction and provided a mentoring opportunity to keep the students motivated and focused on achieving excellence in their academic goals.

Health initiatives

Group also supports initiatives that focus on raising awareness and promoting management and prevention of Non-Communicable Diseases; in addition to supporting the physically challenged.

These initiatives are implemented through strategic partnerships as follows;

1. Association of Kenya Insurers' annual medical camp to offer free screening;
2. Diabetes Management Institute to support diabetic people who cannot afford care; and management of the disease through the following partnerships;

1. Cerebral Palsy Society of Kenya to provide management care and counselling to care givers;
2. Nyeri Hospice charity walk to support their palliative care initiatives.

The Group has also been at the forefront in promoting and raising awareness to encourage healthy lifestyles. Ongoing activities include:

a) providing information on healthy lifestyles in partnership with other players;
b) education campaigns;
c) physical activities across the country including competitions and challenges.

Going Concern

The Board has reviewed the performance, annual report and underlying assumptions, and are confident that the Group is a going concern. The Directors also hold the view that the Group businesses are sustainable in the foreseeable future.

P. Odera	**M.du Toit**
Chairman	Managing Director
Date: 28 March 2019	

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 set out on pages 31 to 95 which comprise the Group and Company statements of financial position as at 31 December 2018, 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 that the Group and Company 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 2019 and are signed by:

P. Odera Chairman Date: 28 March 2019	M.du Toit Managing Director

DIRECTORS' REPORT

The directors submit their report together with the audited consolidated and separate financial statements for the year ended 31 December 2018, in accordance with the Kenya Companies Act, 2015, which disclose the state of affairs of Liberty Kenya Holdings Plc and its subsidiaries (together the "Group").

1. 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 Company 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 bond investments. It also issues investment contracts to provide customers with asset management solutions for their savings and retirement needs.

2. RESULTS AND DIVIDEND
Profit for the year ended 31 December 2018 was Shs 549,526,000 (2017: Shs 674,573,000). The Directors recommend a dividend per share of Shs 0.50 (2017: Shs 0.50).

3. 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.

4. 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.

5. EMPLOYEES
The number of people employed by the group at the end of the year was 326 (2017:327) Out of the 326 members of staff employed by Liberty Kenya Holdings Plc at 31 December 2018, 178 are male and 148 are female.
The group also had an average of 38 employees in management and 288 in non-management (2017: management 38, non-management 296).

6. 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.

7. BUSINESS OVERVIEW
The Group earnings for the year ended 31 December 2018 declined by 18.5% over 2017 The table below shows the key items that had the largest impact on the earnings and how they moved in comparison to 2017.

DIRECTORS' REPORT - (continued)

SUMMARY PROFIT AFTER TAX (PAT) BY ENTITY

	2018 Shs'000	2017 Shs'000	Change
Heritage Insurance Kenya Limited	380,648	577,090	(34%)
Heritage Insurance Tanzania Limited	139,537	51,956	169%
Azali Limited	-	2,038	100%
Heritage Group	520,185	631,084	18%
Liberty Life Assurance Kenya Limited (2017 Restated)	308,470	403,283	(24%)
Liberty Kenya Holdings Limited	602,326	(188,827)	(419%)
CfC Investments	-	-	
Total	1,430,981	845,540	69%
Consolidation Entries	(881,455)	(170,967)	416%
Profit after tax (PAT) (2017 Restated)	549,526	674,573	(18.5%)

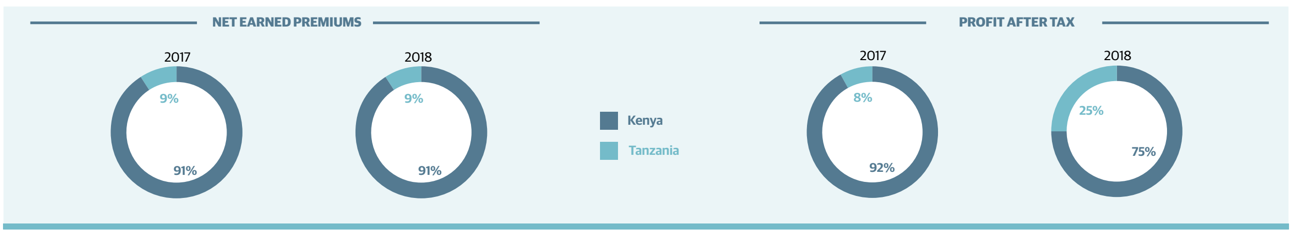
CONSOLIDATION ENTRIES

	2018 Shs'000	2017 Shs'000
Dividends from Heritage Kenya	328,000	-
Dividends from Liberty Life Insurance	370,000	-
Dividends from CfC Investments	102,669	-
Dividends from Heritage Tanzania	80,786	110,804
Deconsolidation of Azali Limited	-	60,163
	881,455	170,967

8. 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 2019.

By Order of the Board

C. Kioni
Company Secretary
28 March 2019

DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION REPORT

Liberty Kenya Holdings Plc hereby presents the Directors' Remuneration Report for the year ended 31 December 2018. This report is in compliance with the Liberty group'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 recognise 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 recognising our Directors' contribution to the business is based on the principles of:

Market: Our remuneration levels reflect the competitive market and compare favourably with relevant competitors for such skills.
Communication: We aim to give details to every one of the component values of their total remuneration package and the criteria that may affect it.
Effectiveness: We aim to seek out best practice and ensure our remuneration programmes 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
Mr. Philip Odera	Chairman – Non-executive Director (Appointed Chairman 24/10/2018)
Mr. Mike du Toit	Managing Director
Mr. Gayling May	Non-executive Director
Mr. Peter Gethi	Non-executive Director
Mr. Jeffrey Hubbard	Non-executive Director
Dr. Susan Mboya	Non-executive Director/ previous chairman (resigned 24/10/2018)

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' APPOINTMENT AND RETIREMENT TERM

	Appointment Date	Retirement date by rotation at the AGM
Mr. Gayling May	17 Dec 2009	June 2019
Mr. Peter Gethi	17 Dec 2009	June 2021
Mr. Philip Odera	2 Sept 2016	June 2020
Mr. Jeffrey Hubbard	6 June 2017	June 2020
Mr. Mike L du Toit	17 Dec 2008	Subject to contract
Dr. Susan Mboya	29 Nov 2011	Resigned 24 Oct 2018

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 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.
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.

Executive Directors remuneration

The remuneration of executive directors is determined by the directors affairs committee with commensurate market and levels of responsibility.

Board Evaluation

The performance of Board members and the Board collectively is based on Board Evaluations conducted periodically. 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

DIRECTORS' REMUNERATION REPORT - (continued)

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.
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 (2017:None).

For the financial year ended 31 December, 2018, the total Non- executive Directors remuneration in Shs' 000s was Shs 4,350 (2017 – Shs 3,547) and for executive directors was Shs 96,795 (2017 – Shs 96,516).

The total amount of emoluments paid to Directors for services rendered during the Year 2018 is also disclosed in Note 32 (h) to the Financial Statements

	2018			2017		
	Retainer Fees Shs'000	Attendance Fees Shs'000	Total Shs'000	Retainer Fees Shs'000	Attendance Fees Shs'000	Total Shs'000
P Odera	340	571	911	-	-	-
Dr. Susan Mboya	324	480	804	432	480	912
Mr. Gayling Ma y	309	1,058	1,367	309	1,058	1,367
Mr. Peter Gethi	309	959	1,268	309	959	1,268
Jeff Hubbard (i)	-	-	-	-	-	-
Total	1,282	3,068	4,350	1,050	2,497	3,547

i. Retainers and Board attendance fees are only paid to non-executive Directors. Mr. Jeff Hubboard is the nominated director representing the controlling shareholder, Liberty Holdings Limited. No Fees were charged for his services as a director for 2018 or 2017.
ii. The cost incurred by the company to purchase insurance cover on behalf of Directors amounted to KShs. 555,000 (2017: KShss 264,000).
iii. No amount was paid as an expense allowance that is not chargeable to income tax, or would befit 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 Contarct	Unexpired term	Notice period	Amount payable for early termination Shs'000
Mike du Toit	17 December 2008	Renewable contract	5 months	3 months	18,636

DIRECTORS' REMUNERATION REPORT - (continued)

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

2018	Basic Pay Shs'000	Other Benefits Shs'000	Bonus Shs'000	Non-cash benefits Shs'000	Total Shs'000
Mike du Toit	76,013	15,498	2,684	2,600	96,795

2017	Basic Pay Shs'000	Other Benefits Shs'000	Bonus Shs'000	Non-cash benefits Shs'000	Total Shs'000
Mike du Toit	74,545	12,325	7,071	2,575	96,516

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 of the Managing Director. All benefits are subjected to tax at prevailing PAYE rates

Approval of 2017 Directors' remuneration report

At the Annual General meeting held on 7 June 2018, the Shareholders approved the Directors' remuneration report for 2017. 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

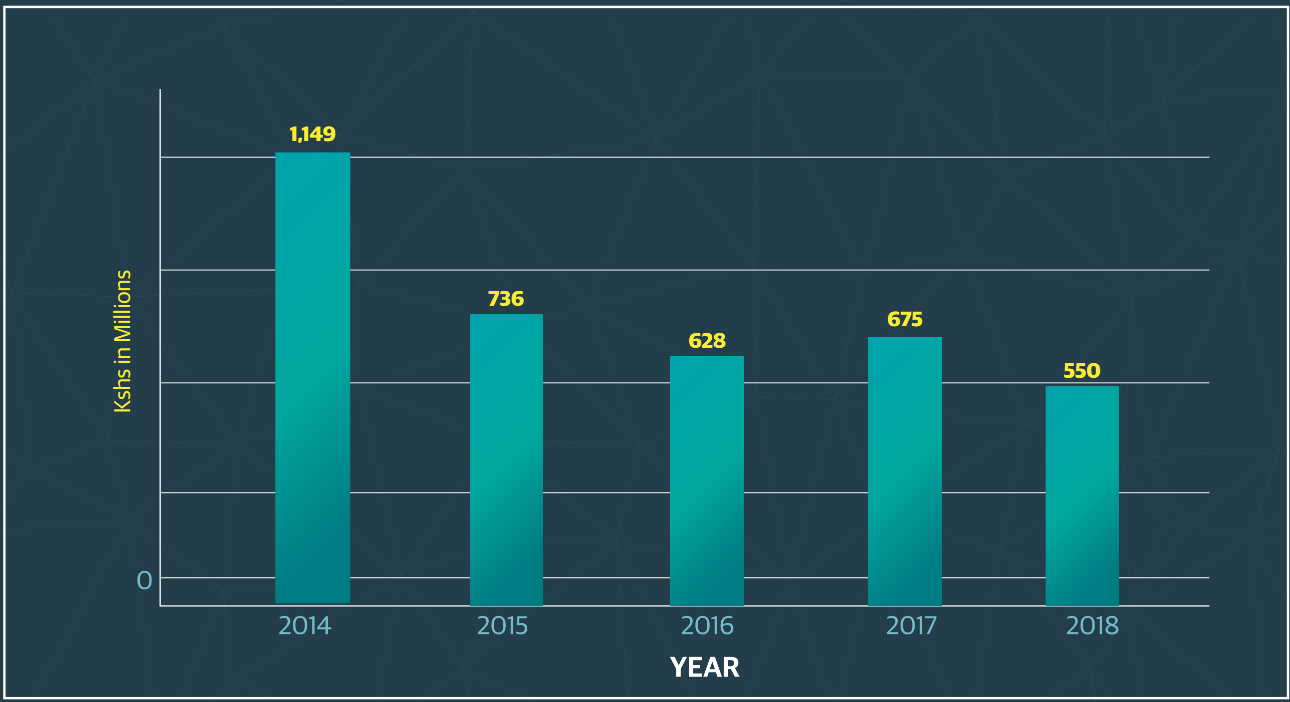
The Directors confirm that this report has been prepared in accordance with the Kenyan Companies Act 2015, the Capital Markets Authority (CMA) Code and Listing Rules and reflects the disclosure requirements under IFRS.

By Order of the Board

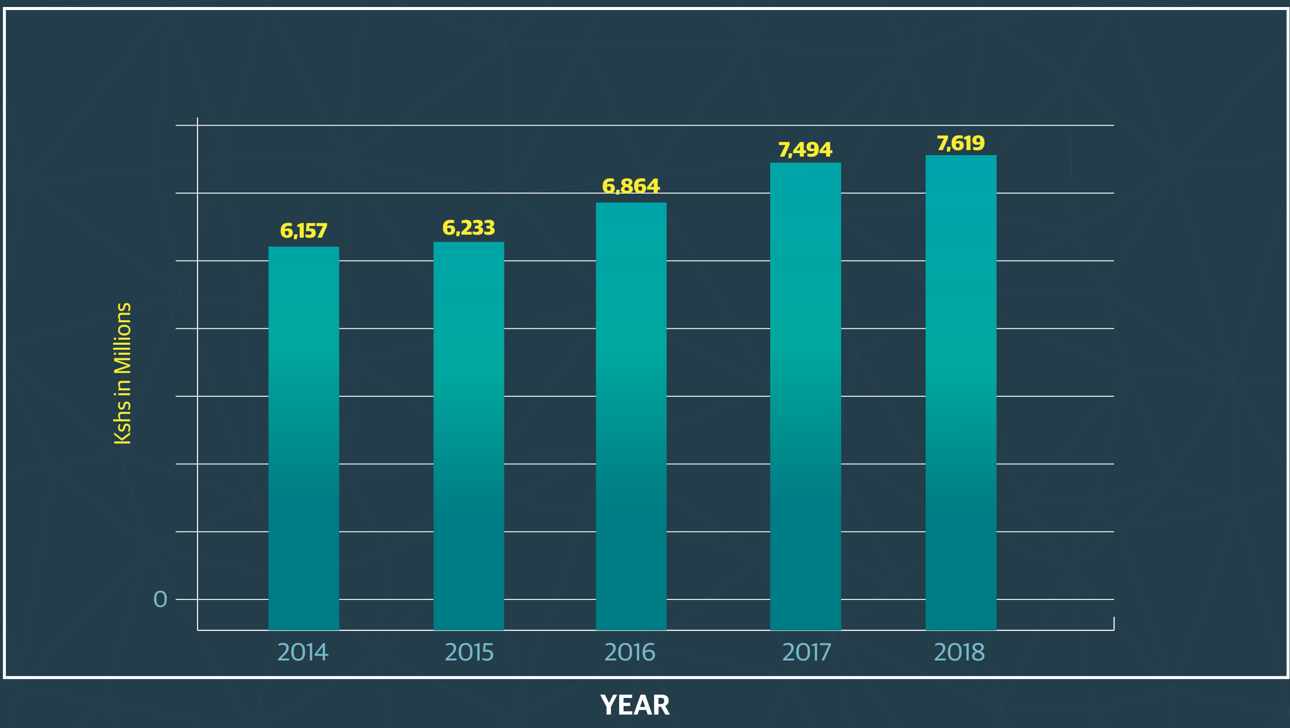
C Kioni
28 March 2019

FINANCIAL HIGHLIGHTS

NET PROFIT FOR THE YEAR (Shs)



