
Sanlam
{ we are Wealthsmiths™ }
Annual report
and financial
statements 2016

Sanlam

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Annual report and financial statements 2016

Sanlam

Vision, Mission and Values

Purpose (Mission)

Sanlam Kenya Plc is committed to help create a world worth living in and enable people to live the best possible life within it.

Vision

To be the leader in client-centric wealth creation, management and protection.

Core Values

- Lead with Courage and Serve with Pride
- Respect, Nurture and Care
- Act with Integrity and Accountability
- Guard our stakeholders' Trust
- Drive Innovation and Superior Performance

We are determined and resolute

For over 96 years we have been doing business with readiness, resolve and deep-rooted conviction. We are committed, resolute, determined and purposeful in what we do.

We are solid and sensible

We take pride in our solid nature - we choose functional over fancy and we don't do window dressing. When it comes to our customers, the sensible thing is the right thing.

We do it very, very well

We do what we do exceptionally well. Our approach is methodical and thorough, we take no shortcuts. It is the only way we know to show you the respect you deserve.

We do it for good

We desire to make a real and positive difference - to create lasting value that enables people live their best possible lives. Our work is never done and we do it for good.


{ we are Wealthsmiths™ }

We're in the business of helping people make the most of their money while delivering on sustainable and enduring value for our stakeholders. We believe diversification is key to our success because only when we embrace our differences and draw on our collective strengths, can we transform people's lives in a meaningful way. What drives us is we do it for good. What unites us is our job is never done. This is what makes us Wealthsmiths™.

Company information

Principal place of business

Sanlam House
1st Floor
Kenyatta Avenue
P.O Box 44041 - 00100
Nairobi

Registered office

LR No. 209/927
Sanlam House
1st Floor
Kenyatta Avenue
P.O. Box 44041 - 00100
Nairobi

Bankers

Barclays Bank of Kenya Limited
Barclays Plaza
P.O. Box 46661 - 00100
Nairobi

Standard Chartered Bank of Kenya Limited
Kenyatta Avenue
P.O. Box 30001 - 00100
Nairobi

Company secretary

Emma Wachira
Sanlam House
1st Floor
Kenyatta Avenue
P.O. Box 44041 - 00100
Nairobi

Independent auditor

PricewaterhouseCoopers
PwC Tower
Waiyaki Way
Westlands
P.O. Box 43963 - 00100
Nairobi

Legal advisers

Anjarwalla & Khanna Advocates
3rd floor, The Oval, Junction of Ring Road
Parklands & Jalaram Road Westlands,
Nairobi

Bowmans Coulson Harney LLP
5th Floor, ICEA Lion Centre, West Wing
Riverside Park, Chiromo Road
Nairobi.

Muriu Mungai & Company Advocates
MMC Arches, Spring Valley Crescent, Off Peponi Road, Westlands
Nairobi

Waruhiu & Company Advocates
International House 12th floor Mama Ngina Street,
Nairobi

Daly & Inamdar Advocates
ABC Towers 6th Floor, ABC Place, Waiyaki Way Westlands
Nairobi

Muchoki, Kangata, Njenga & Company Advocates
Finance House 6th Floor
Nairobi

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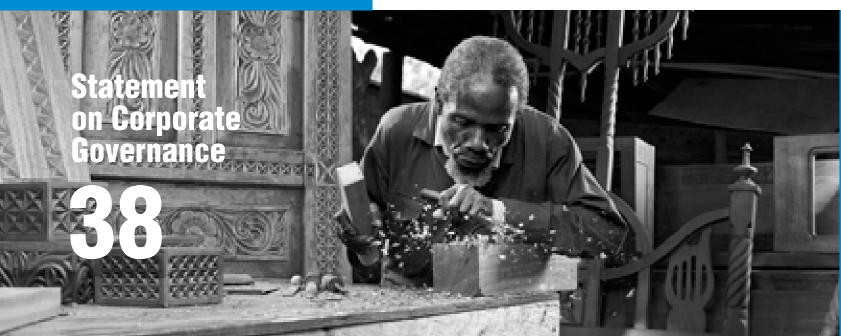


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1946
Pan Africa Insurance incorporated