NET ASSETS



FIVE YEAR CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000	2015 Shs'000	2014 Shs'000
Net insurance premium revenue	6,309,226	6,330,749	5,573,336	5,525,834	4,692,485
Investment and other income	3,002,824	4,092,743	3,451,537	2,745,822	3,610,067
Total income	9,312,050	10,423,492	9,024,873	8,271,656	8,302,552
Net insurance benefits and claims	(4,193,501)	(4,982,709)	(3,952,115)	(3,126,117)	(3,456,461)
Operating expenses and commissions	(4,193,593)	(4,336,513)	(4,130,873)	(4,191,837)	(3,509,440)
Result of operating activities	924,956	1,104,270	941,885	953,702	1,336,651
Earnings from associates	-	-	-	-	9,918
Profit before income tax	924,956	1,104,270	941,885	953,702	1,346,569
Income tax expense	(375,430)	(429,697)	(314,051)	(217,652)	(197,584)
Profit for the year	549,526	674,573	627,834	736,050	1,148,985
Non controling interests	55,815	20,782	42,254	60,797	79,021
Costs to income ratio	45%	42%	46%	51%	42%
Earnings per share (Shs)	0.92	1.22	1.09	1.26	2.00

FIVE YEAR CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000	2015 Shs'000	2014 Shs'000
Total equity	7,619,139	7,493,565	6,864,408	6,233,112	6,157,189
Assets					
Property, equipment and intangible assets	1,387,189	1,401,681	1,341,566	1,185,433	1,100,816
Investment property	760,855	876,434	907,626	1,035,500	936,000
Goodwill	1,254,995	1,254,995	1,254,995	1,254,995	1,254,995
Financial investments	22,456,803	24,983,002	21,896,541	19,064,519	19,098,156
Other assets	4,478,274	5,133,354	4,760,587	5,236,068	4,552,324
Cash and cash equivalents	6,240,923	3,689,506	4,936,638	6,757,174	6,251,762
Total assets	36,579,039	37,338,972	35,097,953	34,533,689	33,194,053
Liabilities					
Insurance contract liabilities	16,535,361	15,107,307	12,045,276	11,060,752	9,720,729
Investment contracts with discretionary participatory features	5,860,977	7,833,598	10,367,517	11,463,105	12,047,554
Other liabilities	6,563,562	6,904,502	5,820,752	5,776,720	5,268,581
Total liabilities	28,959,900	29,845,407	28,233,545	28,300,577	27,036,864
Net assets	7,619,139	7,493,565	6,864,408	6,233,112	6,157,189

"It's a father's duty to give his son a fine chance."

George Eliot

BOARD OF DIRECTORS

Philip Odera (60),
Chairman

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.

Gayling May (76)
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.

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 (53)
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, and Heritage Insurance Company Tanzania Limited.

BOARD OF DIRECTORS - (continued)

Mike du Toit (57)
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

Jeffrey Hubbard (54),
Group Executive - Business Development

Mr Jeffrey 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 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 the South African Institute of Charted accountants.

Caroline Kioni
Company Secretary

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF LIBERTY KENYA HOLDINGS PLC
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 (the Group and Company) set out on pages 31 to 95 which comprise the Group and Company statements of financial position as at 31 December 2018, 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 as at 31 December 2018, 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 Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER

We draw attention to Note 36 of the financial statements, which describes the effects of amendment of the results published on 29 March 2019.
Our audit procedures on subsequent events are restricted solely to the amendment of the financial statements as described in Note 36 to the financial statements.
Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

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

INSURANCE AND DEPOSIT ADMINISTRATION CONTRACT LIABILITIES

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED
Short-term insurance contract liabilities	Our audit procedures in this area included, among others:
Short term insurance contract liabilities constitute about 12% of the Group's total liabilities. Valuation of these liabilities is highly judgmental, 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.	• Evaluating and testing of key controls around the claims handling and reserve setting processes of the Group; • Checking for any unrecorded liabilities at the end of the period; • Checking samples of claims reserves through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters; • Re-performing reconciliations between the data recorded in the financial systems and the data used in the actuarial reserving calculations; • Re-projecting the incurred but not reported reserve balances using the actuarially-determined reserve percentages per class of business; • Using our actuarial specialists to review the reserving methodology applied and analytically review the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; and • We also considered the validity of management's liability adequacy testing by assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of company and industry experience data and specific product features.

INDEPENDENT AUDITORS' REPORT - (continued)

TO THE MEMBERS OF LIBERTY KENYA HOLDINGS PLC

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - (continued)

See Note accounting policy note 1.2 (e) and 1.3 (vii). 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	Our audit procedures in this area included, among others:
The Group has significant long term insurance contract liabilities and deposit administration liabilities representing about 65% of the Group's total liabilities. This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term policyholder liabilities. Economic and operating assumptions, such as investment returns, mortality and persistency (including consideration of policyholder behaviour), expenses and expense inflation, withdrawals and sensitivity analysis are the key inputs used to estimate these long-term liabilities. The assumptions to be made have high estimation uncertainty and changes in the estimates may lead to material impact on the valuation of the liabilities. The valuation also depends on accurate data extraction from the information systems. If the data used is not complete and accurate then material impacts on the valuation of policyholder liabilities may also arise. As a result of the above factors, insurance and deposit administration contract liabilities was considered to be a key audit matter.	• Comparing the assumptions to expectations based on the Group's historical experience, current trends and our own industry knowledge; • Assessing the unit fund build-up for the unit-linked products; • Evaluating the governance around the overall Group reserving process, including the scrutiny applied by the internal and appointed external actuaries. We assessed qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. Our evaluation of the methodologies and key assumptions enabled us to assess the quality of the challenge applied through the Group's reserving process; • Using our actuarial specialists to review the reserving methodology applied and analytically reviewed the valuation results presented and movements since the previous year end. We focused on understanding the methodologies applied and examined areas of judgement such as changes in valuation assumptions; • Considering the validity of management's liability adequacy testing by assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of company and industry experience data and specific product features; and • We also considered whether the Group's disclosures in relation to the assumptions used in the calculation of insurance contract and pension liabilities are compliant with the relevant accounting requirements in particular the sensitivities of these assumptions to alternative scenarios and inputs.

INDEPENDENT AUDITORS' REPORT - (continued)

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

PREMIUM INCOME AND RECEIVABLES

See accounting policy notes:

- 1.2 (e) (ii) (a) recognition and measurement of premium income
- 1.2 (e) (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
Premium receivables Significant judgment is involved in premium revenue recognition, determination of unearned premiums and estimation of provisions for uncollected premiums receivables. 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. .	**Our audit procedures in this area included, among others:** • Evaluation and testing of key controls over the processes designed to record and monitor premium income and insurance and reinsurance receivables; • Inspection of management's aged analysis for premium receivables as at 31 December 2018; • Understanding the terms of the reinsurance programmes in place and conducting relevant substantive procedures and substantive analytical procedures to assess the reasonableness of the reinsurance assets relative to gross provisions; • Considering credit ratings for reinsurers, facultative and brokerage entities; and • Testing of the manual adjustments on a sample basis by tracing back to supporting documentation.

INFORMATION TECHNOLOGY (IT) SYSTEMS AND CONTROLS

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

OTHER INFORMATION

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

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

In connection with our audit of the Group and Company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained

INDEPENDENT AUDITORS' REPORT - (continued)

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

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.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

As stated on page 13, the Directors are responsible for the preparation of the Group and Company financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control, as the Directors determine is necessary to enable the preparation of the Group and Company financial statements that are free from material misstatement, whether due to fraud or error.

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

Our objectives are to obtain reasonable assurance about whether the Group and Company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 unqualified 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group and Company financial statements, including the disclosures, and whether the 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 the Group to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

  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.

  From the matters communicated with Directors, we determine those matters that were of most significance in the audit of the 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.
- 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

(i) In our opinion, the information given in the report of the Directors on pages 14 - 15 is consistent with the financial statements; and

(ii) Our report on the financial statement is unqualified.

(iii) The auditable part of the Directors' remuneration report on pages 16 to 18 has been properly prepared in accordance with the Kenyan comapnies Act 2015

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

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612
00100 Nairobi GPO
Date: 15 May 2019

Be in love with your life.
Every minute of it"

Jack Kerouac

STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

		THE GROUP		THE COMPANY	
	Note	2018 Shs'000	2017 (Restated)* Shs'000	2018 Shs'000	2017 Shs'000
Gross earned premium revenue	4	10,217,603	10,493,560	-	-
Less: Outward reinsurance		(3,908,377)	(4,162,811)	-	-
Net insurance premium revenue		6,309,226	6,330,749	-	-
Commissions earned		844,015	965,459	-	-
Investment income	5.1	155,915	2,434,872	800,669	-
Interest income on financial assets held at amortised cost	6.1	415,752	167,699	-	-
Fair value gain/ on sale of financial investments	6.2	1,571,504	520,621	-	-
Administration Fees		15,638	14,641	-	-
Loss on disposal / Impairment of subsidiary	7	-	(10,549)	(630,792)	-
		3,002,824	4,092,743	169,877	-
Total income		9,312,050	10,423,492	169,877	-
Claims and policyholder benefits	8	(5,306,021)	(6,091,026)	-	-
Change in policyholder contract liabilities	8	(689,723)	(663,247)	-	-
Amounts recoverable from reinsurers		1,802,243	1,771,564	-	-
Net insurance benefits and claims		(4,193,501)	(4,982,709)	-	-
Commissions expenses		(1,166,084)	(1,171,902)	-	-
Other operating expenses	9	(3,027,509)	(3,164,611)	(198,343)	(188,827)
Total expenses and commissions		(4,193,593)	(4,336,513)	(198,343)	(188,827)
Profit/(loss) before income tax		924,956	1,104,270	(28,466)	(188,827)
Income tax expense	13	(375,430)	(429,697)	-	-
Profit/(loss) for the year		549,526	674,573	(28,466)	(188,827)
Profit/(loss) attributable to:					
Owners of the parent		493,711	653,791	(28,466)	(188,827)
Non-controlling interests	12	55,815	20,782	-	-
		549,526	674,573	(28,466)	(188,827)
Basic and diluted earnings per share (Shs)		0.92	1.22	(0.05)	(0.35)

*See Note 35

The accounting policies on pages 38 to 52 and the notes on pages 53 to 95 form an integral part of the financial statements

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		THE GROUP		THE COMPANY	
	Note	2018 Shs'000	2017 (Restated)* Shs'000	2018 Shs'000	2017 Shs'000
Profit (loss) for the year		549,526	674,573	(28,466)	(188,827)
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Gain on revaluation of owner occupied property	18	14,879	85,429	-	-
Recognition of deferred income tax on revaluation of owner occupied property		(1,086)	(6,165)	-	-
Change in long term policyholder insurance liabilities (OCI) – effects of shadow accounting		(11,259)	(64,881)	-	-
		2,534	14,383	-	-
Items that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations		(34,650)	(4,244)	-	-
		(34,650)	(4,244)	-	-
Other comprehensive income for the year net of taxation		(32,116)	10,139	-	-
Total comprehensive income for the year		517,410	684,712	(28,466)	(188,827)
Total comprehensive income attributable to:					
Owners of the parent		472,582	669,532	(28,466)	(188,827)
Non-controlling interest		44,828	15,180	-	-
		517,410	684,712	(28,466)	(188,827)

*See Note 35

The accounting polices on page 38 to 52 and the notes on page 53 to 95 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018

		THE GROUP			THE COMPANY	
	Note	2018 Shs'000	2017 (Restated)* Shs'000	2016 (Restated)* Shs'000	2018 Shs'000	2017 Shs'000
Share capital	14	535,707	535,707	535,707	535,707	535,707
Share premium	14	1,490,480	1,490,480	1,490,480	1,490,480	1,490,480
Revenue reserve	15	3,381,579	3,204,136	2,945,476	516,024	812,345
Other reserves	15	1,930,327	1,971,692	1,560,820	-	-
Equity attributable to equity holders		7,338,093	7,202,015	6,532,483	2,542,211	2,838,532
Non-controlling interest	12	281,046	291,550	331,925	-	-
Total equity		7,619,139	7,493,565	6,864,408	2,542,211	2,838,532
REPRESENTED BY:						
Assets						
Property and equipment	18	1,218,612	1,251,319	1,243,244	-	-
Intangible assets	20	168,577	150,362	98,323	-	-
Goodwill	16	1,254,995	1,254,995	1,254,995	-	-
Investment property	19	760,855	876,434	907,626	-	-
Investments in subsidiaries	11	-	-	-	2,571,541	3,202,333
Financial investments	17	22,456,803	24,983,002	21,896,541	-	-
Deferred acquisition costs	34	72,268	26,588	22,735	-	-
Deferred income tax	30 (a)	221,494	228,172	131,175	-	-
Receivables arising from reinsurance		161,224	764,875	490,076	-	-
Receivables arising from direct insurance		824,923	925,690	1,439,313	-	-
Reinsurers' share of insurance liabilities	21	2,701,761	2,379,010	2,315,493	-	-
Other receivables	27	276,682	783,548	332,236	-	101
Current income tax	13	94,922	25,471	29,559	-	-
Non-Current assets held for sale	33	125,000	-	-	-	-
Cash and cash equivalents	22	6,240,923	3,689,506	4,936,638	10,659	17,349
Total Assets		36,579,039	37,338,972	35,097,954	2,582,200	3,219,783
Liabilities						
Insurance contract liabilities	23 (a)	6,643,294	6,181,186	5,933,688	-	-
Policyholder liabilities under investment contracts	23 (b)	9,892,067	8,926,121	6,111,588	-	-
Investment contracts with discretionary participation features	25	5,860,977	7,833,598	10,367,517	-	-
Unearned premium reserve	26	3,054,112	3,007,402	3,026,221	-	-
Deferred income tax	30 (b)	1,059,984	1,085,120	907,839	-	-
Creditors arising from direct insurance		552,382	585,119	449,403	-	-
Creditors arising from reinsurance		673,564	842,072	589,770	-	-
Other liabilities	28	1,070,375	1,348,278	827,917	39,989	381,251
Current income tax	13	153,145	36,511	19,603	-	-
Total Liabilities		28,959,900	29,845,407	28,233,546	39,989	381,251
Net assets		7,619,139	7,493,565	6,864,408	2,542,211	2,838,532

*See Note 35.

The financial statements and the notes on pages 31 to 95, were approved and authorised for issue by the board of directors on Thursday, 28 March 2019 and were signed on its behalf by:

P. Odera M. L du Toit G. R May C. Kioni

The accounting policies on pages 38 to 52 and the notes on pages 53 to 95 form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital Shs'000	Share Premium Shs'000	Currency translation Shs'000	Statutory reserve Shs'000	Re-valuation reserve Shs'000	Revenue reserve Shs'000	Non-controlling interest Shs'000	Total equity Shs'000
Group - 2018								
Balance at 31 December 2017 (Restated)	535,707	1,490,480	(64,922)	1,819,343	217,271	3,204,136	291,550	7,493,565
Opening IFRS adjustments								
IFRS 9 transition adjustment (Note 1.2(m)	-	-	-	-	-	(98,071)	-	(98,071)
Deferred tax on IFRS 9 transition adjustment (Note 30)	-	-	-	-	-	29,421	-	29,421
Adjusted balance at 1 January 2018	535,707	1,490,480	(64,922)	1,819,343	217,271	3,135,486	291,550	7,424,915
Profit for the year	-	-	-	-	-	493,711	55,815	549,526
Other comprehensive income								
Recognition of deferred income tax on revaluation of owner occupied property	-	-	-	-	(1,086)		-	(1,086)
Gain on revaluation of owner occupied property	-	-	-	-	14,879	-	-	14,879
Change in long term policyholder insurance liabilities	-	-	-	-	(11,259)	-	-	(11,259)
Foreign currency translation differences	-	-	17,419	(6,195)	(2,436)	(32,451)	(10,987)	(34,650)
Total other comprehensive income	-	-	17,419	(6,195)	98	(32,451)	(10,987)	(32,116)
Total comprehensive income	-	-	17,419	(6,195)	98	461,260	44,828	517,410
Transfer between reserves	-	-	-	(52,687)	-	52,687	-	-
Dividends	-	-	-	-	-	(267,854)	(55,332)	(323,186)
Total contributions with owners of the company	-	-	-	(52,687)	-	(215,167)	(55,332)	(323,186)
Balance at 31 December 2018	535,707	1,490,480	(47,503)	1,760,461	217,369	3,381,579	281,046	7,619,139

The accounting policies on pages 38 to 52 and the notes on pages 53 to 95 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY - continued

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital Shs'000	Share Premium Shs'000	Currency translation Shs'000	Statutory reserve Shs'000	Re-valuation reserve Shs'000	Revenue reserve Shs'000	Non-controlling interest Shs'000	Total equity Shs'000
Group - 2017 (Restated)								
Balance at 1 January 2017 (as previously stated)	535,707	1,490,480	(58,009)	1,359,030	148,279	2,946,229	331,925	6,753,641
Prior year adjustments (Note 35)								
Change in long term policy holder insurance liabilities	-	-	-	-	(37,432)	-	-	(37,432)
Gain on land revaluation	-	-	-	65,871	83,081	-	-	148,952
Deferred tax adjustments	-	-	-	-	-	(753)	-	(753)
Balance at 1 January 2017 (Restated)	535,707	1,490,480	(58,009)	1,424,901	193,928	2,945,476	331,925	6,864,408
Profit for the year	-	-	-	-	-	653,791	20,782	674,573
Other comprehensive income								
Recognition of deferred income tax on revaluation of owner occupied property	-	-	-		(6,165)	-	-	(6,165)
Foreign currency translation differences	-	-	(6,913)	(1,623)	8,960	934	(5,602)	(4,244)
Gain on revaluation of owner occupied property	-	-	-	-	85,429	-	-	85,429
Change in long term policyholder insurance liabilities	-	-	-	-	(64,881)	-	-	(64,881)
Total other comprehensive income for the year	-	-	(6,913)	(1,623)	23,343	934	(5,602)	10,139
Total comprehensive income for the year	-	-	(6,913)	(1,623)	23,343	654,725	15,180	684,712
Additional shares							18,519	18,519
Transfer between reserves	-	-	-	396,065	-	(396,065)	-	-
Dividends	-	-	-	-	-	-	(74,074)	(74,074)
Total contributions with owners of the company	-	-	-	396,065	-	(396,065)	(55,555)	(55,555)
Balance at 31 December 2017 (Restated)	535,707	1,490,480	(64,922)	1,819,343	217,271	3,204,136	291,550	7,493,565

The accounting policies on pages 38 to 52 and the notes on pages 53 to 95 form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY - continued

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital Shs'000	Share Premium Shs'000	Revenue reserve Shs'000	Total equity Shs'000
Company - 2018				
Balance at 1 January 2018	535,707	1,490,480	812,345	2,838,532
Loss for the year	-	-	(28,466)	(28,466)
Total comprehensive income for the year	-	-	(28,466)	(28,466)
Dividends paid	-	-	(267,855)	(267,855)
Balance at 31 December 2018	535,707	1,490,480	516,024	2,542,211
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)
Total comprehensive Income for the year	-	-	(188,827)	(188,827)
Balance at 31 December 2017	535,707	1,490,480	812,345	2,838,532

The accounting policies on pages 38 to 52 and the notes on pages 53 to 95 form an integral part of the financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		THE GROUP		THE COMPANY	
	Note	2018 Shs'000	2017 (Restated) Shs'000	2018 Shs'000	2017 Shs'000
Cash flows from operating activities	31	1,003,427	(849,444)	261,165	4,964
Net interest received		276,105	2,520,967	-	-
Income tax paid	13	(318,374)	(333,373)	-	-
Net cash generated from operating activities		961,158	1,338,150	261,165	4,964
Purchase of property and equipment	18	(94,160)	(124,826)	-	-
Proceeds on sale of equipment		7,536	58,387	-	-
Acquisition of intangible assets	20	(78,295)	(94,010)	-	-
Net disposal of financial investments		2,097,128	(2,357,284)	-	
Cash flows from /(used in)investing activities		1,932,209	(2,517,733)	-	-
Dividends paid		(323,186)	(74,074)	(267,855)	-
Cash flows from financing activities		(323,186)	(74,074)	(267,855)	-
Net increase /(decrease) in cash and cash equivalents		2,570,181	(1,253,657)	(6,690)	4,964
Cash and cash equivalents at the beginning of the year		3,689,506	4,936,638	17,349	12,385
Foreign currency translation		(18,764)	6,525	-	-
Cash and cash equivalents at the end of the year	22	6,240,923	3,689,506	10,659	17,349

The accounting policies on pages 38 to 52 and the notes on pages 53 to 95 form an integral part of the financial statements

ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

Liberty Kenya Holdings Plc 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 and other comprehensive income 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. These policies have been consistently applied to all the periods presented except for the accounting policy changes detailed below, and mandatory adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Consequential amendments were made to IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments.

Presentation change due to IFRS 9, adopted in line with the entity's transition approach

The Group and Company re-assessed its accounting presentation policy of all IFRS 9 related transactions. As part of the IFRS 9 implementation, all income statement movements on financial instruments held at fair value through profit or loss (including interest and dividends) are prospectively presented as fair value adjustments

A) BASIS OF PREPARATION

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act 2015. 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 financial investments at fair value and actuarially determined liabilities at their present value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Accounting policy 1.3.

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

The Group and Company has adopted the following new standards and amendments during the year ended 31 December 2018, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2018.
The nature and effects of the changes are as explained herein.
A number of other standards are effective 1 January 2018 but did not have a material effect on the Group's and Company's financial statements.
The nature and effects of the changes are explained below:

New standards or amendments	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments Standard replaces IAS 39 Financial Instruments: Recognition and Measurement.
The Group and Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's and Company's previous accounting policy for financial instruments (application of IAS 39).
As a result of the changes to IAS 1, the Group and Company re-assessed the disclosures relating to financial liabilities designated at fair value through profit or loss under IFRS 9, and changed the presentation for any movements that are not of a capital nature or related to foreign currency translation. For the year ended 31 December 2018, these movements have been disclosed as fair value adjustments and finance charges are no longer separately disclosed.
The impact of application of this standard is shown on page 50.

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-3] Revenue - Barter of Transactions Involving Advertising Services.
The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.
The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being;

i) Identify the contract(s) with a customer;
ii) Identify the performance obligations in the contract;
iii) Determine the transaction price;

ACCOUNTING POLICIES - continued

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS - (CONTINUED)

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

IFRS 9 Financial Instruments - (continued)

iv) Allocate the transaction price to the performance obligations in the contract; and

v) 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 Company have adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (i.e 1 January 2018). Accordingly, the information presented for 2017 has not been restated. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. Apart from providing more qualitative disclosures on the Group's and Company's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group and Company. As at the date of initial application, no adjustments were required to the Group's and Company's performance or financial position. Revenue components under this standard are administration fees and commission.

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018.

A number of new standards and intepretations are in issue but not yet effective for the year ended 31 December 2018. Early application is permitted; however, the Group and Company do not plan to adopt these Standards early. The following Standards are expected to have a material impact on the Group's and Company's financial statements in the period of initial application.

New standards or amendments	Effective for annual periods beginning on or after
IFRS 16 Leases 1 January 2019	1 January 2019
IFRS 17 Insurance contracts	1 January 2022

IFRS 16: Leases

IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

The objective of IFRS 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.

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

An entity 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. An entity recognises the present value of the unavoidable lease payments and shows them as (right-of-use assets). If lease payments are made over time, an entity also recognises a financial liability representing its obligation to make future lease payments.

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

(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 to its residual interest in assets subject to leases.

The standard does not require an entity to recognise assets and liabilities for:

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

(b) leases of low-value assets.

Potential Impact of IFRS 16 to the Group

As a lessor,

The Group, as a lessor, has operating leases only. Enhanced disclosures are required to improve information disclosed about a lessor's risk exposure, particularly to residual value risk with any rights it retains in underlying assets.

As a lessee

The Group performed an assessment of contracts and it was concluded that leases of properties were the only material class of underlying assets that will be recognised as right-of-use assets. All other classes of underlying assets will be treated as leases of low value and be expensed on a monthly basis. The Group will also apply the exemption for short-term leases.

The Group will recognise right-of-use assets and lease liabilities for its operating leases of property under IAS 17. Previously, the company recognised operating lease expenses on a straight-line basis over the term of the lease. The nature of expenses related to those leases will now change from operating lease charges to depreciation charges for right-of-use assets and interest expense on lease liabilities. IFRS 16 will result in the front-loading of expenses as interest expense charges will be higher during the initial years of the lease, and decrease as the lease liability unwinds. The impact of the difference is not expected to be material for the Group.

Based on an assessment of leases as at 1 January 2019, the Group estimates that it will recognise right-of-use assets and equivalent lease liabilities of about Shs. 9.7 million as at 1 January 2019.

ACCOUNTING POLICIES - continued

B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS - (CONTINUED)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018.- (Continued)

Transition

The Group will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Comparatives are not restated under this approach.

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 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 recognized 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 the Group expects to recognize 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 Company 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 recognized in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Group faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2022 (following IASB due process). An entity shall apply the standard retrospectively unless impracticable. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on adoption of IFRS 17.

The Group expects to incrementally provide more disclosures to facilitate an understanding of the changes and the impact that such changes have on the Group as the implementation programme progresses. At implementation, extensive disclosures will be provided to explain the transition approach followed as well as the calculation basis for the fulfilment cash flow components. IFRS 17 requires considerable additional disclosures including the nature and extent of risks arising from insurance contracts; detailed reconciliations for the liability for incurred claims and each measurement component of the liability for remaining coverage; as well as significant judgements made in applying the standard.

C) CONSOLIDATION

i) Business Combinations

The Group applies the acquisition method of accounting to account for business combinations, when control is transferred to the group. The consideration transferred for the acquisition of a subsidiary is generally measured at fair values, as are the fair value of 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 recognizes any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Any gain on a bargain purchase is recognized in profit or loss immediately, Acquisition related costs are expensed as incurred, except if related to the issue of debt or equity securities.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendment. Cost also includes directly attributable cost of investment. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii) 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.

iii) Associates

Associates are all entities over which the Group has significant

ACCOUNTING POLICIES - continued

C) CONSOLIDATION - (CONTINUED)

iii) Associates - (continued)

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 recognized 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 recognized 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 recognize 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.

iv) Non-controlling interest (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss in control are accountable for as equity transactions.

v) Loss of Control

When the Group loses control of a subsidiary, it de-recognizes the assets and liabilities of the sudsidiary and any related NCI 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.

D) 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 Kenya Shillings thousands (Shs), except where indicated.

ii) Translations of foreign currencies and balances in group entities

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. 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 recognized in the income statement. Non- monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate when the fair value was determined.

iii) Consolidation of group entities

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(ii) income and expenses for each income statement 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 expenses are translated at the dates of the transactions)
iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in other comprehensive income and accumulated in the currency translation reserve except to the extent that the translation is allocated to the non- controlling interests. When a foreign operation is sold, such exchange differences are recognized in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

E) INSURANCE AND INVESTMENT 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. A contract that transfers financial risk with no significant insurance risk is classified as an investment contract. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other measurable variable.

Policyholder investment contracts are classified depending on the duration of or the type of investment benefit, as
follows:

- Long-term investment with discretionary participation feature (DPF); and
- Long-term investment without DPF.

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.

A number of insurance and investment contracts contain 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

ACCOUNTING POLICIES - continued

E) INSURANCE AND INVESTMENT CONTRACTS - (CONTINUED)

i) Classification - (continued)

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 Group, 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:

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 2 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 (ie. 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 cormputed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

b) Claims

Long term liability measurement

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

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

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

The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts. Shadow accounting is applied to policyholder insurance contracts where the underlying measurement of the policyholder insurance liability depends directly on the fair value of any owner-occupied properties. Any unrealised gains and losses on such owner-occupied properties

ACCOUNTING POLICIES - continued

E) INSURANCE AND INVESTMENT CONTRACTS - (CONTINUED)
b) Claims - (continued)

are recognised in other comprehensive income as described in accounting policy (H). The shadow accounting adjustment to policyholder insurance contracts is recognised in other comprehensive income to the extent that the unrealised gains or losses, together with any related taxation on owner occupied properties backing policyholder insurance liabilities are also recognised directly in other comprehensive income.

General insurance measurement

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 cate.

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 reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to 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. Receivables and payables related to insurance contracts are subsequently measured under IFRS4, whilst those related to investments contacts are under IFRS9. The Group gathers the objective evidence that a 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 camaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property,

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

F) RECOGNITION AND MEASUREMENT - GENERAL INSURANCE BUSINESS

i) Premium income

For short term insurance business, premium income is recognized on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium.

Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the financial reporting date, and is computed using the 1/365th method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

ii) Claims

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums).

The liability is based on assumptions as to mortality, persistency,

ACCOUNTING POLICIES - continued

F) RECOGNITION AND MEASUREMENT - GENERAL INSURANCE BUSINESS - (continued)

ii) Claims - (continued)

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 recognized as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts.

For short term insurance business, claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years.

Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the financial reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed and include provisions for claims incurred but not reported ("IBNR'). Outstanding claims are not discounted

iii) Commission's earned and payable and deferred acquisition costs ("DAC")

A proportion of commission's payable is deferred and armortized over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

iv) Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.

Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

v) Reinsurance contracts held

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

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

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

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement.

The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for IFRS 4 assets.

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 recognizes that impairment loss in profit or loss.

vi) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling 2 claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognized 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 recognized 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.

G) OTHER INCOME RECOGNITION

Commissions receivable are recognized as income in the period in which they are earned. Investment income is stated net of investment expenses. takes into account the effective yield on the asset. Dividends are recognized as income in the period in which the right to receive payment Is established (Under IAS 39). Rental income is recognized as income in the period in which it is earned.

H) 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

ACCOUNTING POLICIES - continued

H) INVESTMENT CONTRACTS - (continued)

is dependent on the fair value of underlying financial assets (these contracts are also known as unit-linked investment contracts) and are designated at inception as at fair value through profit or loss. The Group designates these investment contracts to be measured at fair value through profit and loss because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (i.e. the fair value received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit on day 1. The Group has not recognised any profit on initial measurement of these investment contracts because the difference is attributed to the prepayment liability recognised for the future investment management services that the Group will render to each contract holder.

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

When the investment contract has an embedded put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable. For investment contracts with fixed and guaranteed terms, the amortised cost basis is used. In this case, the liability is initially measured at its fair value less transaction costs that are incremental and directly attributable to the acquisition or issue of the contract.

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

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.

I) POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS

i) Measurement and initial recognition

The group issues investment contracts, as follows:

Without fixed benefits (investment-linked and structured products)

Fair value of these financial liabilities are dependent on the fair value of the underlying financial assets, derivatives and/or investment property and are designated at inception as at fair value through profit or loss. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration 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. The group's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a investment-linked financial liability is determined using the current unit price multiplied by the number of units attributed to the policyholder at the statement of financial position date. If an investment contract is subject to a put or surrender option exercisable at the reporting date, the fair value of the financial liability is never less than the amount payable on the put or surrender option.

With fixed and guaranteed benefits (term certain annuity).

Future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. Profit on initial recognition is amortised over the life of the contract.

ii) Service fees on investment management contracts and deferred revenue liability (DRL)

Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.

iii) Amounts received and claims incurred on investment management contracts

ACCOUNTING POLICIES - continued

I) POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS - (continued)

Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.

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

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed.

These costs are expensed when incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised over the expected life of the contract (10 – 16 years for linked annuities, one year for corporate investment business and five years for other investment contracts) taking into account all decrements, on a straight-line basis, as they represent the right to receive future management fees.

A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis. An impairment test is conducted annually at reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

J) PROPERTY AND EQUIPMENT

All property and equipment are initially recorded at cost. All owner occupied property and equipments stated at historical cost/fair value less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized 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 income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life applicable to the current and prior year

Buildings 25 - 30 years Equipment and motor vehicles 3-10 years Furniture and fittings 10 years

Asset residual values and their estimated useful lives are reviewed at each financial reporting date and adjusted if appropriate. 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 equipment are determined by reference to their carrying amounts and are included in the income statement.

Owner occupied Owner-occupied properties are stated at revalued amounts, being fair value at the date of valuation less subsequent accumulated depreciation for buildings and accumulated impairment losses.

The fair value adjustments on owner-occupied properties are recognised in OCI and accumulated in a revaluation reserve in equity to the extent that the accumulated adjustment is a surplus. Any accumulated deficits are recorded in profit or loss.

K) INTANGIBLE ASSETS

(i) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3 - 5 years). Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding three years). Intangible assets comprise capitalised software costs. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortized over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets, Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortized over their estimated useful lives.

(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.

ACCOUNTING POLICIES - continued

L) INVESTMENT PROPERTY - (continued)

L) INVESTMENT PROPERTY

Leasehold 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 are not occupied by any company in the group are classified as investment property under non-current assets. Investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are recorded in the profit and loss account.

The Group reclassifies investment property to property and equipment upon change in use of the building from commercial to owner occupied.

M) FINANCIAL ASSETS

The Group IFRS 9 retrospectively on 1 January 2018 with any adjustments recognised in the Group's opening 1 January 2018 retained surplus. Based on the transitional approach adopted, as permitted by IFRS 9, comparative financial results and disclosures were not restated. Accordingly, the Group's previously reported financial results up to 31 December 2017 are presented in accordance with the requirements of IAS 39 and for 2018, the financial instruments are presented in terms of IFRS 9. The impact of this is that 2017 classification, measurement and disclosures remain under IAS 39. For ease of reference, the accounting policies include reference to IFRS 9 and IAS 39. For noting, IFRS 9 did not change initial recognition, derecognition, offsetting or the fair values of financial instruments at fair value (IFRS 13).

As permitted under IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

i) Financial assets under IFRS 9

Financial assets are classified and measured based on the business model and nature of cash flows associated with the instrument as follows:

- Amortised cost

A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):

i. Within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows.
ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.

Subsequent to initial measurement, the financial assets are measured at amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges.

Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate. Interest income is shown as a separate line on the face of the income statement (combined with interest income on financial assets held at fair value through OCI)

- Fair value through other comprehensive income (OCI)

Upon adoption of IFRS 9, the Group has no equity instruments that have been elected to be measured at fair value through other comprehensive income.

A debt instrument that meets both the following conditions (other than those designated at fair value through profit or loss):

i. Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and
ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.

Subsequent to initial measurement, the financial assets are measured at fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to fair value adjustments on financial instruments.

Interest income on debt financial assets is recognised in interest income in terms of the effective interest method. Interest income from these assets is shown as a separate line on the face of the statement of profit or loss (combined with interest from financial assets held at amortised cost).

- Held for trading

Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Subsequent to initial measurement, the financial assets are measured at fair value, with gains and losses arising from changes in fair value recognised in fair value adjustments.

- Designated at fair value through profit or loss

Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise.

Subsequent to initial measurement, the financial assets are measured at fair value, with fair value gains and losses (including interest and dividends) on financial assets are recognised in the income statement as part of fair value gains or losses on financial instruments.

- Fair value through profit or loss (default)

Financial assets that are not classified into one of the above mentioned financial asset categories; and/ or where the business model is that performance is assessed on a fair value basis.

ACCOUNTING POLICIES - continued

M) FINANCIAL ASSETS - (continued)

Fair value gains and losses on the financial asset are recognised in the income statement as part of fair value gains or losses on financial instruments.

Impairment

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI and financial guarantee contracts that are not designated at fair value through profit or loss.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. A significant change in credit risk (SICR) is when there is a material change in the probability of default, since origination. The measurement basis ofthe ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.,

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • Default: A financial asset is considered to be in default when there is objective evidence of impairment. Exposures which are overdue for more than 90 days are also considered to be in default. • Significant financial difficulty of borrower and/or modification. • Probability of bankruptcy or financial reorganisation. • Disappearance of an active market due to financial difficulties.

ECLs are recognised as a deduction from the gross carrying amount of the asset. Therefore assets subject to ECLs are disclosed on a net basis, in the statement of financial position. The gross ECLs are disclosed in the note.

Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

Cash and cash equivalents

Cash and cash equivalents comprise:

- balance with banks
- highly liquid short-term funds on deposit; and
- cash on hand

Instruments included in this category are those with an initial term of three months or less from the acquisition date. It does not include money market securities held for investment. Cash and cash equivalents are classified at amortised cost. Due to the short-term nature of cash and cash equivalents, the amortised cost approximates fair value.

Prepayments and other receivables

Prepayments and other receivables are initially measured at fair value through profit or loss, with subsequent measurement or at amortised cost. Amortised cost balances are subject to ECL impairment testing. The Group has elected to apply the simplified approach for trade receivables that do not contain a significant financing component, contract assets and lease receivables. This means that the entity assesses lifetime losses on day one, and does not have to do the three stage testing as per the general ECL calculation.

ii) Financial assets under IAS 39

Under IAS 39, financial assets within the Group were classified either as:

- Fair value through profit or loss being financial assets held-for-trading, financial assets held for hedging and designated at fair value through profit or loss at inception; or
- Loans and receivables, measured at amortised cost.

The Group and Company classified its financial assets into the following categories: financial assets at fair value through profit or loss;
Loans, advances and receivables; cash and cash equivalent and held-to-maturity financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

In general, financial assets within the Group were designated on initial recognition as at fair value through profit or loss, in line with the group's strategy to manage financial investments acquired to match its insurance and investment contract liabilities. In addition, shareholders' equity is invested under a formal capital management strategy that actively measures performance on a fair value basis. Interest income and dividends received on financial assets at fair value through profit or loss were recognised separately as investment income. Financial assets carried at amortised cost were subjected to IAS 39's incurred loss impairment model.

Reclassification (IFRS 9 and IAS 39)

Reclassifications of financial assets under IFRS 9 are permitted when, and only when, the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified. Under IAS 39, financial assets could only be reclassified in rare circumstances.

Derecognition (IFRS 9 and IAS 39)

Financial assets are derecognised when the contractual rights to receive cash flows from the investments have expired or on trade date when they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

ii) Financial liabilities under IFRS 9

Financial liabilities include financial liabilities under investment

ACCOUNTING POLICIES - continued

M) FINANCIAL ASSETS - (continued)

contracts, third-party financial liabilities arising on consolidation of mutual funds, financial liabilities, liabilities held for trading and for hedging, repurchase agreements liabilities and collateral deposits payable and other payables.

Financial liabilities are classified and measured as follows:

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value if in doing so it would eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis.
Amortised cost	All other financial liabilities not included in the above categories
Held-for-trading	Fair value, with gains and losses arising from changes in fair value recognised in fair value adjustments on financial instruments..
Designated at fair value through profit or loss	• Fair value, with gains and losses arising from changes in fair value (including finance costs but excluding fair value gains and losses attributable to own credit risk) recognised in the fair value adjustments on financial instruments. • Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within profit or loss.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense

Other payables

Other payables are initially measured at fair value through profit or loss, with subsequent measurement either at fair value through profit or loss (default) or at amortised cost, depending on the business model assessment.

Financial liabilities under IAS 39

Financial liabilities under IAS 39 were either held for trading liabilities at fair value through profit or loss, financial liabilities designated at fair value through profit or loss, or classified at amortised cost. Under IAS 39, finance costs for financial liabilities designated at fair value through profit or loss were separated from the fair value movement.

Reclassification – a financial liability may not be reclassified.

Derecognition (IFRS 9 and IAS 39) – financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Inter-company loans (IFRS 9 and IAS 39)

Based on an assessment of the business model and contractual cash flows under IFRS 9, in the company financial statements, inter-company loans (being financial instruments) are classified at amortised cost. Under IAS 39, they were designated on initial recognition at fair value through profit or loss. Inter-company balances are callable on demand.

ACCOUNTING POLICIES - continued

M) FINANCIAL ASSETS - (continued)

Effect on the classification of financial assets and financial liabilities on application of IFRS 9
The following table shows the original classification and carrying amount under IAS 39, and the new carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018

Financial assets	Original classification under IAS 39	New carried classification under IFRS 9	Original carrying carried amount under IAS 39 loss	New carrying amount under IFRS 9	Difference through equity	Difference through profit or
Equity instruments						
Listed equities	Designated FVPL	FVTPL	4,027,495	4,027,495	-	-
Debt instruments						
Treasury bonds HTM	Amortised cost	FVTPL	3,035,042	2,924,334	-	(110,708)
Treasury Bonds FV	Designated FVPL	FVTPL	8,763,581	8,763,581	-	-
Treasury bills	Designated FVPL	FVTPL	5,389,228	5,389,228	-	-
Corporate Bonds	Designated FVPL	FVTPL	181,881	181,881	-	-
	Amortised cost	FVTPL	1,629,501	1,598,348	-	(31,153)
Loans and receivables						
Policy Loans	Amortised cost	Amortised cost	1,096,368	1,096,368	-	-
Staff loans	Amortised cost	Amortised cost	144,373	140,272	(4,101)	-
Mortgage loans	Amortised cost	Amortised cost	687,811	659,388	(28,423)	-
Prepayments and other receivables						
Prepayments and other receivables	Amortised cost	Amortised cost	723,773	723,773	-	-
Insurance and reinsurance receivables	Amortised cost	Amortised cost	1,577,080	1,511,533	(65,547)	-
Cash and cash equivalents						
Cash at bank and on hand	Amortised cost	Amortised cost	610,775	610,775	-	-
Short-term cash deposits	Amortised cost	Amortised cost	3,078,731	3,078,731	-	-
Financial Liabilities						
Other payables	DesignatedFVPL	Amortised cost	692,937	692,937	-	-
Policyholder liabilitiies under investments contracts	DesignatedFVPL	FVTPL	8,926,121	8,926,121	-	-
		Total			(98,071)	(141,861)

ACCOUNTING POLICIES - continued

N) LEASES

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to income on a Straight line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total term of the lease.

O) 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 func 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 recognized as an expense accrual is only reassessed if there is a change in the entity's activities.

P) TAXATION

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the relevant tax legislation.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of financial assets and financial liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the 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, it is not accounted for.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the financial reporting date and are expected to apply when the related deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.
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.

Q) DIVIDENDS

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

R) 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.

i) Impairment of goodwill

The Group tests annually whether goodwill was impaired 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.

ii) 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.

iii) 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

ACCOUNTING POLICIES - continued

1.3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES - (continued)

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.

iv) Investments at amortised cost

Subsequent to initial measurement, the Group measures certain financial assets at amortised cost using the effective interest method with interest recognized in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalized and amortised through interest income as part of the effective interest rate. Interest income is shown as a separate line on the face of the income statement.

v) Impairment of receivables

The Group recognizes expected credit losses (ECL) on debt financial assets classified as amortised cost. The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. A significant change in credit risk (SICR) is when there is a material change in the probability of default, since origination.

vi) 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.

vii) 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 Bonehuetter Fergusson (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 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,

a) 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 'or 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.

b) 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.

c) 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.

d) Correlation

No correlations between assumptions are allowed for.

vii) Classification and measurement of financial instruments

IFRS 9 requires an entity to assess its business model to determine the classification of financial assets. A business model refers to how an entity manages its financial assets in order to generate cash flows. Management applies judgement to determine the level at which the business model assessment is applied.

Within each type of business, portfolios of financial assets have different business models and each financial asset has been assessed individually in terms of IFRS 9.

Where applicable, debt instruments that back policyholder liabilities are designated as at fair value through profit or loss as permitted by IFRS 9, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities on a different basis.

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

Includesinsurancebusinessofanyclassorclassesnotbeinglong 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 (continued)

2. SEGMENTAL REPORTING (continued)

RESULTS BY BUSINESS UNITS

	31 December 2018		
	Long term business Shs '000	Short term business Shs '000	Total Shs '000
Net insurance premium revenue	2,601,340	3,707,886	6,309,226
Commissions earned	122,407	721,608	844,015
Investment income	113,569	42,346	155,915
Interest income on financial assets held at amortised cost	227,555	188,197	415,752
Fair value /gain on sale financial investments	1,207,100	364,404	1,571,504
Administration fees	15,638	-	15,638
Total income	4,287,609	5,024,441	9,312,050
Net insurance benefits and claims	(2,302,053)	(1,891,448)	(4,193,501)
Total expenses and commissions	(1,511,618)	(2,681,975)	(4,193,593)
Results of operating activities	473,938	451,018	924,956
Profit before income tax	473,938	451,018	924,956
Income tax expense	(165,468)	(209,962)	(375,430)
Profit for the year	308,470	241,056	549,526
Total assets	23,702,935	12,876,104	36,579,039
Property and equipment	807,939	410,673	1,218,612
Intangible assets	117,048	51,529	168,577
Investment property	760,855	-	760,855
Financial investments	18,446,952	4,009,851	22,456,803
Reinsurers' share of insurance liabilities	76,172	2,625,589	2,701,761
Other assets	3,493,969	5,778,462	9,272,431
Total liabilities	20,959,275	8,000,625	28,959,900
Insurance contract liabilities	3,190,991	3,452,303	6,643,294
Policyholder liabilities under investment contracts	9,892,067	-	9,892,067
Investment contracts with discretionary participation features	5,860,977	-	5,860,977
Unearned premium reserves	207,894	2,846,218	3,054,112
Other Liabilities	1,807,346	1,702,104	3,509,450
Additions to property and equipment	82,134	12,026	94,160
Additions to intangible assets	50,153	28,142	78,295

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SEGMENTAL REPORTING (continued)

RESULTS BY BUSINESS UNITS (continued)