1963
NSE Listing
First insurance company to be quoted

2001
Introduction of Life Insurance products for HIV+ persons

2010
Introduction of Funeral Insurance Cover in Kenya

Our journey so far

2013
Set up of Pan Africa Asset Management

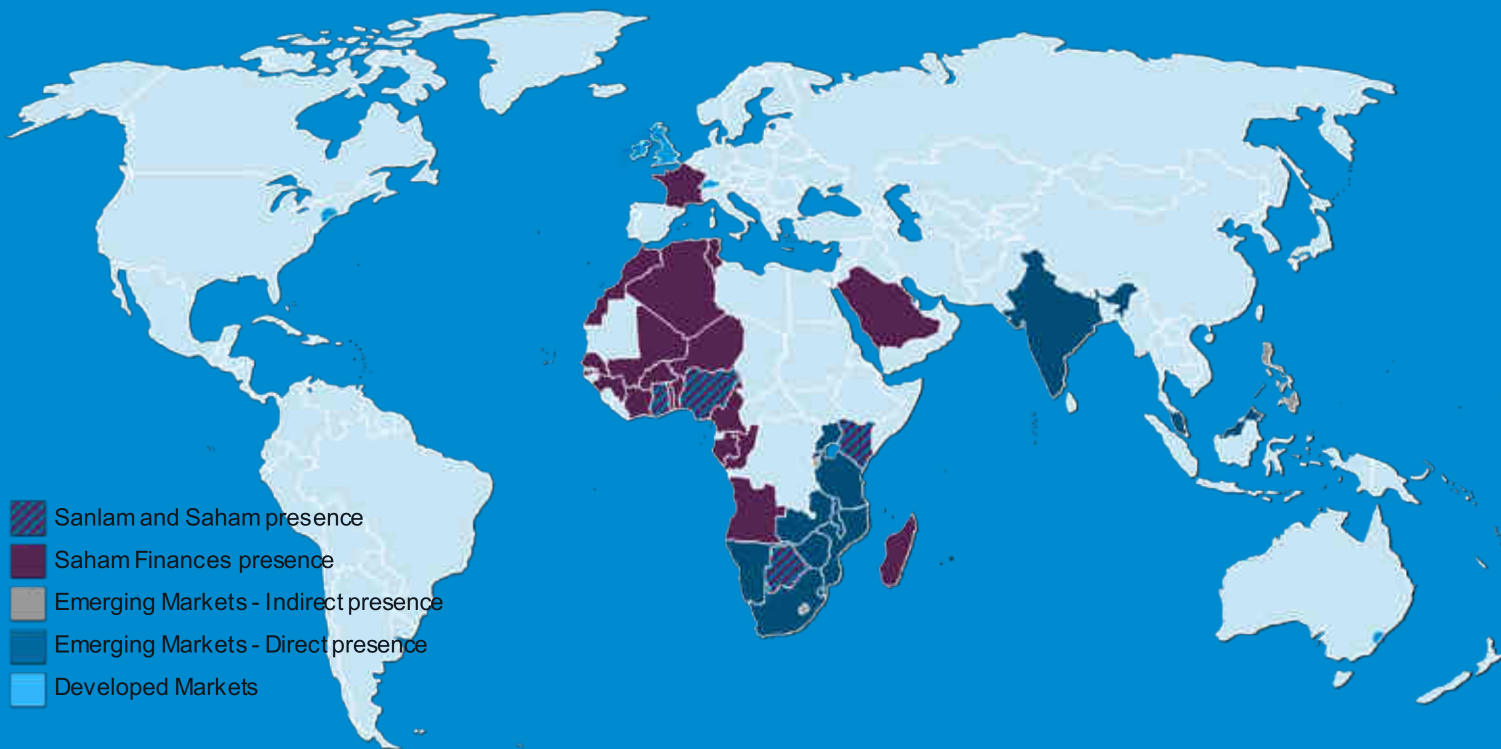
2014
Launched Retrenchment Cover

2015
Re-entry into General Insurance

2016
Rebrand to Sanlam Kenya Plc

Sanlam

Sanlam footprint



34
Countries in Africa

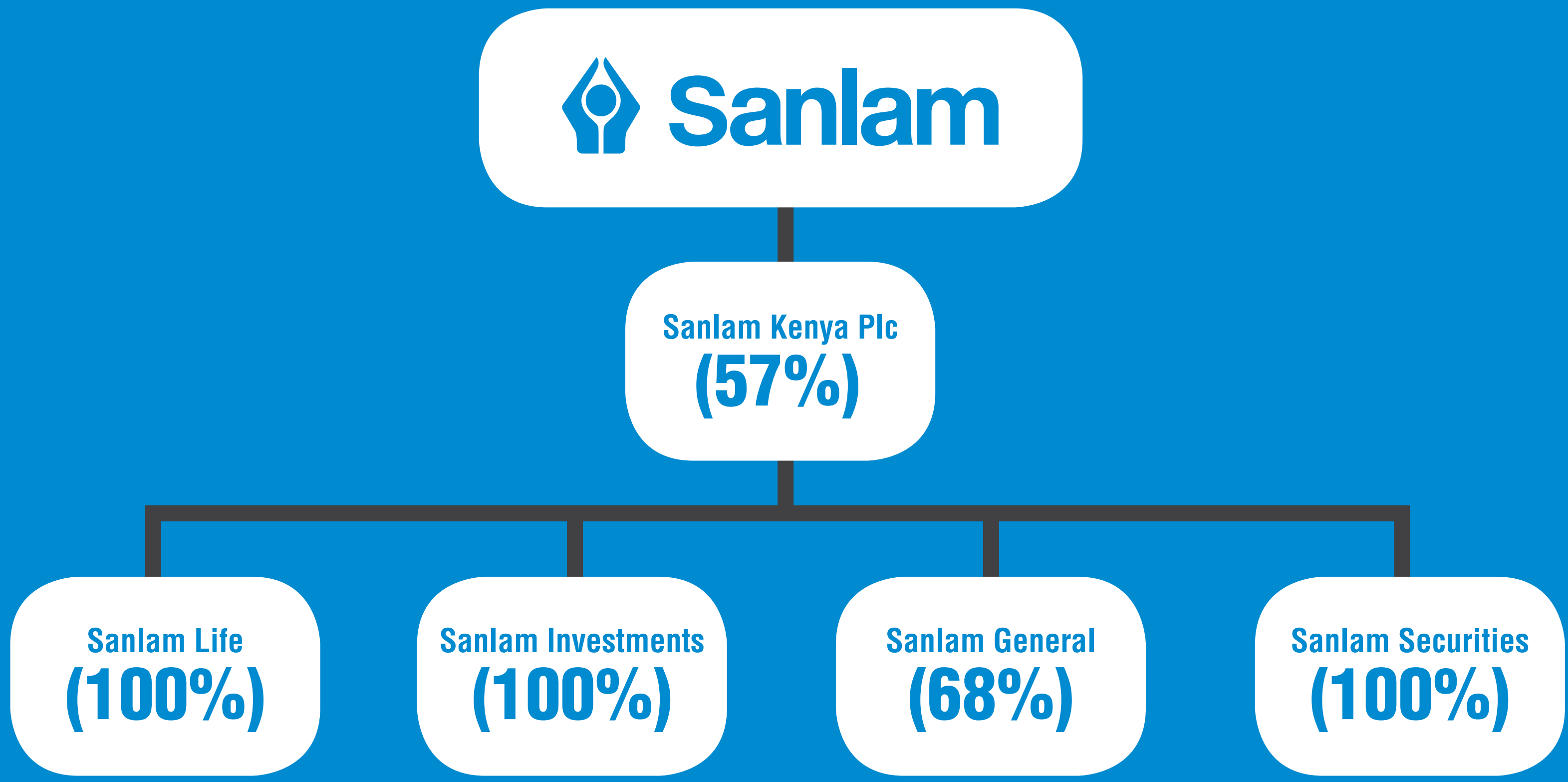
US $11 billion
Market capitalisation

75,930
Employees

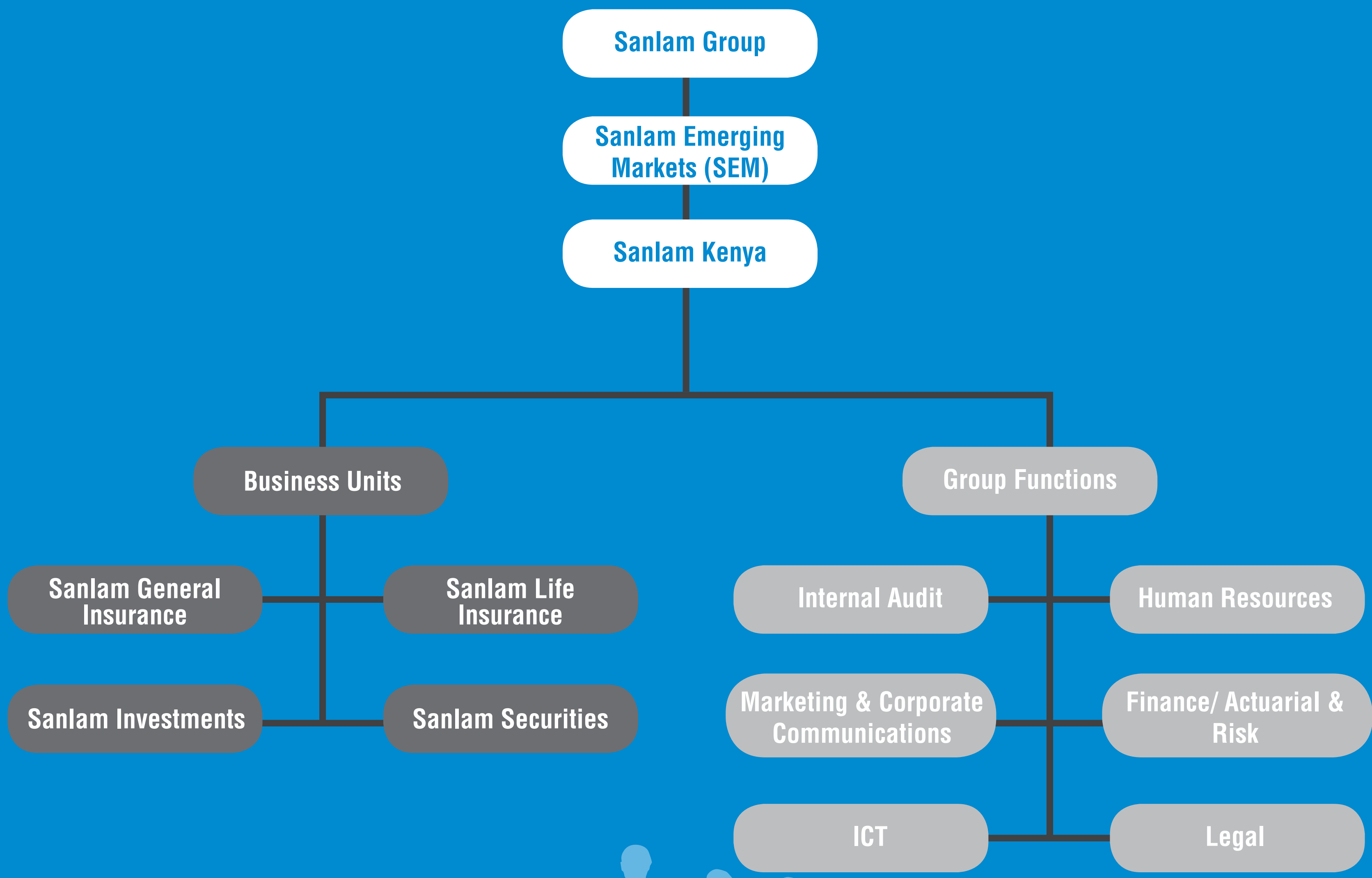
463,208
Shareholders

US $57.9 billion
Total AUM

Sanlam in Kenya



Sanlam Kenya Plc structure



2016 Highlights

- Roll out of new strategy
- Successful rebranding to Sanlam
- Integration and restructuring of the general insurance business
- Attained stability of the Life Administration system
- Diversified into new customer segments and partnerships
- Restructured agency distribution, enhanced key intermediary and bancassurance relationships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16.12.15

Sanlam Tower

18
storeys

140,000
square feet of office space

- Panoramic views
- Natural lighting and reduced glare
- Green building
- Occupation sensors to reduce electricity consumption
- 400 parking bays
- State of the art security

Sanlam

Kshs 317mn
Profit before tax

Kshs 5,225mn
Gross Premium Income

Kshs 2,519mn
Group Investment Income

Five year group review

	2012	2013	2014	2015	2016
	KShs.m	KShs.m	KShs.m	KShs.m	KShs.m
Statement of profit or loss:					
Operating profit before tax and share of associate	833	1,514	1,150	51	317
Profit / (Loss) attributed to shareholders	600	1,253	871	(62)	90
Insurance business:					
Gross premium income	5,441	5,324	5,247	5,182	5,225
Net premium income	5,126	5,102	4,991	4,797	4,832
Net benefits and claims paid	5,521	5,274	5,054	4,257	4,478
Statement of financial position:					
Total equity	2,373	3,338	3,778	3,802	3,932
Long term policy liabilities	11,902	14,938	17,446	19,667	18,943
Share capital	480	480	480	720	720
Total assets	16,474	21,158	24,599	27,109	28,442
Key indicators:					
	KShs.	**KShs.**	**KShs.**	**KShs.**	**KShs.**
Basic earnings per share	6	13	6.05	(0.43)	0.63
Dividends per share	3	4.5	-	-	-
Dividends (KShs. m)	288	432	-	-	-
Market capitalisation at year end (KShs. m)	3,864	8,640	11,520	8,640	3,996
Group share prices at the NSE:					
Annual High	45	100	145	141*	65
Annual Low	18	39	87	55	28
Share price at year end	40	90	120	60	28

* Price before bonus issue


We are Wealthsmiths™

Report of the directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2016 that discloses the state of affairs of the company and its subsidiaries.

Incorporation

Sanlam Kenya Plc is a company whose shares are traded publicly on the Nairobi Securities Exchange (NSE). It was incorporated in Kenya on 26 October 1946 under certificate of incorporation number C.10/46 under the Kenyan Companies Act (Chapter 486 of the Laws of Kenya) and is domiciled in Kenya.

Principal activities

The principal activity of the Group, through its subsidiaries Sanlam Life Insurance Limited and Sanlam General Insurance Limited, is the underwriting of all classes of long-term and short-term insurance business as defined by the Insurance Act (Chapter 487 of the Laws of Kenya), with the exception of industrial life insurance. The Group has interests in a wholly owned investment company (Sanlam Securities Limited), wholly owned investment management company (Sanlam Investments Limited), Mae Properties Limited (dormant) and ChemChemi Mineral Water Limited (dormant).

Results

The profit for the year of KShs.70,623,000 (2015: KShs.27,350,000) has been added to the retained earnings.

Financial Risk Management Objectives and Policies

The activities of the company and its subsidiaries expose it to a variety of financial risks, including underwriting risk, credit risk and the effects of changes in debt and equity market prices, and interest rates. Therefore the risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance. These include the use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place to enable optimal liquidity management and to maximise returns within an acceptable level of risk.

Authorisation

The consolidated financial statements of Sanlam Kenya Plc for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 16th February 2017.

Financial Statements

At the date of this report, the directors were not aware of any circumstances, which would have rendered the values attributed to the assets and liabilities in the financial statements of the company to be misleading.

We have a deep appreciation for the material we work with – our clients' money. We believe that a single shilling is just as important as every multiple of it. That's why we steward money with a respect for what went into making it and what can be made of it. Turning money into meaning is our trade. To do this, we harness the power of collaboration, uniting our diverse strengths and working together with transparency and integrity. That's what makes us Wealthsmiths™.

Directors

The directors who served during the year and up to the date of this report are:

John P. N Simba	:	Independent	:	Chairman
Mugo Kibati	:	Executive	:	Group Chief Executive Officer
Margaret Dawes	:	Non – executive	:	Resigned: 18th August 2016
Julius Nyakia Magabe	:	Non – executive	:	Appointed: 18th August 2016
Theuns Botha	:	Non – executive	:	Appointed: 19th May 2016
Rohan Patel	:	Non – executive	:	Alternate: Baloobhai Patel
Jonathan Paul Wrench	:	Non – executive	:	Resigned: 19th May 2016
Susan Mudhune	:	Independent		
Matthys Lodewikus Olivier	:	Non – executive		
John Burbidge	:	Independent		

Independent auditors

The Company's auditor PricewaterhouseCoopers, has expressed its willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act.

By Order of the Board

Emma Wachira

Group Company Secretary

16th February 2017

Board of Directors

Matthys Lodewikus Olivier (43)
Appointed to the Board on 16th May 2014
Occupation: Group Executive: Finance, Sanlam Limited
Academic Qualifications:
B. Accounting (University of Stellenbosch)-Cum Laude, Hons.B.Accounting (University of Stellenbosch)-Cum Laude
Professional Qualifications:
Chartered Accountant (SA)

Susan Mudhune (67)
Appointed to the Board on 18th August 2009
Occupation: Banker
Academic Qualifications: MBA (University of Nairobi, BA in Education (University of Nairobi)
Professional Qualifications:
Fellow of the Institute of Bankers (Kenya), Fellow of the Kenya Institute of Management

John Burbidge (67)
Appointed to the Board on 16th May 2014
Occupation: Accountant
Academic Qualifications:
Cheadle Hulme School, Manchester, United Kingdom.
Professional Qualifications:
Fellow of the Institute of Chartered Accountants in England and Wales

Dr. John P. N Simba OGW, MBS (72) (Chairman)
Appointed to the Board in December 2001; Appointed as Chairman in March 2002
Occupation: Lawyer, Partner in Simba & Simba, Advocates
Academic Qualifications: LLD ((Hon.) University of Nairobi), Bachelor of Law (University of Dar-es-Salaam)
Professional Qualification: Advocate of the High Court of Kenya, Member Institute of Directors (Kenya)

Mugo Kibati (47)
Appointed to the Board on 17th February 2015
Occupation: Group Chief Executive: Sanlam Kenya Plc
Academic Qualifications: B.Sc. Engineering (Moi University), MBA(Finance & Econ-George Washington Univ.), Masters Degree in Technology &Policy(MIT)
Professional Qualifications: FKIM.

Julius Nyakia Magabe (43)
Appointed to the Board on 18th August 2016
Occupation: Regional Executive, East Africa- Sanlam Emerging Markets, Chief Executive Officer Sanlam Life (T) Limited
Academic Qualifications: MBA (ESIM),
Professional Qualifications: Advanced Diploma Insurance and Risk Management (Institute of Finance Management-Tanzania)

Rohan Patel (41)
Appointed to the Board on 16th May 2014
Occupation: Director of Corporate Development
Academic Qualifications: MBA(International Management Development),M. Sc.(Management), BA (Geography)
Professional Qualifications: Certificate in Real Estate, Development and Hotel Investment, Cornell University

Theuns Botha (38)
Appointed to the Board on 19th May 2016
Occupation: Head of Actuarial, Africa, Sanlam Emerging Markets Academic Qualifications: Bachelors of Science, University of Stellenbosch
Professional Qualifications: Fellow of the Actuarial Society of South Africa

Senior Management

Mugo Kibati
Group Chief Executive Officer

Emma Wachira
Group Company Secretary/Chief Legal Officer

Kennedy Muriithi
Chief Executive Officer Sanlam Investment

Victoria Ipomai
Group Chief Finance Officer/Acting Principal Officer Life Insurance