	31 December 2017		
	Long term business Shs '000	Short term business Shs '000	Total Shs '000
Net insurance premium revenue	2,679,678	3,651,071	6,330,749
Commissions earned	130,825	834,634	965,459
Investment income	2,522,083	567,867	3,089,950
Administration fees	14,641	-	14,641
Loss on sale of subsidiary	-	(10,549)	(10,549)
Other income	-	33,242	33,242
Total income	5,347,227	5,076,265	10,423,492
Net insurance benefits and claims	(3,221,826)	(1,760,883)	(4,982,709)
Total expenses and commissions	(1,512,680)	(2,823,833)	(4,336,513)
Results of operating activities	612,721	491,549	1,104,270
Income tax expense	(209,438)	(220,259)	(429,697)
Profit for the year	403,283	271,290	674,573
Total assets	24,774,822	12,564,150	37,338,972
Property and equipment	823,990	427,329	1,251,319
Intangible assets	111,146	39,216	150,362
Investment property	876,434	-	876,434
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	5,410,054	7,698,845
Total liabilities	21,972,166	7,873,241	29,845,407
Insurance contract liabilities	3,357,462	2,823,724	6,181,186
Investment contracts with discretionary paticipatory features	7,833,598	-	7,833,598
Unearned premium reserves	89,016	2,918,386	3,007,402
Other liabilities	10,692,090	2,131,131	12,823,221
Additions to property and equipment	90,612	34,214	124,826
Additions to intangible assets	62,384	31,626	94,010

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SEGMENTAL REPORTING (continued)

RESULTS BY GEOGRAPHICAL SPREAD

	31 December 2018		
	Kenya business Shs '000	Tanzania business Shs '000	Total Shs '000
Net insurance premium revenue	5,747,544	561,682	6,309,226
Commissions earned	646,921	197,094	844,015
Investment income	114,781	26,013	140,794
Intrest income on financial assets held at armotised cost	340,677	75,075	415,752
Fair value gain/(Loss) on sale of financial instruments	1,549,720	36,905	1,586,625
Administartion fees	15,638	-	15,638
	2,667,737	335,087	3,002,824
Total income	8,415,281	896,769	9,312,050
Net insurance benefits and claims	(3,975,738)	(217,763)	(4,193,501)
Total expenses and commissions	(3,717,221)	(476,372)	(4,193,593)
Results of operating activities	722,322	202,634	924,956
Profit before income tax	722,322	202,634	924,956
Income tax expense	(312,333)	(63,097)	(375,430)
Profit for the year	409,989	139,537	549,526
Total assets	33,908,349	2,670,690	36,579,039
Property and equipment	1,218,176	436	1,218,612
Intangible assets	148,898	19,679	168,577
Investment property	760,855	-	760,855
Financial investments	22,226,594	230,209	22,456,803
Reinsurers' share of insurance liabilities	1,818,522	883,239	2,701,761
Other assets	7,735,304	1,537,127	9,272,431
Total liabilities	26,972,145	1,987,755	28,959,900
Insurance contract liabilities	5,933,949	709,345	6,643,294
Policy holder liabilities under investment contracts	9,892,067	-	9,892,067
Investment contracts with discretionary paticipatory features	5,860,977	-	5,860,977
Un earned premium reserves	2,471,044	583,068	3,054,112
Other liabilities	2,814,108	695,342	3,509,450
Additions to property and equipment	89,783	4,377	94,160
Additions to intangible assets	57,955	20,340	78,295

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SEGMENTAL REPORTING (continued)

RESULTS BY GEOGRAPHICAL SPREAD (continued)

	31 December 2017 (Restated)		
	Kenya business Shs '000	Tanzania business Shs '000	Total Shs '000
Net insurance premium revenue	5,777,679	553,070	6,330,749
Commissions earned	779,301	186,158	965,459
Investment income	2,979,932	110,018	3,089,950
Administration fees	14,641	-	14,641
Other income	4,507	18,186	22,693
	3,778,381	314,362	4,092,743
Total income	9,556,060	867,432	10,423,492
Net insurance benefits and claims	(4,723,186)	(259,523)	(4,982,709)
Total expenses and commissions	(3,806,053)	(530,460)	(4,336,513)
Results of operating activities	1,026,821	77,449	1,104,270
Income tax expense	(404,204)	(25,493)	(429,697)
Profit for the year	622,617	51,956	674,573
Total assets	34,718,548	2,620,424	37,338,972
Property and equipment	1,226,770	24,549	1,251,319
Intangible assets	148,536	1,826	150,362
Investment property	876,434	-	876,434
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	6,114,120	1,584,725	7,698,845
Total liabilities	27,124,671	2,720,736	29,845,407
Insurance contract liabilities	5,540,322	640,864	6,181,186
Investment contracts with discretionary paticipatory features	7,833,598	-	7,833,598
Unearned premium reserves	2,444,781	562,621	3,007,402
Other liabilities	11,305,970	1,517,251	12,823,221
Additions to property and equipment	102,794	22,032	124,826
Additions to intangible assets	92,184	1,826	94,010

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Liberty Kenya Holdings Plc (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 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. Liberty Kenya Holdings participates in the broader Liberty Group Enterprise Risk Management framework and aligns risk policy to the group guidelines

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, rise loan funding or sell assets to reduce debt.

Capital and gearing ratio

	2018 Shs '000	2017 Shs '000
Due from Group companies	-	-
Due (to) Group companies	(16,923)	(362,008)
Net borrowings	23,066	19,243
Less: Cash and cash equivalents	(10,659)	(17,349)
Net debt	12,407	1,894
Total equity	2,542,211	2,838,532
Gearing ratio	0.49%	0.07%

ii) Group

The Board of Directors of 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)
b) CAPITAL MANAGMENT (CONTINUED)
ii) GROUP - (CONTINUED)

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;

	Kenya 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 Insurance 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 and 30 June 2020 respectively.

The Kenyan Insurance Regulatory Authority (IRA) has set the minimum required capital adequacy ratio of 200% and above by 30 June 2020.

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 400 million by 30 June 2018 and 30 June 2020 respectively.

The Tanzanian Insurance Act, 2009, requires each insurance Company to hold the minimum level of paid up capital of Tshs 2,197 million for the year ended 31 December 2018

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 billion. This was well in excess of the minimum requirement.

iv) SOLVENCY MARGIN

The solvency margins of the subsidiaries as at 31 December 2018 and 31 December 2017 are set out below.

The regulator's model for determining minimum solvency requirments uses the minimum capital requirment projected as at 30 June 2020.

Liberty Life Assurance Kenya Limited

	Long-term business 2018 Shs '000	Long-term business 2017 Shs '000
Risk Category		
Credit Risk Capital	539,529	565,736
Market Risk Capital	623,012	507,623
Insurance Risk Capital	203,277	199,913
Operational Risk Capital	254,657	235,782
Risk Based Capital	1,103,513	1,021,723
Total Capital Available	2,351,894	2,333,684
Absolute amount Minimum	400,000	400,000
Volume of Business Minimum	924,806	970,169
Risk Based Capital Minimum	1,103,513	1,021,723
Minimum Required Capital	1,103,513	1,021,723
Solvency Ratio	213%	228%

Heritage Insurance Company Kenya Limited

	Short-term business 2018 Shs '000	Short-term business 2017 Shs '000
Risk Category		
Credit Risk Capital	859,429	859,429
Market Risk Capital	89,080	116,783
Insurance Risk Capital	338,065	314,233
Operational Risk Capital	255,551	276,749
Risk Based Capital	1,107,389	1,199,245
Total Capital Available	2,746,386	2,797,808
Absolute amount Minimum	600,000	600,000
Volume of Business Minimum	619,600	612,485
Risk Based Capital Minimum	1,107,389	1,199,245
Minimum Required Capital	1,107,389	1,199,245
Capital Adequacy Ratio	248%	233%

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)
b) CAPITAL MANAGMENT (CONTINUED)
iv) SOLVENCY MARGIN (continued)

Heritage Insurance Company Tanzania Limited

	Short-term business 2018 Shs '000	Short-term business 2017 Shs '000
Total Admitted assets	1,558,651	1,540,800
Total Admitted liabilities	1,015,525	1,148,905
Net written current period	548,352	522,356
Add: the greater of Tshs 1,131 million (Shs 50 million) or 20% of net written premium	109,670	104,471
Total liabilities and minimum requirement	1,125,195	1,253,376
Solvency Margin	433,456	287,424

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.

With the exception of sovereign risk, 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 at the operating subsidiary level.

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.

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.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD

	CREDIT QUALITY	GROUP		COMPANY	
		2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Financial investments		22,456,803	24,983,002	-	-
Receivables arising from reinsurance	Group 2	161,224	764,875	-	-
Receivables arising from direct insurance	See analysis below	824,923	925,690	-	-
Reinsurers' share of insurance liabilities	Group 2	2,701,761	2,379,010	-	-
Other receivables	Group 2	276,682	783,548	-	-
Cash and bank balances	Group 2	6,240,923	3,689,506	10,659	17,349
		32,662,316	33,525,631	10,659	17,349

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)

c) CREDIT RISK DEFINITION (CONTINUED)

	GROUP	
	2018 Shs '000	2017 Shs '000
Policyholders Insurance contracts		
Outstanding premium receivables within contract boundary-measured at amortised cost	824,923	925,690
Reinsurance recoveries and deposits	161,224	764,875
Prepayments and other receivables at fair value through profit or loss (default)		
Other receivables	276,682	783,548
Total prepayments, insurance and other receivables	**1,262,829**	**2,474,113**

Upon adoption of IFRS 9, all insurance reinsurance and other receivables need to be disclosed per measurement choice. All above balances are current i.e. inflows of economic benefits are expected to occur within one year.

The group applies the simplified approach to providing for expected credit losses on amortised cost measured financial instruments as prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for all trade receivables

	ECL rate %	Group Gross carrying amount	Shs '000 Impairment allowance	Net carrying amount
Current	0%	824,923	-	824,923
1-30 days past due	100%	23,470	(23,470)	-
31-60 days past due	100%	10,029	(10,029)	-
61-90 days past due	100%	5,800	(5,800)	-
more than 90 days past due	100%	387,601	(387,601)	-
	34%	1,251,823	(426,900)	824,923

Movement in impairment losses on Insurance receivables

	Group 2018 KShs '000	2017 Kshs '000
Insurance contracts	**1,251,823**	**1,372,091**
Opening impairment loss allowance - Under IAS 39	(446,401)	(239,833)
Bad debts written off	101,733	
Charge to profit or loss	(16,686)	(206,568)
IFRS 9 transition adjustment	(65,546)	
Provision for impairment loss allowance - Closing	**(426,900)**	**(446,401)**
Receivable arising out of reinsurance arrangements - Net	**824,923**	**925,690**

Write off policy for premium receivables

Balances due from agents and brokers and Direct clients are written off when there is no reasonable expectation of recovery. The write-off of these amounts is dictated by the Kenyan Revenue Authority's minimum requirements for write-off. Conditions for write-off are that;

1) a debt shall be considered to have become bad if it is proved to the satisfaction of the commissioner to have become uncollectable after all reasonable steps have been taken to collect it.
2) A debt shall only be consider uncollectable where the creditor losses the contractual right through a court order, no form of security or collateral is realisable whether partially or in full, the securities or collateral have been been realised but the process fail to cover the entire debt, the debtor is adjudged insolvent or bankrupt by a court of law and the cost of recovering the debt exceeds the debt itself.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)

d) OPERATION RISK DEFINITION - (CONTINUED)

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.

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 high demand of specialist technical skills 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 access to cash in the Group.

This might arise in circumstances where the Group's assets are not

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)

e) LIQUIDITY RISK DEFINITION - (CONTINUED)

marketable, or can only be realised at excessive cost. The principal risk relating to liquidity comprises the Group's exposure to policyholder behaviour.

OWNERSHIP AND ACCOUNTABILITY

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

LIQUIDITY PROFILE OF ASSETS

The Group's assets are liquid however given the quantum of investments held relative to the volumes of trading, asubstantial 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 2018 Liabilities	1 - 3 months Shs '000	3 - 12 months Shs '000	1 - 5 years Shs '000	Over 5 years Shs '000	Total Shs '000
Insurance contract liabilities	1,539,161	832,838	2,406,969	11,756,393	16,535,361
Investment contracts with DPF		(28,245)	1,080,115	4,809,107	5,860,977
Creditors arising from reinsurance	47,032	626,531	-	-	673,563
Creditors arising from direct insurance		552,382	-	-	552,382
Other payables	908,226	162,149	-	-	1,070,375
-					
Total financial liabilities	2,494,419	2,145,655	3,487,084	16,565,500	24,692,658
Assets					
Other receivables	276,682	-	-	-	276,682
Reinsurers' share of insurance liabilities	-	2,701,761	-	-	2,701,761
Receivables arising from reinsurance	161,224	-	-	-	161,224
Financial investment	8,087,592	2,276,942	4,973,228	7,119,041	22,456,803
Receivable arising from direct insurance	805,217	19,706	-	-	824,923
Cash and cash equivalents	6,240,923	-	-	-	6,240,923
Total financial assets	15,571,638	4,998,409	4,973,228	7,119,041	32,662,316
Net liquidity gap	13,077,219	2,852,754	1,486,144	(9,446,459)	7,969,658

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)

e) LIQUIDITY RISK DEFINITION - (CONTINUED)

As at 31 December 2017 (Restated) Liabilities	1 - 3 months Shs '000	3 - 12 months Shs '000	1 - 5 years Shs '000	Over 5 years Shs '000	Total Shs '000
Insurance contract liabilities	1,482,714	508,466	1,891,085	11,225,042	15,107,307
Investment contracts with DPF	-	(32,547)	1,244,687	6,621,458	7,833,598
Creditors arising from reinsurance	86,926	755,146	-	-	842,072
Creditors arising from direct	-	585,119	-	-	585,119
Other payables	688,841	659,437	-	-	1,348,278
Total financial liabilities	2,258,481	2,475,621	3,135,772	17,846,500	25,716,374
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 investments	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	5,747,314	1,808,840	(9,382,763)	7,809,257

Policyholder insurance 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 2018	Less than 1 year Shs '000	Over 1 year Shs '000	Total Shs '000
Due to group companies (note 32 g (ii))	16,923	-	16,923
	16,923	-	16,923

At 31 December 2017	Less than 1 year Shs '000	Over 1 year Shs '000	Total Shs '000
Due to group companies (note 32 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)
e) LIQUIDITY RISK DEFINITION - (CONTINUED)
CAPITAL REQUIREMENTS - (CONTINUED)

f) MARKET RISK DEFINITION

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

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

The key components of market risk are as follows:

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

RISK IDENTIFICATION, ASSESSMENT AND MEASUREMENT

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

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

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

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 2018, 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 176,297,000 (31 December 2017: Shs 212,437,356). 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 are accounted for at fair value and their carrying amounts are sensitive to changes in the level of interest rates.

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 2018, the Group had an equivalent of Shs 12.9 Million (2017: Shs. 11.1 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.

Experience shows that the larger the portfolio of similar insurance

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)

g) INSURANCE RISK DEFINITION - (CONTINUED)

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.

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
- 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 most 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-

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)

i) MORTALITY AND MORBIDITY RISK - (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)

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 2018 (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	1,257,474	21,028,517	9,058,062	31,344,053
	Net	1,105,756	18,684,151	7,621,662	27,411,569
Motor	Gross	41,595,907	23,459,110	376,930	65,431,947
	Net	35,145,653	22,082,271	171,397	57,399,321
Fire	Gross	27,271,566	96,155,200	632,774,218	756,200,987
	Net	26,983,208	79,239,445	32,466,335	138,688,988
Other	Gross	28,374,464	167,584,491	592,950,266	788,909,221
	Net	23,622,387	69,677,542	197,886,995	291,186,924
Total	Gross	98,499,411	308,227,318	1,235,159,476	1,641,886,208
	Net	86,857,004	189,683,409	238,146,389	514,686,802
Life insurance business					
Ordinary life	Gross	38,362,013	535,248	-	38,897,261
	Net	37,707,439	-	-	37,707,439
Annuity	Gross	29,950	-	-	29,950
	Net	29,950	-	-	29,950
Group life	Gross	252,933,982	56,802,220	2,317,593	312,053,795
	Net	175,715,577	-	-	175,715,577
Total	Gross	291,325,945	57,337,468	2,317,593	350,981,006
	Net	213,452,966	-	-	213,452,966
Year ended 31 December 2017 (Shs'000)					
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	769,960,473	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	-	-	-	-
	Net	-	-	-	-
Group life	Gross	56,684,824	128,547,316	-	185,232,140
	Net	46,315,603	-	-	46,315,603
Total	Gross	93,503,627	129,061,034	-	222,564,661
	Net	82,506,259	-	-	82,506,259

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. MANAGMENT OF INSURANCE AND FINANCIAL RISK - (CONTINUED)

n) FAIR VALUE HIERARCHY

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 and amortised cost at 31 December 2018 and 31 December 2017.

31 December 2018	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	3,525,935	-	-	3,525,935
Unquoted shares	-	-	40,071	40,071
Government securities and bonds	-	15,958,070	-	15,958,070
Corporate bonds	-	1,115,792		1,115,792
	3,525,935	17,073,862	40,071	20,639,868
Financial assets measured at amortised cost				
Loans and receivables	-	1,816,935	-	1,816,935
	3,525,935	18,890,797	40,071	22,456,803
Other Assets measured at Fair value				
Investment Property	-	-	760,855	760,855
Non-current assets held for sale and assets of disposal	-	-	125,000	125,000
Owner occupied property	-	-	1,060,673	1,060,673
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
	4,027,495	14,152,809	27,722	18,208,026
Held to maturity				
Government Securities	-	4,846,424	-	4,846,424
Financial assets measured at amortised Costs				
Loans and receivables		1,928,552		1,928,552
	4,027,495	20,927,785	27,722	24,983,002
Other Assets measured at Fair value				
Investment Property	-	-	876,434	876,434
Owner occupied Property	-	-	1,140,042	1,140,042

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. GROSS EARNED PREMIUM REVENUE

	GROUP	
	2018	2017 (Restated)
Short-term Insurance	Shs '000	Shs '000
Motor	1,767,323	1,776,848
Fire	1,471,088	1,564,863
Accident	2,222,488	2,163,690
Medical	1,766,749	1,906,988
Marine	195,662	172,513
	7,423,310	7,584,902
Long-term Insurance		
Group life	882,852	846,292
Others	1,911,441	2,062,366
	2,794,293	2,908,658
Gross earned premium revenue	10,217,603	10,493,560

5. INVESTMENT INCOME

	GROUP		COMPANY	
	2018	2017	2018	2017
	Shs '000	Shs '000	Shs '000	Shs '000
Interest income	-	2,395,395	-	-
Dividends from listed equities	-	115,463	-	-
Dividends from subsidiaries	-	-	800,699	-
Dividends from unlisted equities	-	4,449	-	-
Fair value gain on investment property	15,121	-	-	-
Rental income from investment properties	98,448	123,640	-	-
Sundry income/(Loss)	42,346	(204,075)	-	-
5.1 Investment income	155,915	2,434,872	800,699	-

6. INTEREST INCOME AND FAIR VALUE GAINS

Interest income on financial assets held at armotised cost	176,534	167,699	-	-
Interest income on cash and cash equivalents	239,218	-	-	-
6.1 Interest income on financial assets held at amortised cost	415,752	167,699	-	-
6.2 Fair value gain on financial investments	1,571,504	520,621	-	-

The Group earned interest income of shs 276,105,000 (2017: Shs 2,520,967,000) and dividend and rental income of shs 250,263,000 (2017:Shs 243,804,000) in the year.
The Company's dividend income was Shs 800 million (2017:nil) from the subsidiaries in the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. LOSS ON DISPOSAL OF SUBSIDIARY/IMPAIRMENT OF SUBSIDARY

	GROUP		COMPANY	
	2018	2017	2018	2017
	Shs '000	Shs '000	Shs '000	Shs '000
Proceeds on disposal	-	95,000	-	-
Net assets transfered	-	(60,164)	-	-
Loan ceded to aquirer	-	(39,736)	-	-
Cost of investment	-	(5,649)	-	-
Impairment in subsidiary*	-	-	(630,792)	-
	-	(10,549)	(630,792)	-

In 2017 the Group disposed of one of its subsidiaries namely Azali Limited.

*Since the restructuring of the Group in 2008, the carrying value of CfC Investments in Liberty Kenya Holdings books was reflected at deemed value. The Group however continued to eliminate the difference between the carrying value and net asset value through equity on consolidation in light of the subsidiary no longer having a substantial operations. In the year, the company made a permanent adjustment to reflect the investment in the subsidiary at net asset value. This adjustment has no impact in the Group Consolidated results.

8. CLAIMS AND POLICY HOLDER BENEFITS

	GROUP	
	2018	2017
		(Restated)
Short-term Insurance	Shs '000	Shs '000
Motor	1,097,865	1,001,788
Fire	349,516	518,993
Personal accident & Medical	1,302,975	1,299,625
	2,750,356	2,820,406
Long-term Insurance		
Death, maturity and surrender benefits	1,600,889	2,625,013
Others	954,776	645,607
	2,555,665	3,270,620
Total claims and policyholder benefits	5,306,021	6,091,026
Change in insurance contract Liabilities	689,723	663,247

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2018	2017 (Restated)	2018	2017
	Shs '000	Shs '000	Shs '000	Shs '000
Staff costs (Note 10)	1,392,010	1,416,316	79,633	77,672
Severance pay (Note 10)	-	(94,560)	-	-
Directors' fees	20,204	15,428	4,350	3,547
Auditors remuneration	23,172	25,392	3,201	3,075
Depreciation (Note 18)	55,494	95,772	-	-
Amortization of intangible assets (Note 20)	60,080	41,206	-	-
Advertising	235,120	188,514	3,194	2,695
Legal and other professional fees	91,489	9,464	-	(7,617)
Impairment charge for doubtful receivables	5,503	282,341	-	-
Operating lease rental - land and buildings	198,744	184,226	-	-
Repairs and maintenance	56,906	58,349	-	
Communication expenses	31,956	25,525	2	2
Office expenses	61,518	40,221	5,978	5,957
Transfer pricing	180,369	172,740	-	-
Premium tax, stamp duty and collection charges	112,525	116,764	-	-
System costs	59,171	44,859	-	-
Agency expenses	249,659	276,411	-	-
Training expenses	14,504	27,198	-	-
Sponsorships and awards	31,626	15,172	-	-
Others	147,459	223,273	102,128	103,496
	3,027,509	3,164,611	198,343	188,827

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. STAFF COSTS

	GROUP		COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Employee benefits expense includes the following:				
Salaries and wages	1,075,491	1,032,952	79,633	77,672
Social security benefits costs	58,453	52,476	-	-
Retirement benefits costs	35,088	30,749	-	-
Other staff emoluments	109,724	106,940	-	-
Annual staff bonus	24,277	116,978	-	-
Group life and medical	88,977	76,221	-	-
Sub total	1,392,010	1,416,316	79,633	77,672
Severance pay	-	(94,560)	-	-
	1,392,010	1,321,756	79,633	77,672

The number of persons employed by the Group at the end of the year was 326 (2017;327). Out of the 326 members of staff employed by Liberty Kenya Holdings Plc at 31 December 2018, 178 are male and 148 are female. The group also had an average of 38 employees in management and 288 in non-management (2016: management 32, non-management 307)

11. INVESTMENT IN SUBSIDIARIES

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:

		COMPANY			
Name of company	Country of incorporation	Beneficial ownership 2018	Beneficial ownership 2017	Shs '000 Carrying amount 2018	Shs '000 Carrying amount 2017
Liberty Life Assurance Kenya Limited	Kenya	100%	100%	1,826,254	1,826,254
The Heritage Insurance Company (K) Limited	Kenya	100%	100%	741,287	741,287
The Heritage Insurance Company (T) Limited	Tanzania	60%	60%	-	-
CfC Investments Limited*	Kenya	100%	100%	4,000	634,792
				2,571,541	3,202,333

*Explanation on note 7

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. NON CONTROLLING INTEREST (NCI)

	Heritage Tanzania 2018	Heritage Tanzania 2017
NCI percentage	40%	40%
	Shs'000	Shs'000
Non-current assets	133,660	122,982
Current assets	2,556,789	2,498,503
Current liabilities	(1,987,833)	(1,892,611)
Net assets	702,615	728,874
Net assets atributable to NCI	281,046	291,550
Revenue	1,895,055	1,978,682
Total comprehensive income	139,534	51,956
Profit allocated to NCI	55,815	20,782
Foreign currency translation differences	(10,987)	(5,602)
Cashflow flows from operating activities	90,936	112,207
Cashflow flows from investing activities	67,320	(37,728)
Cashflow flows from financing activities	(55,332)	(55,556)

13. TAXATION

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

	GROUP	
	2018	2017
		Restated
	Shs '000	Shs '000
Profit before income tax	924,956	1,104,270
Tax at statutory tax rate of 30% (2017- 30%)	277,487	331,281
Tax effect of:		
Income not subjected to tax	50,609	(40,586)
Tax effect of Interest income	(1,293)	33,312
Prior year tax under/(over) provision	-	(25,814)
Expenses not deductible for tax purposes	48,627	132,232
Capital gains tax @5%	-	(728)
Income tax expense	375,430	429,697

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. INCOME TAX EXPENSE - (CONTINUED)

Income tax expense

	GROUP	
	2018	2017 (Restated)
	Shs '000	Shs '000
Current income tax	206,983	347,694
Deferred income tax (note 29(a), 29(b)	168,447	82,003
	375,430	429,697

Sources of taxation

	GROUP 2018			GROUP 2017		
	Kenyan normal taxation	Foreign normal taxation	Total	Kenyan normal taxation	Foreign normal taxation	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Current tax	130,829	76,154	206,983	292,580	55,114	347,694
Deferred tax	155,390	13,057	168,447	110,750	(28,747)	82,003
	286,219	89,211	375,430	403,330	26,367	429,697

NOTES TO THE FINANCIAL STATEMENTS (continued)

Tax recoverable/(payable) movement

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

	GROUP	
	2018	2017
	Shs '000	Shs '000
As at 1 January	(11,040)	9,956
Current tax charge for the year	(206,985)	(354,369)
Paid in the year	318,374	333,373
Tax on proposed dividend	(158,572)	-
As at 31 December	(58,223)	(11,040)
Comprising		
Tax recoverable	94,922	25,471
Tax payable	(153,145)	(36,511)
	(58,223)	(11,040)

14. SHARE CAPITAL

	GROUP		COMPANY	
	2018	2017	2018	2017
	Shs '000	Shs '000	Shs '000	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	1,490,480	1,490,480	1,490,480	1,490,480

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. REVENUE AND OTHER RESERVES

	GROUP		COMPANY	
	2018	2017 Restated	2018	2017
	Shs '000	Shs '000	Shs '000	Shs '000
Statutory reserve	1,760,461	1,819,343	-	-
Revaluation reserve	217,369	217,271	-	-
Currency translation reserve	(47,503)	(64,922)	-	-
Total other reserves	1,930,327	1,971,692	-	-
Revenue reserve	3,381,579	3,204,136	516,024	812,345
As at 31 December	5,311,906	5,175,828	516,024	812,345

Other reserves include fair value reserve arising from revaluation surplus on leasehold buildings and freehold land, which is a non- distributable reserve, and required statutory reserves. 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 ofsurpluses of the life business available for distribution to shareholders to 30% of the accumulated surplus of the life business year in one year . 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 (2017: 0.50).

16. GOODWILL

	GROUP	
Cost	2018	2017
	Shs '000	Shs '000
As at 1 January	1,254,995	1,254,995
As at 31 December	1,254,995	1,254,995

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. FINANCIAL INVESTMENTS

	GROUP	
	2018	2017
	Shs '000	Shs '000
Held-to-maturity (a)	-	4,846,424
At fair value through profit or loss (default) (b)	-	4,055,217
At fair value through profit or loss (designated) (b)	20,639,868	14,152,809
Held at amortised cost (c)	1,816,935	1,928,552
	22,456,803	24,983,002

a) Held-to-maturity

	GROUP	
	2018	2017
	Shs '000	Shs '000
Government securities	-	3,035,032
Corporate bonds	-	1,811,392
	-	4,846,424
Maturity analysis		
Maturity within 1 year	-	283,976
Maturity after 1 year but within 5 years	-	1,429,549
Maturity after 5 years but within 10 years	-	1,933,923
Maturity after 10 years	-	1,198,976
	-	4,846,424
Held-to-maturity movement analysis		
As at 1 January	4,846,424	5,474,556
Maturities	(181,881)	(628,132)
Reclasssification to fair value through profit or loss	(4,664,543)	-
As at 31 December	-	4,846,424

b) Fair value through profit or loss (designated)

Quoted shares (2017: default)	3,525,935	4,027,495
Unquoted shares (2017: default)	40,071	27,722
Government securities	15,958,070	14,152,809
Corporate bonds	1,115,792	-
As at end of year	20,639,868	18,208,026

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. FINANCIAL INVESTMENTS - continued

b) Fair value financial assets (continued)

	GROUP	
	2018	2017
	Shs '000	Shs '000
I) QUOTED SHARES		
As at start of year	4,027,495	5,842,424
Additions	1,003,967	1,380,335
Disposals	(887,712)	(3,652,113)
Net fair value gains	(614,162)	458,840
Currency translation	(3,653)	(1,991)
As at end of year	3,525,935	4,027,495
II) UNQUOTED SHARES		
As at start of year	27,722	45,793
Net fair value gains/ losses	13,351	(17,181)
Currency translation	(1,002)	(890)
As at end of year	40,071	27,722
III) GOVERNMENT SECURITIES AND CORPORATE BONDS		
At start of year	14,152,809	8,621,164
Reclassification from held to maturity	4,664,543	-
Additions	12,076,481	12,300,724
Disposals	(13,746,102)	(6,900,782)
Fair value gains/ (loss)	(4,648)	50,600
Accrued interest	-	85,108
Fair value loss	(62,500)	-
Currency translation	(6,721)	(4,005)
As at end of year	17,073,862	14,152,809

As at 31 December 2018, Liberty Life Assurance Kenya Limited had a total of Shs 1,235,600,000 (2017: Shs 1,185,600,000) of government securities held under lien in favour of Insurance Regulatory Authority as prescribed by the Insurance Act section 32 (1(a)).