George Kuria
Chief Executive Officer Sanlam General Insurance

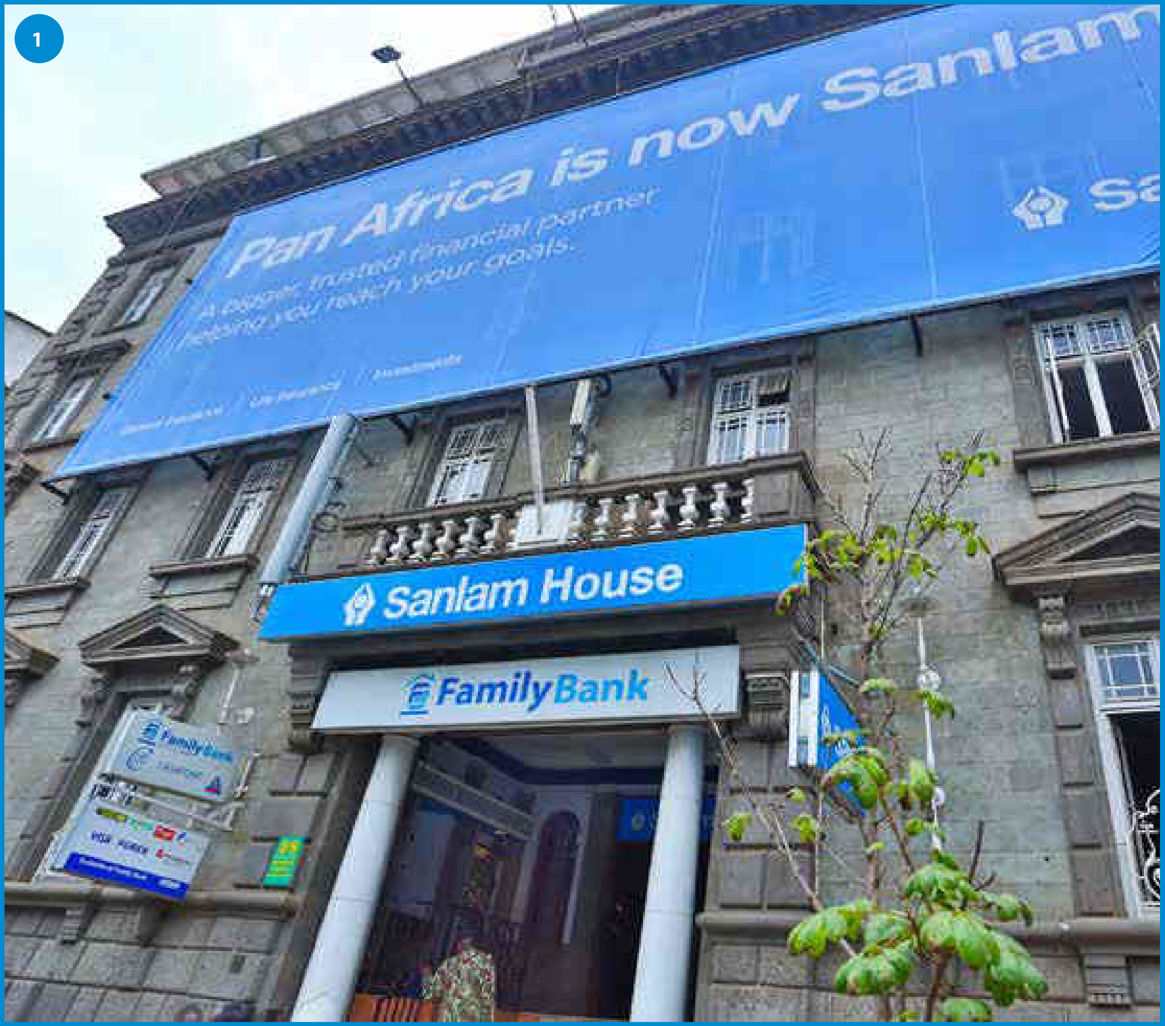
Lilian Onyach
Group Head Of Marketing and Corporate Communications

Evans Nyagah
Group Head of Corporate Business

Miriam Wambui
Chief Human Resource Officer

Simon Ngura
Group Head of IT and Innovation

Our new look



1: The iconic Sanlam House
2,3: Sanlam Golf tournament at Karen Country Golf Club. L-R: Sanlam GCEO Mugo Kibati, CBA MD Jeremy Ngunze, NIC Bank MD John Gachora and I&M CEO Kihara Maina.
4: At the Sanlam launch

Chairman's Statement

Global Overview

Global economic growth remained flat in 2016 to close the year at 3.1 percent, the same growth rate posted the previous year. The subdued performance was a result of a slowdown in global growth prompted by a number of concerns, among them: uncertainty about the direction the new US administration would take, economic pressures in Europe, a rate increase by the Federal Reserve Bank, the exit of Britain from the European Union, flattening of China's growth and a general slump in commodity prices.

Barring any major shocks, 2017 is expected to post improved growth to 3.4 percent on the back of stable commodity prices, vibrant growth in emerging markets and a stable global financial system.

Growth in Sub Saharan Africa (SSA) remained generally muted, impacted on by drought in several key countries and a drop in commodity prices that form the bulk of exports. Oil exporting countries were particularly affected with a huge slump in oil prices though prices recovered somewhat towards the end of the year. SSA grew by 1.5 percent - the lowest in 20 years - driven by poor performance in Africa's largest economies, South Africa and Nigeria as well depressed growth in oil exporting countries.

> Regulatory pressure heightened towards the end of 2016 with the gradual roll out of the new Risk Based Capital requirements. To prepare for full compliance in 2018, the Capital Adequacy Ratio (CAR) assessment for 2016 was based on the new Risk Based Capital guidelines.

Kenyan economy

The Kenyan economy continued to be buffeted by internal and external factors that impacted negatively on the operating environment and as a result led to a dampening of business performance in 2016. However, the economy grew at 5.9 percent according to World Bank estimates, up from 5.6 percent the previous year underpinned by good performance in Tourism and hotel, information and communications and public administration sectors.

Inflation, at 6.3 percent, was contained within the target range although it was marginally higher than the previous year's rate of 6.14 percent.

The challenging operating environment on the back of a generally low per capita consumption of insurance services coupled with a depressed securities market impacted on the bottom line. The capping of interest rates in the last quarter of the year further aggravated the situation, having triggered a credit squeeze as banks pulled back from lending to high risk customers and shifted the bulk of their funds to government paper. The full impact of the interest rate cap will however be fully realized in 2017.

Predictably, investors reacted aggressively to the uncertainty created in the banking sector by offloading banking stocks at the Nairobi Securities Exchange resulting in billions of shillings of value being wiped out. Overall, investments in the stock markets have generally received a battering over the last two years, with the NSE 20 share index shedding over 40 percent value during this period.

Operating environment

Kenya's economy grew by 5.7% in the third quarter of 2016, slower than the 2015 GDP growth rate of 6.0%. The decline in the GDP growth rate was reflected in slower growth in gross premiums in the insurance industry of 7.3% from 12.8% in 2015.

Overall market dynamics in the last quarter of 2016 were shaped by the amendment to the Kenyan Banking Act that capped interest rates as stated elsewhere above. The Kenya Shilling weakened against the US Dollar but strengthened against major European and East African currencies.

The Nairobi Securities Exchange continued to shed value for a second year running. The overall market Price Multiple closed at a 10-year low of 10.5 times in 2016 compared to the 10-year average Price Earnings Multiple of 13.7 times.

The Central Bank Rate was adjusted downwards to 10% to close the year from a high of 11.5% earlier in the year basically piggybacking on the stability in the macroeconomic environment. Inflation remained within the target range of 5 to 7.5% closing the year at 6.35% (2015: 8.01%).

Industry Trends

Major trends in the insurance sector continue to be driven by demographic shifts, macro-economic conditions, competitor activity and regulatory reforms. Competition from existing players and new entrants continues to exert downward pressure on pricing, impeding premiums growth. The combined impact of a weak domestic currency against the US Dollar and inflation have exerted negative pressure on operating costs and claims since some of the claims have a foreign exchange component. A higher level of growth in operating costs relative to the top-line growth and lower investment returns are likely to have eroded overall 2016 industry operating profits.

Regulatory Environment

Regulatory pressure heightened towards the end of 2016 with the gradual roll out of the new Risk Based Capital requirements. To prepare for full compliance in 2018, the Capital Adequacy Ratio (CAR) assessment for 2016 was based on the new Risk Based Capital guidelines. This and other developments contained in the Insurance (Amendment) Act 2016 are expected to result in actions aimed at de-risking balance sheets of most players, attainment of more balanced product portfolios and operational efficiency so as to minimise the impact of the new solvency regime.

Statement of Corporate Governance

Sanlam operates on the highest corporate governance strictures that go well beyond the industry norm. We have set ourselves very high standards because we know that the long term success of this enterprise relies on the solid foundation which we lay today.

We therefore take appropriate actions to enable us comply with all regulatory requirements from the Capital Markets Authority, the Insurance Regulatory Authority and all other oversight authorities. We remain alive to changes in global best practice which we align with at the earliest opportunity.

Group Achievements

The group achieved numerous milestones despite a challenging year. The year saw us successfully rebrand to Sanlam, fully integrate the general insurance business to the group and complete restructuring of the rest of our businesses. We also became one of the first to market a Marine Cargo Insurance product.

We faced a number of challenges including a depressed performance of the stock market, changes in the life business valuation and developments in the local banking sector. We, however, managed to weather some of the challenges by posting significant growth from our General Insurance and Asset Management businesses even as the Life Business suffered slower growth.

The overall growth has remained consistent underpinned by our growth in Assets Under Management (AUMs) as well as enhanced cost efficiency. We have already embarked on a strategic recovery efforts to jump-start growth for the life business and significant changes have already been made to streamline Sanlam Life Insurance's distribution channels.

Going forward, we will be seeking to enhance shareholder value through a sustained focus on excellent customer service, investments in growth sectors, optimizing resource utilization and disciplined market execution in order to grow revenues.

We will also be maintaining focus on the implementation of our robust five-year growth strategy which we headlined when we concluded the rebranding process. Rebranding has acted as the springboard from which significant transformation for the group's life and general insurance business distribution channels, as well as investment in capacity to support accelerated future growth will be launched.

Going forward, we will keep investing in our operational capacity to better serve our target customer needs and fully exploit growth opportunities we have identified and those that will emerge in future. We are confident that our efforts will be reflected in improved performance in the coming years.

Dividend

Having reviewed the company's performance for the year and bearing in mind the need to conserve cash to continue growing the business, the Board therefore does not recommend payment of a dividend for the year ended 2016. It is critical that we continue to strengthen our foundations today to enable us grow and generate good returns in the years ahead .

Declaration of Directors' Interest

For the purposes of section 151(1) of the Companies Act 2015, the following directors:

1. Matthys Lodewikus Olivier
2. Theuns Botha
3. Julius Magabe; and
4. Rohan Patel;

have declared their interest in the proposed acquisition of Pinebridge East Africa Limited ("Pinebridge") by Sanlam Emerging Markets ("Sanlam"). As part of the transaction, Sanlam will then look to integrate its asset management businesses in the region ("Integration Phase").

The Directors indicated above have declared their interest in the Integration Phase with satisfactory detail to the Board of Sanlam Kenya Plc as required under the provisions of the Companies Act, 2015.

Outlook

2017 is an election year in Kenya and, as in all elections, business performance is expected to remain muted. The effects of the drought are also expected to be felt throughout the country, impacting on growth and exerting inflationary pressures on the economy. Sanlam, however, remains optimistic of improved performance on the back of our continuous innovation, exploring new distribution channels, bringing to market new products and serving our customers with diligence.

Our good performance during the year was driven by the strategic guidance and overview by the Board of Directors, and I thank all of them for their invaluable contribution as we debated our strategy and guidance especially during the transition to Sanlam. The management and staff have done an exceptional job in running the business despite the many challenges they faced in their day to day operations.

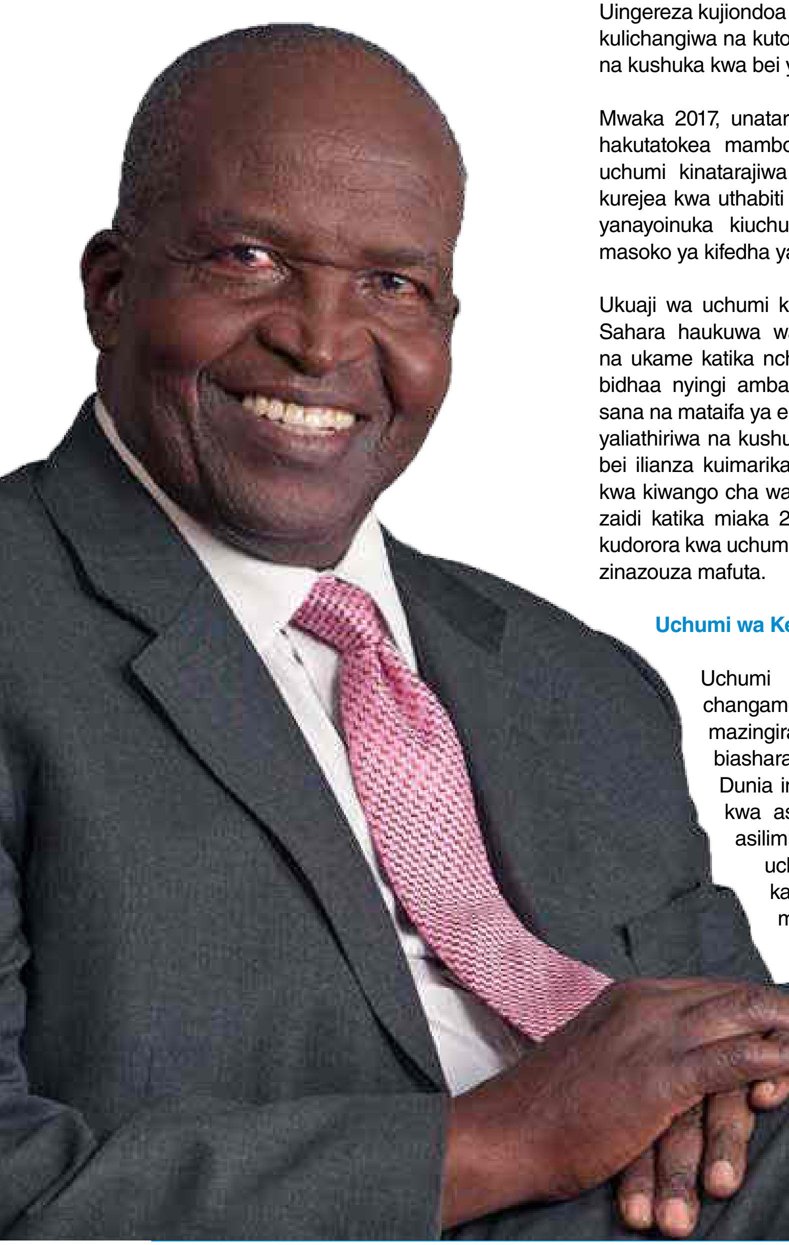
We look forward to the first full year as Sanlam, and, with the strategic initiatives that we have put in place guided by the company's five-year strategic plan (2016-2021), we believe we are now poised to create higher value to our shareholders and policyholders in the future.