As at 31 December 2018, Heritage Insurance Kenya Company Limited had a total of Shs 550 million (2017: Shs 450 million) of government securities held under lien in favour of Insurance Regulatory Authority, as prescribed by the insurance Act section 32.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. FINANCIAL INVESTMENTS - continued

c) Held at amortised cost

	GROUP	
	2018	2017
	Shs '000	Shs '000
Mortgage loans (a)	605,567	687,811
Policy loans (b)	1,085,812	1,096,368
Other loans and deposits maturing after 90 days	125,556	144,373
	1,816,935	1,928,552
At start of the year	1,928,552	1,912,604
Loan advanced	212,982	1,155,123
Loan repayment	(291,782)	(1,139,175)
IFRS 9 transition adjustment	(32,817)	-
	1,816,935	1,928,552

a) Mortgage loans offered to staff members as a benefit which are collateralised. Liberty Kenya Holdings Plc have the first right to recover mortgage deductions from employment income: and

b) Policy loans are to existing policyholders. These are advanced to policyholders and secured against the insurance contract value. The balances are collateralised given that the contract is surrendered automatically as soon as the loan value equates to the contract value. The proceeds from surrender value is applied to pay off the loan.

The group applied IFRS 9 at 1 January 2018 and comparatives have not been restated. Under IFRS 9, loss allowances for loan receivables are measured under the general expected credit loss impairment model.

The risk of default occurring over the expected life of the financial instrument has not increased significantly during the year for the year ended 31 December 2018, any expected impairment losses would therefore be recognised under the 12 months expected credit loss. The mortgage loans and policy loans are assessed to have a low expected credit loss impairment as they have a low risk of default. The borrower has a high probability of meeting cash flow obligations due to the loans being recovered either directly From staff salaries or being limited to the surrender value of policyholder investments respectively. The expected credit impairment loss was immaterial as at 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. PROPERTY AND EQUIPMENT

GROUP	2018 Cost or revaluation Shs '000	2018 Accumulated depreciation Shs '000	2018 Carrying value Shs '000	2017 Cost or revaluation Shs '000	2017 Accumulated depreciation Shs '000	2017 Carrying value Shs '000
Leasehold land and buildings (Owner occupied)	1,136,672	(75,999)	1,060,673	1,607,042	(467,000)	1,140,042
Motor vehicles	58,527	(44,141)	14,386	50,294	(35,637)	14,657
Furniture and equipment	925,625	(820,704)	104,921	522,287	(471,374)	50,913
Computer equipment	205,768	(167,136)	38,632	202,122	(156,415)	45,707
Total	2,326,592	(1,107,980)	1,218,612	2,381,745	(1,130,426)	1,251,319

Reconciliation of property, plant and equipment - Group - 2018

	Opening Balance as previously reported statements Shs'000	Re-statement Shs'000	As at 1 Jan 2018 (Restated) Shs'000	Additions Shs'000	Disposals Shs'000	Re-valua-tions Shs'000	Re-class-cation Shs'000	Currency adjust ment disposals Shs'000	Cumm-ulated on ciation-disposals Shs'000	De-pre-ciation Shs'000	As at 31 Dec 2018 Shs'000
Leasehold land and buildings	984,976	155,066	1,140,042	-	(9,857)	14,879	(77,829)	-	4,245	(10,807)	1,060,673
Motor vehicles	14,657		14,657	4,200	(324)	-	-	(39)	324	(4,432)	14,386
Furniture and equipment	50,913		50,913	80,950	(2,435)	-	-	(848)	511	(24,170)	104,921
Computer equipment	45,707		45,707	9,010	-	-	-	-		(16,085)	38,632
	1,096,253	155,066	1,251,319	94,160	(12,616)	14,879	(77,829)	(887)	5,080	(55,494)	1,218,612

Reconciliation of property, plant and equipment - Group - 2017

	Opening Balance as previously reported Shs '000	Restate-ment Shs '000	As at January 2017 (Restated) Shs '000	Additions Shs '000	Disposals Shs '000	Revolutions Shs '000	Currency adjustment Shs '000	Depreciation Shs '000	As at 31 Decr 2017 (Restated) Shs '000
Leasehold land and buildings	895,370	147,137	1,042,507	45,637	(18,523)	85,429	-	(15,008)	1,140,042
Motor vehicles	10,759		10,759	14,446	(3,860)	-	(41)	(6,647)	14,657
Furniture and equipment	157,011		157,011	40,170	(82,784)	-	(1,000)	(62,484)	50,913
Computer equipment	32,966		32,966	24,573	(159)	-	(40)	(11,633)	45,707
	1,096,106	147,137	1,243,243	124,826	(105,326)	85,429	(1,081)	(95,772)	1,251,319

The valuation details of leasehold land and buildings (owner occupied) is disclosed in note 19.

Included in property and equipment as at 31 December 2018 are fully depreciated assets with a cost of Shs 1,158,591,036 (31 December 2017 - Shs 840,907,016). The notional annual depreciation charge on these assets would have been Shs 171,430,767 (2017 - Shs 144,177,168).

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. INVESTMENT PROPERTY

GROUP	2018 Cost / Valuation Shs '000	Accumulated depreciation Shs '000	Carrying value Shs '000	2017 Cost / Valuation Shs '000	Accumulated depreciation Shs '000	(Restated) Carrying value Shs '000
Investment property	760,855	-	760,855	876,434	-	876,434

Reconciliation of investment property - Group - 2018

	Opening Balance as previously reported Shs '000	Restatements Shs '000	As at 1 January 2018 (Restated) Shs '000	Re-classification Shs '000	Classified as held for sale* Shs '000	Fair value adjustment adjustment Shs '000	As at 31 December 2018 2018 Shs '000
Investment property	751,500	124,934	876,434	77,829	(125,000)	(68,408)	760,855

Reconciliation of investment property - Group - 2017

	Opening Balance as previously reported Shs '000	Restatements Shs '000	As at 1 January 2017 (Restated) Shs '000	Fair value adjustment Shs '000	As at 31 December 2017 (Restated) Shs '000
Investment property	789,763	117,863	907,626	(31,192)	876,434

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 2018. 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 valuation is performed on an annual basis and the fair value gains and losses are recognized 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 2018 amounted to Shs 98,447,771 (2017: Shs 136,675,259 million). Direct operating expenses arising on the investment property amounted to Shs 51,009,865 (2017: Shs 53,321,545).

***See Note 33**

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. INTANGIBLE ASSETS - COMPUTER SOFTWARE

GROUP	2018			2017		
	Cost Shs '000	Accumulated amortisation Shs '000	Carrying value Shs '000	Cost Shs '000	Accumulated amortisation Shs '000	Carrying value Shs '000
Intangible assets	618,730	(450,153)	168,577	483,596	(333,234)	150,362

Reconciliation of Intangible assets Group - 2018

	Opening balance Shs '000	Additions Shs '000	Amortisation Shs '000	Total Shs '000
Intangible assets	150,362	78,295	(60,080)	168,577

Reconciliation of Intangible assets Group - 2017

Intangible assets	98,323	94,010	(41,971)	150,362

21. REINSURERS' SHARES OF INSURANCE LIABILITIES

	GROUP	
	2018 Shs '000	2017 Shs '000
Reinsurers' share of:		
Unearned premium	1,389,164	1,555,234
Notified claims outstanding	1,142,828	671,595
Claims incurred but not reported	169,769	152,181
	2,701,761	2,379,010

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 (AT AMORTISED COST)

	GROUP		COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Cash at bank and in hand	665,637	610,775	10,659	17,349
Deposits with financial institutions	5,575,286	3,078,731	-	-
Cash and cash equivalents	6,240,923	3,689,506	10,659	17,349

23 (a) INSURANCE CONTRACT LIABILITIES

	GROUP	
	2018	2017 (Restated)
Short-term insurance contracts:	Shs'000	Shs'000
Reported claims and claims handling expenses	2,797,727	2,238,853
Claims incurred but not reported	654,576	584,869
Long term insurance contracts:		
Reported claims and claims handling expenses	306,745	319,583
Actuarial value of long term liabilities	2,884,246	3,037,881
	6,643,294	6,181,186

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. INSURANCE CONTRACT LIABILITIES (CONTINUED)

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. 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.

The latest valuation of IBNR was carried out by Ernest and Young as at December 2018.

Estimates of ultimate claims costs:	2012 Shs '000	2013 Shs '000	2014 Shs '000	2015 Shs '000	2016 Shs '000	2017 Shs '000	2018 Shs '000	Total Shs '000
At end of accidentyear	1,623,945	5,828,579	2,273,029	2,463,166	2,132,356	2,385,798	2,766,250	19,473,123
One year later	1,319,366	4,698,076	2,045,829	1,689,170	1,784,938	2,439,809	-	13,977,188
Two years later	1,302,839	4,768,065	1,714,325	1,807,849	2,750,600	-	-	12,343,678
Three years later	1,308,475	1,198,137	1,726,494	2,276,340	-	-	-	6,509,446
Four years later	1,036,404	1,178,225	1,554,076	-	-	-	-	3,768,705
Five years later	1,018,560	1,740,907	-	-	-	-	-	2,759,467
Six years later	1,430,391	-	-	-	-	-	-	1,430,391
Current estimate of cumulative claims	1,430,391	1,740,907	1,554,076	2,276,340	2,750,600	2,439,809	2,766,250	14,958,373
Less: cumulative payments to date	(1,391,472)	(1,585,377)	(1,459,688)	(2,097,707)	(2,412,741)	(1,782,164)	(1,539,835)	(12,358,984)
Liability in the statement of financial position	38,919	155,530	94,388	178,633	337,859	567,645	1,226,415	2,599,389
Liability in respect of prior years								198,338
Incurred but not reported								654,576
Total gross claims liability included in the statement of financial position	38,919	155,530	94,388	178,633	337,859	567,645	1,226,415	3,452,303

NOTES TO THE FINANCIAL STATEMENTS (continued)

23(b) POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACT

b) Long term insurance contracts	GROUP	
Long term insurance contracts	Shs'000	Shs'000
Policyholder liabilities under investment contracts	9,892,067	8,926,121
	9,892,067	8,926,121

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 2018 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 2018 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 2018 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 2018 was 7.28% p.a. (2017: 12.11% p.a.) and the average over the last three years was 9.78% 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 9.3% (2017: 9.8%) was assumed.

iv) Withdrawals

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. LONGTERM LIABILITIES

i) 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:

	2018 Shs '000	% Change	2017 Shs '000	% Change
Main basis	18,637,290	- %	19,621,662	- %
Expenses plus 10%	18,756,569	0.6%	19,733,492	0.6%
Mortality and other claim experience plus 10%	18,682,020	0.1%	19,631,726	0.1%
Interest rate less1%	18,706,248	0.4%	19,692,784	0.4%
Expense inflation plus 1%	18,668,974	0.2%	19,660,116	0.2%
Withdrawals plus 10%	18,641,018	(0.1)%	19,601,300	(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.

ii) The table below shows a reconciliation between the IRA (Insurance Regulatory Authority) statutory basis and the (yield curve + 20% risk margin) current basis (point estimate) used by Liberty Life Assurance Kenya Limited.

	Point Estimate (Yield curve) Shs '000	Statutory Shs '000	Difference Shs '000
Retail life	6,594,493	6,816,543	222,050
Lifevest	3,251,454	3,258,515	7,061
Group life	151,094	151,094	-
	9,997,041	10,226,152,	229,111
Deposit and administration	8,640,249	8,601,766	(38,483)
	18,637,290	18,827,918	190,628

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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. INVESTMENT CONTRACTS WITH DISCRETION PATICIPATORY FEATURES

	GROUP	
	2018	2017
	2018	Restated
	Shs '000	Shs '000
As at 1 January	7,833,598	10,367,517
Pension fund deposit received	503,268	730,841
Surrenders and annuities paid	(2,315,746)	(2,182,309)
Interest payable to policyholders	381,716	869,288
Gross Premiums Valuation liabilities adjustment	(541,859)	(1,951,739)
As at 31 December	5,860,977	7,833,598

26. 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	
	2018	2017
	Shs' 000	Shs' 000
As at 1 January	3,007,402	3,026,221
Net movement in the year	67,046	(10,367)
Currency adjustment	(20,336)	(8,452)
As at 31 December	3,054,112	3,007,402

27. OTHER RECEIVABLES

	GROUP		COMPANY	
	2018 Shs '000	2017 Shs '000	2018 Shs '000	2017 Shs '000
Amounts due from related parties (Note 32 (g) (i))	3,300	7,094	-	-
Prepayments	169,145	333,438	-	-
Operating lease receivables	-	17,046	-	-
Other receivables	104,237	425,970	-	101
	276,682	783,548	-	101

28 OTHER LIABILITIES

Amounts due to related companies (Note 32 (g) (ii))	10,315	37,984	16,923	362,008
Accrued expenses	415,663	251,523	23,066	19,243
Other liabilities	644,397	1,058,771	-	-
	1,070,375	1,348,278	39,989	381,251

29. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. CONTINGENT LIABILITIES AND COMMITMENTS - continued

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	
	2018	2017
	Shs '000	Shs '000
As Lessee		
Not later than 1 year	30,287	140,081
Later than 1 year and not later than 5 years	227,824	201,300
	258,111	341,381

During the Year Shs 198,744,000 (2017: Shs 184,226,000) was recognised in profit or loss with respect to operating or loss with respect to operating leases.

30. 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:

a) Deferred tax asset

	GROUP	
	2018	2017
	Shs '000	Shs '000
As at start of year	228,172	131,175
(Charged)/credit to profit or loss	(36,099)	96,997
Charge to equity	29,421	-
As at end of year	221,494	228,172

b) Deferred tax liability

	GROUP	
	2018	2017
	Shs '000	Shs '000
As at 1 January	1,085,120	906,120
(Credit)/ charge to profit or loss	132,348	172,325
Charges to OCI	1,086	6,675
Tax on proposed dividend	(158,570)	-
As at 31 December	1,059,984	1,085,120

2018	1 January 2018	Credit/ (Charge) to profit or loss	Credit/(Charge) (Charge) to equity	31 December 2018
	Shs '000	Shs '000	Shs '000	Shs '000
Property and equipment	21,905	1,817	-	23,722
Other provisions	225,556	(35,643)	-	189,913
Fair value gains	(24,801)	-	-	(24,801)
Currency translation	5,512	(2,273)	-	3,239
IFRS 9 transition adjustment	-	-	29,421	29,421

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. DEFERRED INCOME TAX - continued

Net deferred tax asset	228,172	(36,099)	29,421	221,494
2017				
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

31. CASH GENERATED FROM OPERATIONS

		GROUP		COMPANY	
		2018	2017	2018	2017
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax		924,956	1,104,270	(28,466)	(188,827)
Adjustments for:					
Interest income	6	(276,105)	(2,520,967)	-	-
Depreciation	18	55,494	95,772	-	-
Amortisation of intangible assets	20	60,080	41,971	-	-
Revaluation gain on building on leasehold land	18	(14,879)	(85,429)	-	-
Fair value loss on investment property	19	68,408	31,192	-	-
Dividend and rental income		(250,263)	(243,804)	-	-
Loss on disposal of subsidiary	7	-	10,549	-	-
Gain on sale of financial investments		667,959	(492,259)	-	-
Impairment in subsidiary	7	-	-	630,792	-
Changes in working capital:					
Technical provisions		(820,608)	509,293	-	-
Insurance and other payables		(479,149)	764,832	(341,262)	193,892
Insurance and other receivables - net of IFRS 9 transition		1,067,533	(64,864)	101	(101)
		1,003,427	(849,444)	261,165	4,964