On behalf of the board, management and staff let me express a big thank you to our shareholders for their continued confidence in the business and to our customers and stakeholders for their continued to support. We look forward to a successful year.

Dr. John P.N. Simba, OGW, MBS.

Chairman

Taarifa ya Mwenyekiti



Hali ya uchumi duniani

Ukuaji wa uchumi duniani haukuongezeka pakubwa mwaka 2016 na ulifikia asilimia 3.1. Hiki kilikuwa kiwango sawa na ukuaji wa mwaka uliotangulia. Kutopanda kwa ukuaji huo wa uchumi kulitokana na wasiwasi kuhusu mwelekeo wa serikali mpya Marekani, shinikizo za kiuchumi Marekani, hatua ya Benki Kuu ya Marekani kuongeza kiwango cha riba pamoja na hatua ya Uingereza kujiondoa kutoka kwa Muungano wa Ulaya. Kadhalika, kulichangiwa na kutoimarika zaidi kwa uchumi wa China pamoja na kushuka kwa bei ya bidhaa kimataifa.

Mwaka 2017, unatarajiwa kuwa mwaka mzuri kiuchumi iwapo hakutatokea mambo yasiyotarajiwa. Kiwango cha ukuaji wa uchumi kinatarajiwa kupanda hadi asilimia 3.4 kutokana na kurejea kwa uthabiti katika bei ya bidhaa kimataifa. Pia, mataifa yanayoinuka kiuchumi yanaendelea kufanya vyema. Aidha, masoko ya kifedha yamekuwa thabiti sasa.

Ukuaji wa uchumi katika nchi za Afrika kusini mwa jangwa la Sahara haukuwa wa kuridhisha pia. Hili lilisababishwa sana na ukame katika nchi muhimu pamoja na kushuka kwa bei ya bidhaa nyingi ambazo mauzo yake nje ya nchi hutegemewa sana na mataifa ya eneo hilo. Mataifa yanayozalisha mafuta nayo yaliathiriwa na kushuka kwa bei, ingawa mwishoni mwa mwaka bei ilianza kuimarika. Uchumi Afrika kusini mwa Sahara ulikua kwa kiwango cha wastani cha asilimia 1.5 ambacho ni cha chini zaidi katika miaka 20. Kwa kiwango kikubwa, hili lilitokana na kudorora kwa uchumi wa Afrika Kusini na Nigeria, pamoja na nchi zinazouza mafuta.

Uchumi wa Kenya

Uchumi wa Kenya uliendelea kuathiriwa na changamoto za ndani na nje ya nchi ambazo ziliathiri mazingira ya uendeshaji biashara nchini. Hilo liliathiri biashara za kampuni nyingi mwaka 2016. Benki ya Dunia inakadiria kwamba uchumi wa Kenya ulikua kwa asilimia 5.9 mwaka 2016, ukilinganisha na asilimia 5.6 mwaka uliotangulia. Kuimarika kwa uchumi kulichangiwa na matokeo mazuri katika sekta za utalii na hoteli, habari na mawasiliano, na usimamizi wa umma.

Kiwango cha mfumko wa bei kilidhibitiwa na kuwa asilimia 6.3, ingawa bado kilikuwa juu ya kiwango cha mwaka jana cha asilimia 6.14.

Kuwepo kwa mazingira magumu kibiashara, pamoja na Wakenya kutochukua bima kwa wingi na kudorora kwa soko la hisa, viliathiri sana biashara zetu. Kuwekwa kwa kiwango cha riba katika benki kulizidisha hali, ambapo benki ziliacha kukopesha watu na kampuni binafsi kutokana na hatari zilizopo na badala yake zikaangazia kukopesha serikali. Madhara kamili ya sheria hii ya riba yanabainika mwaka 2017.

Sheria ya kuweka kipimo kwenye viwango vya riba ilianza kutekelezwa wakati wa misukosuko katika sekta ya benki na hili liliwafanya wawekezaji kujiondoa kutoka kwenye hisa za benki katika Soko la Hisa la Nairobi. Kwa jumla, uwekezaji katika soko la hisa umeshuka katika kipindi cha miaka miwili iliyopita. Kipimo cha thamani ya hisa sokoni cha kampuni 20 ambazo hisa zake ziliuzwa na kununuliwa zaidi NSE kilipoteza thamani yake kwa asilimia 40 katika miaka hiyo miwili.

Mazingira ya uendeshaji biashara

Uchumi wa Kenya ulikua kwa 5.7% katika robo ya tatu ya 2016, ambacho ni kiwango cha chini ukilinganisha na 6.0% mwaka 2015. Matokeo yake yanadhihirika katika kutoongezeka pakubwa kwa pesa ambazo watu walilipa kuweka bima ambazo ziliongezeka kwa 7.3% ukilinganisha na ukuaji wa 12.8% mwaka 2015.

Kwa jumla, matukio mengi sokoni mwaka 2016 yalichangiwa na marekebisho kwenye Sheria ya Benki Kenya ambayo yaliweka kipimo kwenye viwango vya riba kwa mikopo na pia kipimo kwenye pesa zinazowekwa na wateja kwenye benki. Hili lilisababisha kupungua kwa pesa ambazo wateja wanakopeshwa na benki. Shilingi ya Kenya pia ilishuka thamani dhidi ya dola ya Marekani ingawa iliimarika dhidi ya sarafu muhimu Ulaya na Afrika Mashariki.

Kuwekwa kwa kipimo kwenye riba kuliathiri uwiano wa riba inayolipwa wateja wanapoweka amana na riba wanayolipa wateja wanapochukua mikopo. Soko la hisa la Nairobi nalo liliendelea kupoteza thamani kwa mwaka wa pili mtawalia. Bei ya jumla ilikua katika kiwango cha 10.5, ambacho ni cha chini zaidi katika miaka kumi, ukilinganisha na kipimo cha wastani cha 13.7 kwa miaka hiyo kumi.

Shinikizo za kisheria ziliongezeka mwishoni mwa mwaka 2016 ambapo masharti mapya ya kuzingatia hatari katika kukadiria utoshelezaji wa mtaji yalianza kutekelezwa.

Kiwango cha riba cha Beki Kuu ya Kenya kilipunguzwa hadi asilimia 10 mwishoni mwa mwaka, kutoka asilimia 11.5 mapema mwaka huo, baada ya kuimarika kwa mazingira ya uendeshaji biashara. Kiwango cha mfumko kilisalia katika kiwango kilicholengwa cha kati ya asilimia 5 na 7.5. Kufikia mwisho wa mwaka, kiwango cha mfumko kilikuwa 6.35% (2015: 8.01%).

Mitindo sokoni

Mitindo katika sekta ya bima kwa kiwango kikubwa inaendelea kuongozwa na mabadiliko katika uwezo wa watu kifedha, mazingira ya kiuchumi, hatua zinazochukuliwa na washindani na mageuzi katika sheria zinazosimamia bima. Ushindani kutoka kwa wapinzani wetu, wa jadi na wanaochipuka, umeendelea kusababisha malipo ya bima kwenda chini, na kuathiri mapato. Kudorora kwa shilingi ya Kenya dhidi ya dola ya Marekani na kiwango cha mfumko, vimechangia kuongeza kwa gharama ya uendeshaji biashara pamoja na malipo ya madai ya bima. Hii ni kwa sababu baadhi ya malipo huwa na sehemu ya sarafu za kigeni. Kuongezeka kwa gharama za uendeshaji biashara kwa jumla huenda kulifuta nafuu iliyotokana na ongezeko la faida kutoka kwa shughuli za kibiashara mwaka 2016 katika sekta ya bima kwa jumla.

Mazingira kisheria

Shinikizo za kisheria ziliongezeka mwishoni mwa mwaka 2016 ambapo masharti mapya ya kuzingatia hatari katika kukadiria utoshelezaji wa mtaji yalianza kutekelezwa. Ili kujiandaa kutimiza masharti haya mwaka 2018, utathmini wetu wa utoshelezaji wa mtaji katika mwaka 2016 ulifuata mwongozo huu mpya. Hili, pamoja na mengine yaliyomo katika Sheria ya Bima (Marekebisho) ya mwaka 2016 yanatarajiwa kufanikisha hatua za kupunguza hatari katika kampuni nyingi za bima. Aidha, itahakikisha uwiano mwema wa huduma zinazotolewa na kampuni mbalimbali na uwezo wa kampuni hizo.

Kuhusu usimamizi wa kampuni

Sanlam hutumia mfumo bora zaidi wa usimamizi, jambo ambalo si kawaida kwa kampuni za bima. Tumejiwekea viwango vya juu zaidi vya ubora kwa kuwa tunafahamu kwamba ufanisi siku za usoni utategemea msingi ambao tunajenga leo.

Tumetimiza masharti yote ya Mamlaka ya Masoko ya Mtaji, Mamlaka ya Usimamizi wa Bima na mamlaka nyingine zinazosimamia uendeshaji biashara ya bima Kenya. Mabadiliko katika viwango vya ubora katika utoaji huduma duniani hutokea, na huwa tunajaribu kuyatekeleza haraka iwekezanavyo.

Mafanikio ya kampuni

Kampuni hii imepata mafanikio makubwa licha ya kupitia mwaka mgumu kibiashara. Kampuni hii ilibadilisha sura yake na kuwa Sanlam, ili kufungamanisha vyema biashara ya bima ya kawaida ya kampuni na sehemu nyingine za kampuni hii. Aidha, ilifanikiwa kukamilisha mpangilio mpya wa usimamizi wa biashara zetu. Kadhalika, tulikuwa kampuni ya kwanza sokoni kuanzisha huduma ya bima ya mizigo baharini.

Tulikumbana na changamoto kadha, zikiwemo kutofanya vyema kwa soko la hisa pamoja na mabadiliko katika ukadiriaji wa thamani katika bima ya maisha, na pia mabadiliko katika sekta ya benki. Hata hivyo, tulifanikiwa kuhimili baadhi ya changamoto hizi na kushuhudia ukuaji katika biashara zetu za Bima ya Kawaida na Usimamizi wa Mali hata ingawa ukuaji wa Biashara ya Bima ya Maisha uliathirika.

Ukuaji wetu wa jumla uliendelea kuwa na uwiano na ukuaji wa biashara yetu ya usimamizi wa mali na juhudi za kuwa na busara katika matumizi. Tayari tumeanza juhudi za kujikwamua za kufufua biashara ya bima ya maisha. Mageuzi makubwa tayari yamefanywa kulainisha njia za kutoa huduma ya Bima ya Maisha ya Sanlam.

Tukiendelea mbele, tutaendelea kujikakamua kuongeza thamani kwa uwekezaji wa wenyehisa kupitia kuangazia zaidi utoaji huduma bora kwa wateja, kuwekeza katika sekta zinazokua vyema na kutumia busara sokoni ili kuimarisha mapato.

Tutaendelea kuangazia zaidi utekelezaji wa mpango wetu wa mikakati wa miaka mitano ambao tuliuzindua wakati waka kubadilisha sura yetu. Kando na mpango wa kubadilisha sura yetu, makakti mpya pia umechangia kubadilisha sana njia za kufikisha huduma ya bima ya maisha na bima ya kawaida, pamoja na kuimarisha uwezo wetu kuhakikisha ukuaji wetu siku za usoni utakuwa wa kasi.