32. 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:

a) Gross premiums written	GROUP	
	2018	2017
	Shs '000	Shs '000
Stanbic Bank Limited	339,049	347,625
STANLIB Kenya Limited	14,469	12,240
	353,518	359,865

b) Claims incurred

	2018	2017
Stanbic Bank Limited	92,921	175,524
	92,921	175,524

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. RELATED PARTIES - continued

	GROUP		COMPANY	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
c) Rental income				
Rent received from:				
Stanbic Bank Limited	(559)	(393)	-	-
STANLIB Kenya Limited	(10,012)	(10,181)	-	-
	(10,571)	(10,574)		
d) Interest income				
Stanbic Bank Limited	27,464	20,137	-	-
	27,464	20,137	-	-
e) Dividend income				
The Heritage Insurance Company Kenya Limited	-	-	328,000	-
Liberty Life Assurance Kenya Limited	-	-	370,000	-
The CfC investment Limited	-	-	102,669	-
	-	-	800,669	-
f) Investment management expenses				
STANLIB Kenya Limited	66,836	48,408	-	-
	66,836	48,408	-	-

g) Financial investments	GROUP		COMPANY	
i) Amounts due from	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
STANLIB Kenya Limited	-	4,023	-	-
Liberty General Assurance Uganda Limited	-	386	-	-
Liberty Life Assurance Uganda Limited	1,751	2,137	-	-
Charter Insurance Company Malawi Limited	1,549	548	-	-
	3,300	7,094	-	-
ii) Amounts due to				
Stanbic Bank Limited	359	342	-	-
Liberty Life Assurance Kenya Limited	-	-	52	212,248
CfC Investments Limited	-	-	4,000	106,669
The Heritage Insurance Company Kenya Limited	-	-	12,871	43,091
STANLIB Kenya Limited	3,807	7,778	-	-
Liberty Holdings Limited	6,149	29,864	-	-
	10,315	37,984	16,923	362,008

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. RELATED PARTIES - continued

h) Financial investments

	GROUP		COMPANY	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Stanbic Bank Limited balances and deposits	931,714	449,619	-	-
Stanbic Bank Limited corporate bonds	84,018	85,920	-	-
Stanbic Kenya Holdings Plc equity investments	27,847	32,984	-	-
STANLIB Fahari I-Reit	190,275	188,606	-	-
	1,233,854	757,129	-	-

Director's remuneration

i) Key managment compensation	122,261	221,718	96,795	96,516
ii) Fees for services as a non-executive director	25,241	23,755	4,350	3,547
	147,502	245,473	101,145	100,063

33. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS OF DISPOSAL

The Group has decided not to continue holding Karen road property owned by Liberty Life Assurance Kenya Limited as investment property and therefore its classification changes to non-current assets held for sale. The following conditions have been met:

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active programme to locate a buyer is initiated
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

The decision was made by the Board of Directors to discontinue this operation due to Low return on investment.

	2018 Shs '000	2017 Shs '000
Assets and liabilities		
Non-current assets held for sale		
Investment property (Note 19)	125,000	-

34. DEFERRED ACQUISITION COSTS

	Short-term insurance business 2018 Shs '000	Long-term investment business 2018 Shs '000	Total 2018 Shs '000	Short-term insurance business 2017 Shs '000	Long-term investment business 2017 Shs '000	Total 2017 Shs '000
As at 1 January	8,999	17,589	26,588	7,723	15,012	22,735
Cost of new business acquired	36,674	35,594	72,268	8,999	17,589	26,588
Amortisation realised through profit or loss	(8,999)	(17,589)	(26,588)	(7,723)	(15,012)	(22,735)
As at 31 December	36,674	35,594	72,268	8,999	17,589	26,588

NOTES TO THE FINANCIAL STATEMENTS (continued)

35. RESTATEMENTS DURING THE YEAR

a) Accounting policy changes

i) Revaluation gains on owner-occupied properties and the adoption of shadow accounting

The Group has properties split between investment and owner occupied. The revaluation of owner-occupied property under IAS 16 is recognised directly in other comprehensive income. IFRS 4 Insurance Contracts allows, under certain circumstances, a concept called shadow accounting to be adopted. Shadow accounting is a practice that can be used to avoid, in limited cases, certain unintended mismatches in income statement, principally where the recognition of unrealised investment returns and any consequential changes to policyholder liabilities are not in sync.

IFRS 4 paragraph 30 explains shadow accounting as follows: "In some accounting models, realised gains or losses on an insurer's assets have a direct effect on the measurement of some of or all of (a) its insurance liabilities, (b) related deferred acquisition costs and (c) related intangible assets. An insurer is permitted but not required, to change its accounting policies so that a recognised but unrealised gain or loss on an asset affects those measurements in the same way that a realised gain or loss does. The related adjustment to the insurance liability shall be recognised in other comprehensive income if, and only if, the unrealised gains or losses are recognised in other comprehensive income. This practice is sometimes described as 'shadow accounting' ".

The mismatch occurs as the adjustment to policyholders' liabilities is included in the income statement. In 2018, the Group elected to adopt shadow accounting to correct the mismatch. The impact of this policy change has been accounted for retrospectively in line with IAS 8 Accounting policies, changes in accounting estimates and errors and is shown on the summary of adjustments below, and shown in the column "change in policy holder liabilities"

ii) Deferred tax

In 2013, one of the Group entities adopted the Group policy to recognise deferred income tax on the undistributed portion of the life fund surplus. Consequently, the Group did correct this but elected to adjust the consequential deferred tax directly within equity. It was noted that this is out of line with IAS 12 and thus the Group made the correction in 2018 to align with IAS 12. The impact has been accounted for retrospectively in line with IAS 8 Accounting policies, changes in accounting estimates and errors. The overall impact on the current and prior years statement of profit or loss and statement of financial position is shown on the summary of adjustments.

iii) Treatment of leasehold land

The Group has properties split between owner occupied and investments property that are erected on leasehold land with a long duration lease term. IAS 40 Investment Properties envisages this circumstance and allows for both the lease and accompanying improvements to be the unit of account for fair value purposes. The Group had however ignored the revaluation gains on leasehold land component and only accounts for the building component in the determination of fair value for accounting for owner occupied and investment properties. The Group thus decided to make the correction in 2018 to include leasehold land component in determining the fair value of the property in accordance with IAS 40. Thereafter, the property values should be pro rata split between investment and owner occupied property. The impact has been accounted for retrospectively in line with IAS 8 Accounting policies, changes in accounting estimates and errors.

b) Contracts reclassification

i) IFRS classification of deposit administration contract liabilities

The deposit administration liabilities are classified as investment contracts under IAS 39 Financial Instruments in the financial statements of Liberty Kenya Holdings plc (the parent company). These contracts do however have a discretionary participation feature (DPF) and should be classified as investment contracts with DPF, which are within the scope of IFRS 4 Insurance Contracts. The DPF feature entitles the holder to receive benefits or bonuses whose amount or timing is contractually at the discretion of the issuer. The impact of changing the classification is a presentation change as the contracts are valued largely on a similar basis. Contributions should be recognised in the income statement as premium income, rather than fair value adjustments/ gross premiums valuation liabilities adjustment. The impact has been accounted for retrospectively in line with IAS 8 Accounting policies, changes in accounting estimates and errors.

The impact of the above changes to the statement of financial position as at 31 December 2016 and 2017 and the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

NOTES TO THE FINANCIAL STATEMENTS (continued)

Statement of financial position

	As previously reported 2016 Shs'000	Re-classification of investment contracts with DPF Shs '000	GROUP Change in longterm policy holder liabilities Shs '000	Leasehold land revaluation Shs '000	Deferred Tax Shs '000	2016 (Restated) Shs'000
Total equity	6,753,641	-	(37,432)	148,952	(753)	6,864,408
REPRESENTED BY:						
Assets						
Property, plant and equipment	1,096,107	-	-	147,137	-	1,243,244
Investment property	789,763	-	-	117,863	-	907,626
Other assets	32,947,084	-	-	-	-	32,947,084
Total Assets	34,832,954	-	-	265,000	-	35,097,954
Liabilities						
Policyholder liabilities under investment contracts	16,373,419	(10,367,517)	53,475	52,211	-	6,111,588
Investment contracts with discretionary participation features		10,367,517	-		-	10,367,517
Deferred income tax	859,292	-	(16,043)	63,837	753	907,839
Other liabilities	10,846,602	-	-	-	-	10,846,602
Total Liabilities	28,079,313	-	37,432	116,048	753	28,233,546
Net assets	6,753,641	-	(37,432)	148,952	(753)	6,864,408

	As previously reported 2017 Shs'000	Re-classification of investment contracts with DPF Shs '000	GROUP Change in longterm policy holder liabilities Shs '000	Leasehold land revaluation Shs '000	Deferred Tax Shs '000	2017 (Restated) Shs'000
Total equity	7,428,570	-	(78,632)	151,477	(7,850)	7,493,565
REPRESENTED BY:						
Assets						
Property, plant and equipment	1,096,253	-	-	155,066	-	1,251,319
Investment property	751,500	-	-	124,934	-	876,434
Other assets	35,211,219	-	-	-	-	35,211,219
Total Assets	37,058,972	-	-	280,000	-	37,338,972
Liabilities						
Policyholder liabilities under investment contracts	16,583,783	(7,833,598)	112,332	63,604	-	8,926,121
Investment contracts with discretionary participation features		7,833,598	-	-	-	7,833,598
Deferred income tax	1,046,051	-	(33,700)	64,919	7,850	1,085,120
Other liabilities	12,000,568	-	-	-	-	12,000,568
Total Liabilities	29,630,402	-	78,632	128,523	7,850	29,845,407
Net assets	7,428,570	-	(78,632)	151,477	(7,850)	7,493,565

NOTES TO THE FINANCIAL STATEMENTS (continued)

Statement of profit or loss

	As previously reported 2017 Shs'000	Re-classification of policyholder liabilities with DPF Shs'000	Change in longterm policyholder liabilities Shs'000	Leasehold land Revaluation Shs'000	Deferred Tax (Restated) Shs'000	2017 Shs'000
Gross earned premium revenue	9,762,719	730,841	-	-	-	10,493,560
Less: Outward reinsurance	(4,162,811)	-	-	-	-	(4,162,811)
Net insurance premium revenue	5,599,908	730,841	-	-	-	6,330,749
Commissions earned	965,459	-	-	-	-	965,459
Investment income	2,427,801	-	-	7,071	-	2,434,872
Interest income on financial assets held at amortised cost	167,699	-	-	-	-	167,699
Fair value gain/(loss) on sale of financial investments	520,621	-	-	-	-	520,621
Administration Fees	14,641	-	-	-	-	14,641
Loss on disposal of subsidiary	(10,549)	-	-	-	-	(10,549)
	4,085,672	-	-	7,071	-	4,092,743
Total income	9,685,580	730,841	-	7,071	-	10,423,492
Claims and policyholder benefits	(5,354,815)	(730,841)	-	(5,370)	-	(6,091,026)
Change in insurance contracts	(663,247)	-	-	-	-	(663,247)
Amounts recoverable from reinsurers	1,771,564	-	-	-	-	1,771,564
Net insurance benefits and claims	(4,246,498)	(730,841)	-	(5,370)	-	(4,982,709)
Commissions payable	(1,171,902)	-	-	-	-	(1,171,902)
Other operating expenses	(3,164,611)	-	-	-	-	(3,164,611)
Total expenses and commissions	(4,336,513)	-	-	-	-	(4,336,513)
Profit (loss) before income tax	1,102,569	-	-	1,701	-	1,104,270
Income tax expense	(256,862)	-	-	(510)	(172,325)	(429,697)
Profit (loss) for the year	845,707	-	-	1,191	(172,325)	674,573
Profit (loss) attributable to:						
Owners of the parent	824,925	-	-	1,191	(172,325)	653,791
Non-controlling interests	20,782	-	-			20,782
	845,707	-	-	1,191.00	(172,325)	674,573

NOTES TO THE FINANCIAL STATEMENTS (continued)

Statement of other comprehensive income

	As previously reported 2017 Shs'000	Re-classification of policyholder liabilities with DPF Shs'000	Change in longterm policyholder liabilities Shs'000	Leasehold land Revaluation Shs'000	Deferred Tax (Restated) Shs'000	2017 Shs'000
Other Comprehensive income						
Profit (loss) for the year	845,707	-	-	1,191	(172,325)	674,573
Other Comprehensive income						
Items that will not be classified as profit or loss						
Gain on revaluation of owner occupied property	221,048	-	-	7,929	-	228,977
Recognition of deferred income tax on revaluation of owner occupied property	(48,184)	-	-	-	17,084	(31,100)
Change in in long term policyholder insurance liabilities (OCI) - effects of shadow accounting	-	-	(78,632)	-	-	(78,632)
Total Items that will not be classified as profit or loss	172,864	-	(78,632)	7,929	17,084	119,245
Items that may be classified as a profit or loss:						
Exchange differences on translating foreign operations	(4,244)	-	-	-	-	(4,244)
Other Comprehensive income for the year net of taxation	(4,244)	-	-	-	-	(4,244)
Total comprehensive income (loss)	1,014,327	-	(78,632)	9,120	(155,241)	789,574

36. SUBSEQUENT EVENTS

Since the publication of the results on 29th March 2019 the tax charge was amended to align to an updated tax calculation. This impacts the consolidated accounts as follows:-

Statement of profit & Loss	Audited Dec 2018	Published Dec 2018	Prev.Year Dec 2017
Profit before tax	924,956	924,956	1,104,270
Taxation	(375,430)	(316,534)	(429,697)
Profit after tax	549,526	608,422	674,573

The above results in related changes in the Statement of Financial Position, Statement of Changes in Equity and EPS. Notwithstanding the adjustment, the operating subsidiaries solvency levels remain strong and well above the Regulatory requirements.

SHAREHOLDING

SHAREHOLDING

i) Top ten shareholders	Number of shares held	Shareholding %
Liberty Holdings Limited - South Africa	309,333,535	57.74%
African Liaison and Consultant Services Limited	82,250,289	15.35%
Standard Chartered Kenya Nominees Ltd A/C KE22446	39,447,177	7.36%
Standard Chartered Kenya Nominees Non - Resd. A/C 9866	33,974,282	6.34%
Genghis Nominee A/C 029	26,700,00	4.98%
Stanbic Nominees Ltd A/C NR1031142	5,343,350	0.99%
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%
Peter Kingori Mwangi	2,087,969	0.39%
Co-op Custody A/c 4006	1,490,597	0.28%

ii) Distribution of shareholding	Number of shareholders	Number of shares held	Shareholding %
1 - 500	2,257	386,671	0.07%
501 - 1,000	589	434,523	0.08
1,001 - 5,000	1,020	2,233,783	0.42%
5,001 - 10,000	434	3,261,464	0.61%
10,001 - 50,000	316	5,997,228	1.12%
50,001 - 100,000	60	4,229,120	0.79%
100,001 - 500,000	29	5,508,423	1.03%
500,001 - 1,000,000	3	1,917,187	0.36%
1,000,001 - 999,999,999,999	11	511,739,100	95.52%
Total	4,719	535,707,499	100.00%

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

NOTES

Liberty Kenya Holdings Plc Head Office,
Liberty Life House, Mamlaka Road
P. O. Box 30364-00100, Nairobi, Kenya
t: +254 20 286 6000 f: +254 20 271 8365
e: libertylife@libertylife.co.ke w: www.libertykenya.co.ke