Tunaposonga mbele, tutaendelea kuwekeza katika uwezo wetu kuendesha shughuli za kibiashara ili kuhudumia vyema wateja wetu na kutuwezesha kufanikiwa siku za usoni. Tuna imani matunda ya juhudi hizi yataonekana mwaka ujao.

Mgawo wa faida

Baada ya kutathmini matokeo ya kifedha mwaka huo na kwa kuzingatia haja ya kuhifadhi fedha ili kuendelea kukuza biashara, Bodi haipendekezi malipo yoyote ya mgawo wa faida kwa mwaka uliomalizika 2016. Ni muhimu tuendelee kufadhili upanuzi na ukuaji wa biashara leo ndipo tuweze kuvuna matunda mema siku zijazo.

Kutangazwa kwa Maslahi ya Wakurugenzi

Kwa kufuata maagizo ya kifungu 151(1) cha Sheria ya Kampuni ya mwaka 2015, wakurugenzi wafuatao:

1. Matthys Lodewikus Olivier
2. Theuns Botha
3. Julius Mugabe; na
4. Rohan Patel;

wametangaza kwamba wana maslahi katika mpango wa Sanlam Emerging Markets ("Sanlam") kununua kampuni ya Pinebridge East Africa Limited ("Pinebridge"). Kama sehemu ya shughuli hii ya kibiashara, Sanlam baadaye itajaribu kufungamanisha biashara yake ya usimamizi wa mali katika kanda hii ("Awamu ya Kufungamanisha").

Wakurugenzi waliotajwa hapa juu wametangaza kwamba wana maslahi katika Awamu hii ya Kufungamanisha na kutoa maelezo ya kina na ya kutosheleza kwa Bodi ya Sanlam Kenya Plc kama inavyotakiwa chini ya Sheria ya Kampuni ya mwaka 2015.

Mtazamo kuhusu siku zijazo

2017 utakuwa mwaka wa uchaguzi Kenya, na kama ilivyo kawaida, biashara inatarajiwa kuathirika. Ukame unatarajiwa pia kuathiri ukuaji wa uchumi kwa jumla na kiwango cha mfumko. Kama Sanlam hata hivyo bado tuna matumaini ya kuimarika kwa biashara zetu kutokana na uwekezaji wetu katika uvumbuzi, njia mpya za utoaji huduma, huduma mpya za bima na pia kwa kutoa huduma bora kwa wateja wetu.

Matokeo yetu mema mwaka huu yalichangiwa na uongozi mwema pamoja na uangalizi wa Bodi ya Wakurugenzi, na nawashukuru wote kwa ushauri wao hasa kipindi cha mpito hadi tukawa Sanlam. Wasimamizi pamoja na wafanyakazi wamefanya kazi nzuri kusimamia biashara zetu licha ya changamoto zilizokuwepo.

Tunasubiri kwa hamu mwaka wa kwanza kamili tukiwa kama Sanlam, na, kwa hatua tulizochukua tukiongozwa na mpango wa mikakati wa miaka mitano (2016-2021), tunaamini tunaweza kuongeza thamani zaidi kwa wenyehisa wetu. Tunatarajia matokeo mazuri mwaka ujao.

Tunawashukuru sana wenyehisa kwa kuendelea kuwa na imani nasi. Tunawashukuru pia wateja ambao wameendelea kutuunga mkono. Tunatarajia mwaka ujao uwe wenye ufanisi zaidi.

Dkt. John P.N. Simba, OGW, MBS.

Mwenyekiti

Group CEO's Statement

Overview

2016 was an especially challenging year in Kenya, more so for the financial services sector which went through a very difficult year characterized by a stringent regulatory environment, a material amendment to the Banking Act, a general slump in equities and shifting global geopolitics that impacted on business operations.

Equities performed poorly driven by low prices prevailing in the market for most stocks, especially for the banking sector which accounts for 40 percent of the entire market capitalization. This impacted our returns on equities but it is our conviction that the worst is over and we will now see a resurgence in the stock market.

The insurance sector however performed reasonably well, despite several regulatory changes that were effected during the year in a bid to streamline and strengthen the industry. One of these was the introduction of a risk based regime on capital adequacy which was effected during the year for the insurance business. This is an initiative that we support because it will go a long way in further consolidating the gains the industry has made over the years.

A new valuation framework was also introduced during the year, moving from Net Premium Valuation platform to Gross Premium Valuation; the industry is now effecting these changes.

Rolling out Five Year Strategic Plan - 2016-2021

We rolled out the first year of the five-year strategic plan covering 2016 to 2021 on a high note, with the overarching aim of positioning Sanlam Kenya as a strong and customer centric insurance provider. By aligning opportunities and resources across the group, we are well on our way to building a solid and trusted brand.

As part of this journey, we integrated and restructured the general business to align it with group operations. We also diversified into new customer segments, restructured agency distribution and enhanced key intermediary and Bancassurance relationships.

We are also looking at new growth opportunities, using new distribution channels and leveraging on technology to reach out to our customers. As a company, we are diversifying our product portfolio to reach out to our customers and to achieve our ambition of being a completely integrated brand.

Rebranding

We carried out a rebranding exercise during the year thereby fully embracing the Sanlam way of doing business. The exercise was not merely a facelift but was twinned with back office restructuring of processes, systems and change in the governance structure.

The Sanlam brand is nearly 100 years old with huge experience in the business of asset management, life insurance and general insurance. In Kenya we are leveraging on this expertise and experience of a global brand to continuously provide better services to our Kenyan clients.

I wish to extend my appreciation to those who put in a lot of hours in making the rebranding exercise hugely successful. The market embraced the brand very well, especially those customers who had interacted with the brand in some of the other countries we operate in and who, therefore, appreciate the level and quality of service that we provide.

Kshs.28.4bn

The company's asset base up 5% from the previous year's Kshs.27.1 billion

A lot of work still remains to be done in embedding the brand into the mainstream, especially on the retail side where Sanlam needs to be top of mind in insurance matters. More and more people however now appreciate that the Sanlam brand is fully focused on delivering on our commitment.

Increasing Insurance penetration

Insurance penetration is still very low in Kenya and this remains a matter of concern for the industry. This is an industry-wide problem but we can increase penetration by building trust in the industry and demonstrating the central role insurance plays in development. Protection of life and property should be a top priority for all. To tackle the apathy, we need to continuously conduct vigorous education campaigns to reach more people across the board.

The industry regulator is playing a leading role in tackling the low penetration by putting in place measures to ensure the industry remains stable and sustainable. For instance, the push for a risk-based regime will ensure that underwriters have the capital and capacity to back up their commitments. When a claim is lodged, insurance companies must have the ability to honour that claim. At Sanlam, we don't make a commitment that we do not intend to honour. We are a highly trusted brand wherever we do business and customers who have interacted with us in these markets know how solid and reliable we are.

The Wealthsmiths

At Sanlam, we are in the business of creating and protecting wealth. We have a deep understanding, honed over the century that we have been in business, of what it takes to create wealth. It is a rich tradition that is anchored on a promise and commitment to our customers to make their life better. That is why we see ourselves as Wealthsmiths.

We appreciate the fact that your hard earned money is precious, and we are therefore obliged to protect it and make it grow for you. Give us your raw material and we will mint it into something precious and dear.

The introduction of the Insurance Premium Finance facility was driven by the need to provide a solution to our clients. We will continue to provide client-driven products.

Insurance Premium Financing

One of the challenges that has plagued the industry is lack of financing. People want to buy insurance but they face the challenge of raising the entire amount in one bullet. To encourage and ease our customers' burden, we introduced an Insurance Premium Finance facility during the year, and the uptake has been exceptionally good. The introduction of this service was driven by the need to provide a solution to our clients. We will continue to provide client-driven products.

Financial Performance

In spite of the difficult operating environment, the Group performed well during the year, with the company posting a 485 percent growth in pre-tax profit, from Kshs.54 million to Kshs.317 million. This is mainly attributable to improved performance by the General insurance and Investments businesses.

The Gross Premium Income and Net Premium Income stayed just about level from the previous year's, at Kshs.5.2 billion and Kshs.4.8 billion respectively. Premium income growth was hampered by competitor activity in the market that affected growth in the corporate business, while our retail business was impacted by the expected effects of streamlining the distribution channels and agency force aimed at improving productivity going forward.

Investment income also posted good growth, at 13 percent, from Kshs..1.76 billion to Kshs..1.98 billion. The asset base grew by 5 percent to Kshs.28.4 billion up from Kshs.27.1 billion. Investment portfolio earnings increased by 50% from Kshs.1.4 billion in 2015 to Kshs.2.1 billion in 2016 driven by good investment returns from higher exposure to bonds and our selection of the stocks on the NSE.

Policyholder benefits increased from Kshs.4 billion to Kshs.4.3 billion attributable to maturities as well as an increase in annuity payments following strong new annuity business sales. This is also a clear reflection of the value we create for our customers.

The declared interest on individual pension plans and deposit administration for the year 2016 amounted to 10.5%. This ranks above the market average for pensions in 2016 of 8.0% and compares very well with the top quartile return of 9.4%. During the same period, the NSE returned a negative 21.1% return as measured using the NSE20 index. Saving with us pays.

General Insurance

The post-acquisition business transformation program for the general insurance unit has started to bear fruit with significant improvement attained in our engagement with customers and business partners. As a result, gross written premium grew by 58% to Kshs.1 billion from Kshs.633 million achieved in 2015. Investment returns however decreased by almost 100% from Kshs.210 million in 2015 to Kshs.1 million in 2016 mainly attributable to realized fair value losses on investment property disposals. Policyholder benefits and claims decreased by 75% from Kshs.538 million to Kshs.135 million driven by the strategic decision to discontinue underwriting of the PSV line of business as well as improved non-motor to motor business mix. The general insurance business operating loss before tax reduced by 92% to Kshs.24 million from Kshs.302 million loss reported in 2015.

Returns from Investments

Fee income from our investment business increased by 31% to Kshs..156 million from Kshs.119 million on account of an impressive 51% growth in Assets Under Management (AUM) and performance fees earned based on significant outperformance of benchmarks. The Operating Profit of Kshs.46 million increased from Kshs.24 million in 2015 mainly attributable to the growth in revenues in line with the growth in AUM as well as cost containment. The business also delivered stellar investment returns for all its clients, substantially outperforming all client benchmarks. A higher allocation to bonds and credit instruments underpinned the outperformance during the year. The stock selection equally delivered good results returning significant positive performance compared to the NSE 20 index which had a -21.1% return and the NASI index which also delivered a -8.5%. Income from property sales however declined due to a depressed property market.

Conclusion

Management is committed to ensuring that the Sanlam brand will continue to be associated with a world class product portfolio, innovative and localized solutions as well as providing above market returns to our customers. It is our intention to live up to our reputation as 'Wealthsmiths' in all our interactions with our shareholders and customers. We have staked our reputation on providing world class products and customer experiences. It is a commitment that we intend to live up to .

Mugo Kibati

MKibati

Group Chief Executive Officer

Taarifa ya Afisa Mkuu Mtendaji wa Kampuni

Muhtasari

Mwaka 2016 ulikuwa na changamoto nyingi, hasa kwa sekta ya kifedha. Sekta hii ilikabiliwa na mazingira magumu ya kisheria, mfano marekebisho kwenye Sheria ya Benki. Kulitokea pia kushuka kwa thamani ya hisa pamoja na mabadiliko kwenye siasa za dunia, mambo yaliyoathiri biashara.

Masoko ya hisa hayakufanya vyema kutokana na bei ya chini ya hisa za kampuni nyingi, hasa benki ambazo huchangia asilimia 40 ya hisa zote sokoni. Hii iliathiri mapato kutoka kwa uwekezaji wetu katika hisa. Hata hivyo, tuna imani kwamba kipindi kibaya kimepita na sasa soko litaimarika tena.

Sekta ya bima hata hivyo ilifanya vyema, licha ya mabadiliko kadha ya kisheria yaliyoanza kutekelezwa mwaka huu kulainisha sekta hii. Moja ya mabadiliko hayo ni mfumo mpya wa kuzingatia hatari katika kupima utoshelezaji wa mtaji. Tunaunga mkono hatua hii kwani itasaidia kulinda hatua zilizopigwa katika sekta ya bima kufikia sasa.

Mfumo mpya wa kukadiria thamani pia ulianza kutekelezwa, na kubadilisha kutoka Makadirio Halisi ya Thamani hadi Makadirio Ghafi ya Thamani. Mabadiliko haya yanatekelezwa.

Mpango wa Mikakati wa Miaka Mitano - 2016-2021

Tumeanza vyema kutekeleza mpango wetu wa mikakati wa miaka mitano unaoangazia mwaka 2016 hadi 2021, na unaolenga kuifanya Sanlam Kenya kuwa kampuni imara inayowajali wateja. Kwa kulainisha fursa na raslimali kote katika kampuni, tutafanikiwa kuunda kampuni thabiti na ya kuaminika.

Tumepanga upya na kufungamanisha shughuli zetu, ili kuweza kutekeleza vyema shughuli zetu za kibiashara. Tumeanza pia kuangazia wateja ambao hatukuwa tunawahudumia awali, tukapanga upya mfumo wetu wa kutumia mawakala na tukaboresha uhusiano wetu na washirika wakuu kibiashara.

Pia, tunatafuta fursa mpya za ukuaji, kwa kutumia njia mpya za utoaji huduma na teknolojia ili kufikia wateja wetu kwa njia ifaayo. Tunaongeza pia huduma tunazotoa kwa wateja ili kufikia wateja zaidi na kuwa kampuni iliyofungamana kikamilifu katika utoaji wa huduma.

Kuchukua sura mpya

Tuliandaa shughuli ya kubadilisha na kuboresha nembo yetu mwaka huu na kukumbatia njia halisi ya Sanlam ya uendeshaji shughuli. Shughuli hii haikuwa ya kubadilisha sura pekee, bali ilihusisha pia kupanga upya shughuli zetu, mifumo na mpangilio wa usimamizi wa kampuni yetu.

Nembo ya Sanlam imekuwepo kwa karibu miaka 100 na ina tajriba kubwa katika usimamizi wa mali, bima ya maisha na huduma ya bima ya kawaida. Nchini Kenya tunatumia tajriba hii na uzoefu wa kimataifa kutoa huduma bora kwa wateja wetu.

Nawashukuru wote waliochangia katika shughuli hii ya kubadilisha sura yetu na kuifanya kuwa ya kufana. Nembo yetu mpya ilipokelewa vyema sokoni, hasa na wateja ambao walikuwa wamejihusisha nasi katika mataifa mengine ambayo huwa tunahudumu. Wateja hawa wanafahamu kiwango cha juu cha ubora wa huduma tunayoitoa.

Bado kuna kazi kubwa tunayohitaji kuifanya katika kuvumisha nembo hii, hasa katika ngazi ya rejareja ambapo Sanlam inafaa kuhusika zaidi katika bima. Watu wengi hata hivyo wanaendelea kuitambua Sanlam kama kampuni iliyojitolea kutimiza wajibu wake.

Kueneza huduma ya bima

Idadi ya Wakenya walio na bima bado ni ya chini mno. Hili ni tatizo la jumla kwa sekta hii lakini tunaweza kuongeza idadi hii kwa kujenga imani ya watu katika sekta ya bima. Kadhalika, kwa kuonyesha mchango muhimu unaotekelezwa na bima katika maendeleo. Kulindwa kwa uhai na mali linafaa kuwa jambo muhimu sana kwa wote. Ili kukabiliana na tatizo la watu kutotilia maanani umuhimu wa bima, kunafaa kuwa na kampeni kubwa ya kufikia na kuhamasisha watu wa matabaka yote.

Shirika la serikali linalosimamia bima linachangia katika kukabiliana na tatizo la watu wengi kutochukua bima kwa kuweka mikakati kuhakikisha sekta hii inasalia kuwa thabiti na endelevu. Mfano, kwa kuhakikisha mfumo wa kukadiria mtaji kwa kuzingatia hatari zilizopo, jambo ambalo litahakikisha kwamba wanaotoa huduma za bima wana mtaji na uwezo wa kulipa. Ombi la kulipwa linapowasilishwa, kampuni za bima sharti ziwe na uwezo wa kulipa. Kampuni yetu inaaminika sana katika biashara hii na wateja ambao wamefanya biashara nasi wanafahamu vyema jinsi tulivyo thabiti na jinsi kampuni yetu ilivyo ya kutegemewa.

Kuunda mali

Kampuni ya Sanlam huhusika katika kuunda na kulinda mali. Tuna ufahamu wa hali ya juu, kutokana na kufanya biashara miaka mingi, kuhusu mambo yanayochangia kuunda mali. Hili linatokana na utamaduni wa muda mrefu wa ahadi yetu ya kujitolea kuboresha maisha ya wateja. Hii ndiyo maana kwa kiasi fulani, tunajitazama kama wafuaji wa mali.

> **Kuanzishwa kwa huduma ya kulipa bima kwa awamu kulitokana na haja ya kuwafaa wateja wetu. Tutaendelea kuanzisha huduma zaidi zinazoongozwa na mahitaji ya wateja.**

Tunatambua kwamba pesa zako zina thamani sana kwako, na tungependa sana kuzilinda. Tunawajibika kuzilinda na kuzifanya ziongezeke. Tupatie mali ghafi na tutaifua na kuifanya kuwa kitu cha thamani zaidi.

Malipo ya bima kwa awamu

Mojawapo ya mambo ambayo yametatiza sekta hii ni ukosefu wa fedha. Watu wengi wangependa kuchukua bima lakini huwa hawawezi kutoa pesa za kulipia kwa mkupuo mmoja. Ili kurahisisha mzigo wa wateja, ulianzisha mpango wa Malipo ya Bima kwa Awamu, ambao umefanikiwa. Kuanzishwa kwa huduma hii kulitokana na haja ya kuwafaa wateja wetu. Tutaendelea kuanzisha huduma zaidi zinazoongozwa na mahitaji ya wateja.

Matokeo ya kifedha

Kampuni yetu ilifanya vyema kifedha mwaka wa 2016 licha ya kuwepo kwa mazingira magumu kibiashara. Kampuni hii iliongeza faida yake kabla ya kutozwa ushuru kwa asilimia

485, kutoka Kshs. 54 milioni hadi Kshs. 317 milioni. Ufanisi huu sana ulitokana na kuimarika kwa biashara ya bima ya kawaida na biashara za uwekezaji.

Mapato ghafi kutoka kwa malipo ya bima pamoja na mapato kamili kutoka kwa malipo ya bima yalisalia katika karibu kiwango sawa na mwaka uliotangulia, Kshs.5.2 bilioni na Kshs.4.8 bilioni mtawalia. Ukuaji wa mapato kutoka kwa malipo ya bima uliathiriwa na ushindani mkali sokoni ambao uliathiri biashara kati yetu na kampuni na wateja wakubwa. Biashara yetu ya rejareja nayo iliathiriwa na matokeo yaliyotarajiwa ya kulainishwa na njia zetu za kuuza bima na mawakala pia. Hatua hizi zilichukuliwa kuboresha biashara siku zijazo.

Mapato kutoka kwa uwekezaji pia yaliimarika vyema, kwa asilimia 13, kutoka Kshs..1.76 bilioni hadi Kshs..1.98 bilioni. Mali yetu ilikua kwa asilimia 5 hadi Kshs. 28.4 bilioni kutoka Kshs. 27.1 bilioni. Mapato kutoka kwa uwekezaji wa kampuni yetu kwingine yaliongezeka kwa 50% kutoka Kshs.1.4 bilioni mwaka 2015 hadi Kshs.2.1 bilioni kutokana na mapato mazuri yaliyochangiwa na kuvumishwa zaidi kwa hati

Kshs.28.4bn

Mali yetu ilikua kwa asilimia 5 hadi Shs28.4 bilioni kutoka Shs27.1 bilioni

za dhamana na hisa ambazo tumewekeza katika, kwenye NSE.

Malipo kwa walionunua bima yaliongezeka hadi Kshs.4 bilioni kutoka Kshs.4.3 bilioni. Hili lilitokana na kukomaa kwa bima pamoja na malipo ya kila mwaka ya bima, kutokana na mauzo mazuri. Hii ni ishara tosha ya tunavyoongeza thamani kwa wateja wetu.

Kampuni yetu imetangaza malipo ya riba kwa mpango wa malipo ya uzeeni wa watu binafsi na usimamizi wa amana kwa mwaka 2016 kuwa 10.5%. Hiki ni kiwango cha juu sana ukilinganisha na kiwango cha wastani kwa mipango ya malipo ya uzeeni mwaka 2016 ambacho kilikuwa 8.0%. Kiwango hiki kinakaribiana na kiwango cha wastani cha waliotoa malipo ya juu ambacho kilikuwa 9.4%. Mwaka huo pia, NSE ilishuka thamani kwa 21.1% kwa mujibu wa kipimo cha soko cha NSE20. Ni dhahiri kwamba, ukiwekeza kwetu hutapoteza.

Biashara ya bima ya kawaida

Mpango wa kuboresha kitengo kinachoshughulikia bima ya kawaida, baada ya kukinunua, imeanza kuzaa matunda. Tumeshuhudia kuimarika pakubwa kwa uhusiano wetu kibiashara na wateja na washirika pia. Kutokana na hatua hizi, malipo ya bima yaliyofanywa na wateja yaliongezeka kwa 58% hadi Kshs.1 bilioni kutoka Kshs.633 milioni mwaka 2015. Mapato kutoka kwa uwekezaji hata hivyo yalishuka kwa karibu 100% kutoka Kshs.210 milioni mwaka 2015 hadi Kshs.1 milioni mwaka 2016 sana kutokana na hasara ya uuzaji wa kuondoa mzigo wa mali isiyohitajika. Malipo kwa waliokuwa wamejiwekea

bima pamoja na madai ya malipo ya bima, vilishuka kwa 75% kutoka Kshs.538 milioni hadi Kshs.135 milioni. Hili lilitokana na uamuzi wa busara wa kuacha kutoa bima kwa magari ya uchukuzi wa abiria (PSV) pamoja na kuimarisha mchanganyiko wa bima katika sekta ya uchukuzi kwa jumla. Hasara ya biashara ya bima ya kawaida (isiyo ya maisha) kabla ya kutozwa ushuru ilipungua kwa 92% hadi Kshs. 24 milioni kutoka hasara ya Kshs. 302 milioni tuliyopata mwaka 2015.

Mapato kutoka kwa uwekezaji

Mapato kutokana na malipo ya ada kutoka kwa biashara yetu ya uwekezaji yaliongezeka kwa 31% hadi Kshs..156 milioni kutoka Kshs.119 milioni kutokana na ukuaji wa 51% wa mali iliyo chini ya usimamizi wetu. Kulikuwa pia na ongezeko la malipo ya ada kutokana na matokeo mazuri yaliyopatikana. Faida yetu iliongezeka hadi Kshs.46 milioni kutoka Kshs. 24 milioni 2015 sana kutokana na ukuaji wa mapato sambamba na ongezeko la mali iliyokuwa chini ya usimamizi wetu, pamoja na kudhibitiwa kwa gharama. Biashara hii pia iliwazolea wateja faida kubwa, na kuzidi pakubwa matarajio. Hili lilichangiwa sana na kutengwa kwa pesa zaidi za kuwekezwa katika hati za dhamana na hati nyingine za mikopo. Uamuzi wa busara wa hisa za kuwekeza katika, pia ulichangia matokeo mazuri ya kifedha ukilinganisha na kiwango cha NSE 20 ambacho kilishuka -21.1%. Kiwango cha NASI nacho kilishuka -8.5%. Mapato kutoka kwa mauzo ya ardhi na nyumba hata hivyo yalipungua kutokana na changamoto katika soko la uuzaji, ununuzi na ukodishaji wa ardhi na nyumba.

Hitimisho

Wasimamizi wa kampuni hii wamejitolea kuhakikisha kwamba Sanlam itaendelea kufanikiwa na kujizolea sifa za kuwa kampuni nzuri, inayovumbua na kutoa huduma bora kwa wateja wote. Zaidi ya yote, wamejitolea kuhakikisha kampuni hii inatoa faida ya juu kwa wateja wake, kuliko kampuni nyingine. Ni lengo letu kuendeleza sifa zetu kama 'Wafua mali' katika shughuli zetu zote kwa wenye hisa na wateja. Tunataka kujijengea sifa kama kampuni inayotoa huduma bora zaidi na kuwafaa wateja wake zaidi. Tumejitolea kwa hali na mali kutimiza ahadi hii.

Mugo Kibati

Afisa Mkuu Mtendaji wa Kampuni

Notice of The Annual General Meeting

NOTICE IS HEREBY GIVEN that the 71st Annual General Meeting of the Company will be held at the Ballroom, Stanley, Kenyatta Avenue, Nairobi on Friday 5th May 2017 at 10.00 am 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 confirm the minutes of the previous Annual General Meeting held on 20th May 2016.
4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2016 together with the reports of the Chairman, the Group Chief Executive, the Directors, the Auditor and the Statutory Actuary.
5. To note that the Directors do not recommend the payment of Dividend for the financial year ended 31 December 2016.
6. To elect Directors:

   6.1 Mr Matthys Lodewikus Olivier, retires by rotation in accordance with the Company's Articles of Association and he offers himself for re-election.

   6.2 Mr Julius Magabe, who was appointed a director on 19th August 2016, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election

   6.3 Mr Theuns Botha, who was appointed a director on 19th May 2016, retires this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election

7. To approve the Directors' remuneration.
8. To note that the auditors, PricewaterhouseCoopers will continue in office in accordance with Section 721(2) of the Companies Act No. 17 of 2015 until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.
9. To transact any other business with the permission of the Chair for which 48 hours notice had been given to the Company Secretary at the registered office of the Company.

By Order of the Board

Emma Wachira

Group Company Secretary

11th April 2017

Note:
A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is attached to the end of this Annual Report, must be completed and signed by the member and must be lodged at the offices of the Company's Share Registrar's Image Registrars, 5th Floor, Barclays Plaza, Loita Street, Kenya so at to arrive not later than 10.00 a.m. on 3rd May 2017

Ilani ya Mkutano Mkuu wa Mwaka

ILANI INATOLEWA HAPA kwamba Mkutano Mkuu wa Kila Mwaka wa 71 wa Kampuni utafanyika katika ukumbi wa Ballroom, Hoteli ya Stanley, iliyoko barabara ya Kenyatta Avenue mjini Nairobi siku ya Ijumaa tarehe 5 Mei 2017 saa nne asubuhi kuendesha shughuli zifuatazo:

1. Kuwatambua wawakilishi na kukagua idadi inayohitajika kuendeleza mkutano.

2. Kusoma ilani ya kuandaa mkutano.

3. Kuthibitisha kumbukumbu za Mkutano Mkuu uliopita uliofanyika tarehe 20 Mei 2016.

4. Kuzingatia na iwapo itaidhinishwa, kupitisha mizania na taarifa za kifedha kwa mwaka uliomalizika tarehe 31 Desemba 2016 pamoja na ripoti za Mwenyekiti, Afisa mkuu Mtendaji, Wakurugenzi na Watakwimu Sheria za Bima.

5. Kubaini kwamba Wakurugenzi hawajapendekeza malipo ya mgao wa faida kwa mwaka wa kifedha uliomalizika tarehe 31 Desemba 2016.

6. Kuchagua Wakurugenzi:

    6.1 Mr. Matthys Lodewikus Olivier anastaafu kwa zamu, na kulingana na sheria za kampuni anajiwasilisha kuchaguliwa tena.

    6.2 Mr. Julius Mugabe aliyechaguliwa Mkurugenzi 19 Agosti 2016, anastaafu, na hii ikiwa mara yake ya kwanza tangu Mkutano Mkuu kufanyika, anajiwasilisha kuchaguliwa tena.

    6.3 Mr. Theuns Botha aliyechaguliwa mkurugenzi 19 Mei 2016, anastaafu, na hii ikiwa mara yake ya kwanza tangu Mkutano Mkuu kufanyika, anajiwasilisha kuchaguliwa tena.

7. Kuidhinisha malipo ya Wakurugenzi.

8. Kubaini kwamba wakaguzi wa hesabu wa PricewaterhouseCoopers wataendelea mbele na jukumu lao kulingana na Sehemu ya 721(2) ya Sheria za kampuni Nambari 17 ya 2015 hadi kukamilika kwa Mkutano Mkuu wa Mwaka ujao na kuwaidhinisha Wakurugenzi kuamua malipo yao.

9. Kutekeleza shughuli nyingine zozote kwa idhini ya Mwenyekiti ambazo ilani ya saa 48 ilikuwa imetolewa kwa katibu wa kampuni katika afisi iliyosajiliwa ya Kampuni.

Kwa Amri ya Halmashauri

Emma Wachira

Katibu wa Kampuni

11th April 2017

Kumbuka:
Mwanachama anayestahili kuhudhuria na kupiga kura kwenye mkutano na ambaye hana nafasi ya kuhudhuria ana haki ya kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi sio lazima awe mwanachama wa kampuni. Ili kuwa halali fomu ya uwakilishi ilioambatishwa mwisho wa ripoti hii ni lazima ijazwe kikamilifu na kutiwa sahihi na mwanachama na kupelekwa katika afisi za Msajili wa Hisa za Kampuni, Image Registrars, Orofa ya 5, Barclays Plaza, Barabara ya Loita, Nairobi, Kenya ili kufika kabla ya saa nne asubuhi siku ya Jumatano tarehe 3rd Mei 2017.

Statement on Corporate Governance
for the year ended 31st December 2016

Principles of Corporate Governance

Sanlam Kenya PLC and its subsidiaries (the "Group"), is committed to upholding principles of corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the proposition of fairness, transparency and accountability. Structures, rules and processes are designed to provide for the proper organization and conduct of business within the Group and to define the powers and responsibilities of its corporate bodies and employees.

Our Board is committed to ensuring that good governance is embedded in the processes of the respective business units. Adherence to good corporate governance practices is essential in the sustainable management of Group and delivery of sustainable stakeholder value.

Industry Regulators have also enhanced their regulations and enriched risk management guidelines to ensure that financial institutions can effectively mitigate the myriad risks to which they are exposed. The Group welcomes these efforts as it continually ensures that its policies are in compliance the Corporate Governance Practices for Issuers of Securities to the Public, 2015 as well as other best practices.

The Group is unwavering in its commitment to developing and implementing policies that not only incorporate best practice in corporate governance, but also encapsulate the corporate values of the Group which are client centric, accountability, professionalism, integrity, dynamism and nurturing. These core values inform the operations of the Group. In 2016, the Group continued to adhere to the following principles:

i. Code of Ethics: This outlines the ethical principles that are designed to prevent employees from engaging in activities that would compromise the Group's integrity, respect for diversity, impartiality or reputation.

ii. Gift Policy: This outlines the policy on receipt and issue of gifts by employees and is designed to prevent the unfair granting of a gift or a favour. This is in line with the recently passed Bribery Act No. 47 of 2016, as well as the Anti-Corruption and Economic Crimes Act, 2003.

iii. Financial Crime Combating Policy: This outlines the guidelines of combating financial crime and unlawful conduct. This policy is in line with the Capital Markets Authority Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets.

iv. Schedule of Offences: This defines the different instances of unlawful conduct and the respective sanctions.

v. Zero Tolerance Approach: This stipulates zero tolerance to financial crimes and unlawful conduct. It further outlines consequences of committing a financial crime and/or unlawful act.

The Board appreciates that the Group's employees are key to achieving sustainable growth of the business and are the drivers of good corporate governance. In 2016, the Group under the leadership of the Board, embarked on a journey to inculcate a new corporate culture amongst its employees and financial consultant in line with the Mission and Vision known as "The Sanlam Way" which is driven by four key principles:

i. We are determined and Resolute

ii. We are solid and sensible

iii. We do it very, very well

iv. We do it for good.

Board of Directors

The Group is led by an effective, committed and unitary Board, which is collectively responsible for its long-term success. The Board is responsible for providing leadership and oversight by setting the strategic direction of the Group and monitoring the management for effectiveness. The Board also retains the overall responsibility for effective control of the Group and implementation of corporate governance polices. In carrying out the above responsibilities, the Board delegates its authority to the Group Chief Executive Officer to oversee the day to day business operations of the Group. The Board and the Group Chief Executive Officer are further supported by an able bodied Senior Management.

The Board is guided by provisions of the Board Charter which provides a detailed overview of the Directors' responsibilities, roles and the accountability of Board members, collectively and effectively to ensure a balance of power and authority.

A cordial working relationship is nurtured between the Executive and Non Executive Directors thus fostering a conducive working relationship. The Executive Directors with the assistance of Senior Management ensure that the Board receives timely and accurate reports on the financial status of the Group's operations and the industry's operational environment to enable them make informed decisions. The Board continually reviews all matters

Board of Directors (continued)

that are under their direct mandate including but not limited to the Group's strategy, Financial and Capital requirements among others.

Board Composition and Independence

In 2016, the Board consisted of Eight Directors; the Chairman, the Group Chief Executive Office as the only Executive Director, Four Non- Executive Directors representing the interests of our strategic Partner Sanlam and Two Independent Non-Executive Directors.

The Board is therefore well composed in terms of the range and diversity of skills, background and experience of Directors, and has an appropriate balance of Executive, Non-executive, and Independent Non-executive Directors. The Directors' abridged biographies appear on pages 24 and 25 of this Annual Report.

Changes to the Board in 2016

In 2016, there were the following changes to the Board of Directors:

a. Jonathan Paul Wrench and Margaret Dawes resigned in February and August 2016 respectively. The Group is very grateful to both of them for their significant contribution to the Group and wish them well in their future endeavours.

b. Theuns Botha and Julius Nyakia Magabe were appointed in May and August 2016 respectively to fill casual vacancies created.

Re-election to the Board

In accordance with the provisions of the Company's Articles of Association, all the directors retire by rotation every three years and are eligible to offer themselves for re-election. In every year, new directors who are appointed during the year to fill any casual vacancies, are subject to election by the shareholders during the Annual General Meeting and thereafter offer themselves for re-election every three years. In the 2017 Annual General Meeting, Theuns Botha, Julius Nyakia Magabe, John Burbidge, Rohan Patel and Mattys Lodewikus Olivier will retire by rotation as directors and seek to be re-elected to the Board.

Board Meetings

The Board and its Committees meet regularly in accordance with business requirements with at least one meeting quarterly. The Chairman ensures Board meetings are structured to facilitate open discussion, debate and challenge. This allows the Directors greater time to discuss their views ahead of the meeting.

The Group Company Secretary maintains a Board calendar with pre-set meeting dates and convenes the meetings as they fall due. The Group Company Secretary also shares the agenda and board papers on the content of discussion items well in advance for adequate preparation and for constructive discussions.

Board Responsibilities

The Board's principal duty is to promote the long-term success of the Group by creating and delivering sustainable shareholder value. These responsibilities are encapsulated in the Board Charter which specifically defines the parameters within which the Board exists and operates, sets out specific responsibilities to be discharged by the Board, its committees and Directors collectively.

Role of the Chairman and Group Chief Executive Officer

The roles of the Chairman and the Group Chief Executive Officer remain distinct and separate. The Chairman leads the Board in agreeing on strategy, monitoring operational and financial performance and establishing the Group's risk appetite and ensures that there is a good working relationship between the executive and non-executive directors.

The Group Chief Executive Officer on the other hand has the responsibility for the day to day management of the Group and putting into effect the decisions and policies of the board, with the assistance of the Executive Management.

Director's Conflict of Interest

Directors are under a fiduciary duty to act honestly and in the best interests of the Group and are statutorily mandated to avoid situations in which they have or may have interests that conflict with those of the Group. Prior to appointment, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent the Director from taking on the role. Directors are responsible for notifying the Chairman and Group Company Secretary as soon as they become aware of actual or potential conflict situations. Furthermore, to curb instances where the directors' self interests conflict with their duty to act in the best interests of the Group, policies requiring the directors to make declarations on any such interests at any such meeting where such business will be discussed in addition to absolving themselves from making decisions on the respective business have been instituted. The policy provides that directors, their immediate families and companies where directors have interests must not transact business with the Group without express approval from the Board.

Director's Conflict of Interest (continued)

Any such business transacted with the Group must be at arm's length.

Every quarter prior to the beginning of any Board meeting, the directors are requested to declare any interest and to complete a disclosure of interest form confirming that they have excluded themselves from discussions or decisions on potentially conflicting matters. The duly completed forms are kept in the Company Secretary's safe custody. In addition, any new director coming on board is required to complete the disclosure of interest form.

Board Remuneration

The Board remunerates directors and executives fairly and responsibly based on a compensation structure aligned with the Group strategy and linked to individual performance. The Shareholders at every Annual General Meeting approve the director's remuneration.

The directors' fee is annual but the sitting allowances are only paid subject to attendance at the board and/or committee meetings confirmed by the register of attendance . Both the annual fees and sitting allowance are paid on a quarterly basis. The Directors are not eligible for pension scheme membership and do not participate in any of the Group's remuneration schemes.

Details of the directors' remuneration are set out on page 132.

Apart from the Group Chief Executive, no director or a party related to a director has a service contract or receives compensation from the Group.

COMMITTEES OF THE BOARD

To assist the Board better discharge its responsibilities, the Board has constituted several Board Committees comprising a balanced mix of non-executive directors. Executive management and Group consultants, experts and service providers are on occasion invited to the Board as circumstances dictate to provide their expertise.

Each Board Committee has a Charter which contains provisions relating to the powers delegated by the Board to each Committee, membership of the Committee and the Committee's detailed duties. Annual performance reviews of each Committee are carried out and presented to the Board. At every quarter, the Chairperson of each Committee presents a report on the discussions held at the Committee meeting and seeks the Board's ratification for any decision made.

Members and attendance of these committees are provided on page 41.

The Board has three committees as follows:

Audit, Actuarial, Risk and Compliance Committee

The proceedings of the Committee are governed by an annual plan that details the specific matters that it must discuss at each quarterly meeting and the Audit Committee charter. The Committee's mandate is to consider all risks that affect the Group, legally, financially, technologically, politically, and to develop measures to manage identified risks. The Committee may in consultation with the Chairperson of the Board, and in cooperation with the Board's Company Secretary obtain outside legal or other independent professional advice.

Specifically, for and on behalf of the board, the Committee is responsible for: Setting and overseeing the overall standard for financial and actuarial reporting, risk management and internal controls within the Company and Group; Monitoring the effectiveness of business risk management processes in the Company and Group; Reviewing and assessing the quality of the work done by the professionals responsible for financial and actuarial reporting, risk management and internal control; Engaging in discussions with external and internal auditors on the quality and acceptability of the control environment and reporting structures.

The Board of the Company has authorised the Committee to investigate any activity within its terms of reference. The Committee is authorised to seek any information it requires from any employee in the Group, and all employees are expected to co-operate with any request made by the Committee.

The members of the Committee, and their attendance to the four meetings held in the year 2016 were as follows:

Audit, Actuarial, Risk and Compliance Committee (continued)

Table 1: Audit, Actuarial, Risk and Compliance Committee Membership and Attendance 2016

	Member	Directorship Status	Number of Meetings scheduled in 2016
1	John Burbidge (Chairman)	Non-Executive Director	3/4
2	Margaret Dawes	Non-Executive Director	3/3
	Olivier Wikus	Non-Executive Director	4/4
3	Susan Mudhune	Non-Executive Director	4/4
4	Mugo Kibati	Executive Director	4/4
5	Julius Magabe	Non-Executive Director	2/2

Investment Committee

The primary functions of the Investment Committee are: To establish appropriate investment guidelines for the Life & General Businesses; To set investment benchmarks, for example, recommended percentage compositions of property, equities, cash, bonds etc for each of the two investment portfolios); To review the actual portfolio compositions against these benchmarks on a quarterly basis; To review the performance of investments and make recommendations where appropriate; To approve the acquisition and disposal of significant investments; To approve capital works on property investments.

The members of the Committee, and their attendance to the four meetings held in the year were as follows:

Table 2: Investment Committee Membership and Attendance 2016

	Member	Directorship Status	Number of Meetings scheduled in 2016
1	Rohan Patel (Chairman)	Non-Executive Director	4/4
2.	Mugo Kibati	Executive Director	4/4
3.	Josh Wrench	Non-Executive Director	1/1
4.	Dr John PN Simba	Chairman of the Board	4/4

Nomination and Human Resources Committee

The members of the Nomination Human Resources Committee are described in Table 3 below. In 2016 this Committee changed its name from the 'Human Resources Committee' to the Nomination and Human Resource Committee. The Committee ensures that an effective management succession process exists; to regularly evaluate the long-term availability of management expertise; and to give careful attention to succession planning for the positions of the senior management, including making recommendations with regard to the position of Chief Executive. The Committee was instrumental in the appointment of Thenus Botha and Julius Magabe as they offered strategic guidance in respect to the same.

Table 3: Nomination and Human Resources Committee Membership and Attendance 2016

	Member	Directorship Status	Number of Meetings scheduled in 2016
1	Susan Mudhune (Chairperson)	Non-Executive Director	4/4
2.	Mugo Kibati	Executive Director	4/4
2	Margaret Dawes	Non-Executive Director	3/3
3	Dr John PN Simba	Non-Executive Director	4/4
4	Rohan Patel	Non-Executive Director	4/4

When a director was not able to attend either a Committee or a Board meeting, an apology had been given to the respective Chairperson in advance of the scheduled meeting.

Management Committees

The Group Chief Executive has established committees to assist him in the management of the Group comprising the respective Heads of Department and other senior managers who may be co-opted from time to time. These committees include:

- The Executive Committee (EXCO) that meets weekly to review day to day issues affecting the Group and ensure adherence to Group's policy and procedures

- The Management Committees (MANCOM) that meets bi-monthly to review operational issues of the Group, with emphasis on the assessment and monitoring of the institution's operational risks.

Statement on Corporate Governance
for the year ended 31st December 2016

Professional Advisors

The Board is of the view that to carry on its responsibilities in an independent and impartial fashion it should seek and benefit from professional counsel. The directors have full access to the advice of the Company Secretary. They are also entitled to obtain independent professional advice on any matter at Company expense should they deem this necessary.

Group Company Secretary

The Company Secretary who is a member of the Certified Public Secretaries of Kenya (ICPSK) provides guidance to the Board on the duties of the directors and good governance, ensures Board and Committee charters are kept up to date, prepares and circulates board papers, elicit responses, input, feedback for board and Board Committee meetings, assist in drafting yearly board work plans and ensure preparation and circulation of minutes of board and committee meetings.

External Auditors

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, the external auditors examine and give their opinion on the reasonableness of the financial statements.

The auditors report independently and directly to the Board at the half year and end year board meetings. PricewaterhouseCoopers were appointed as the company's external auditors and have carried out the company's audit for 2016.

Internal Auditors

The Company's internal auditors report directly to the Audit, Risk, Actuarial and Compliance Committee.

KPMG

They are the group's tax advisors. They were appointed by the Board and liaise with management to ensure that the Group optimises its tax position and complies with all tax matters.

Statutory Actuary

Giles Waugh (of Deloitte, South Africa) and Abed Muriithi (of Actuarial Services (East Africa) Limited are the Group's statutory actuaries responsible for examining the financial soundness of the Group's Life and General Insurance Companies respectively. They do this by independently valuing the Companies assets and policy liabilities. The statutory actuaries report independently and directly to the Board at board meetings where the half results and the end year results are being considered.

Sanlam Investments Limited

The Group has significant investments that need to be managed to ensure optimal returns. Fund management has been outsourced to Sanlam Investments Limited who are one of the leading fund managers in the country. The fund manager reports on a quarterly basis to the Investment Committee. Management monitors fund performance on a monthly basis.

Sanlam Investments Limited is a wholly owned subsidiary of the Company.

Sanlam General Insurance Limited

Sanlam General Insurance Limited provides general insurance services. It offers personal insurance policies that include risk, domestic package, personal accident, WIBA, and private motor insurance; commercial insurance policies, such as public liability, professional indemnity for lawyers, fire and perils, group personal, director and officers, product liability, marine/transit, medical, construction all risk, commercial motor, and goods and money in transit.

Sanlam General Insurance Limited is also a wholly owned subsidiary of the Company.

Llyod Masika

A significant component of the Investments within the Group comprise of residential and commercial properties. Llyod Masika are the property managers responsible for the management of these commercial properties, collection of rent, general repairs and maintenance. Quarterly reports from Llyod Masika are tabled before the Board for discussion at every meeting.

Code of Conduct

The Group's Directors and Employees executed the newly published Code of Conduct within the year that was specifically geared towards inculcating a culture of Professionalism, Integrity, and Customer centric wealth creation in line with the Group's Vision and Mission Statements. All parties are required to strictly adhere to the Code of Conduct breach whereof results in disciplinary action.

Relations with shareholders

The Board recognises the importance open channels of communications with all its shareholders. The Board therefore endeavours to keep its Shareholders appraised on the status of

Statement on Corporate Governance
for the year ended 31st December 2016

Relations with shareholders (continued)

the Group's performance and utilizes the Annual General Meeting (AGM), Annual Reports and quarterly publications of its financial performance in the Daily Newspapers which are also available on the Group's website **www.sanlam.com/kenya.**

An ample notice period of twenty one days notice of the AGM as provided for in the Kenyan Companies Act thereby giving shareholders a chance to place items on the Agenda by submitting questions and appoint proxies to represent them where they are unable to attend.

Prevention of Insider Trading

The Group with the guidance of the Group Company Secretary has set up policies and procedures to curb insider trading. In compliance with the Nairobi Stock Exchange's regulations to prevent insider trading, the Group's policy is that directors, management, staff members, any of their relatives, or any of the companies / businesses / organisations that exercise significant influence over are the Group are not allowed to deal in the Group's shares during the closed season. The closed season is the period between the end of the Group's reporting period and the publication of results. This occurs at the year-end (between 31 December and 31 March) and the half year-end (30 June and 15 August).

The Group Company Secretary always advises the directors, management and staff of the closed season to avert any incidences of insider trading.

GOING CONCERN

The Board submits this annual report and audited financial statements for the year ending 31 December 2016. The annual report and audited financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Group's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Group and its subsidiaries will not be a going concern into the foreseeable future.

SHAREHOLDING

The Company, through its Registrar, Image Registrars Limited, files returns regularly in line with the requirement of the Capital Markets Authority and the Nairobi Securities Exchange under the listing regulations on transactions related to shareholders.

Table 6: Director's shareholding as at 31 December 2016

Details of the directors' shareholding in the Group are summarised in Table 6 below:

	Name	No. of Shares	Percentage
1.	BALOOBHAI CHHOTABHAI PATEL (Alternate to Rohan Patel)	29,369,977.00	20.04
2.	DR JOHN P. N SIMBA	106,950	0.07

Disclosure of Information to shareholders

The Board discloses to shareholders the financial position of the Group three times a year: at the annual general meeting, by publication of the half- year results in the English daily newspapers and by publication of the year-end results in the English daily newspapers. The financial position of the Group together with relevant information such as the share price and on the central depository system are made available for viewing on the Group's website, **www.sanlam.com/kenya.** The share register is kept at the offices of the Group and a computer database stores this information. The Group Secretary is responsible for the share register and responds to correspondence directly from shareholders. The official books of the Group are kept at the head office of the Group and are available for the perusal of shareholders during working hours. The Group publishes the annual report and audited accounts, which are sent out to all shareholders, entitled to attend the annual general meeting.

The Group has an authorised share capital of KShs. 2bn divided into 400 Million shares of KShs 5/= each. 144 Million shares are currently issued.

Statement on Corporate Governance
for the year ended 31st December 2016

Top 10 shareholders in the Group

The top 10 shareholders, based on the Group's Register of Members, as at 31 December 2016 are shown in Table 7 below:

Table 7: Top ten Shareholders as at 31st December 2016

Name	2016 No of shares	%age	2015 No of shares	%age
Hubris Holdings Limited	82,278,000	57.14	81,074,600	56.30
Patel Baloobhai Chhotabhai	29,369,867	20.40	29,369,977	20.40
Mayfair Insurance Company Ltd	1,282,050	0.89	1,282,050	0.89
Apa Insurance Limited	1,079,907	0.75	1,013,363	0.70
Thammo Holdings Limited	1,013,363	0.70	1,079,907	0.75
Anjay Vithalbhai Patel	900,000	0.63	900,000	0.62
Standard Chartered Nominees A/C 9595	852,600	0.59	852,600	0.59
Cannon Assurance (Kenya) Limited	653,237	0.45	653,237	0.45
Leverton Limited	600,000	0.42	600,000	0.42
Kenya Reinsurance Corporation Limited	511,2000	0.36	511,200	0.35%

Distribution of shareholders

The Capital Markets Authority requires the Group to provide information on the distribution of the shareholders based on the number of shares owned and based on their nationality. This information is presented in Tables 7 and 8:

Table 8: Distribution Schedule

Range	Number of Shareholders	Number of Shares	%
1 to 500	613	123,542	0.09
501 to 1,000	252	189,315	0.13
1,001 to 5,000	1,989	5,162,055	3.58
5,001 to 10,000	226	1,635,447	1.14
10,001 to 50,000	289	6,008,347	4.17
50,001 to 100,000	43	2,979,820	2.07
100,001 to 500,000	46	9,361,223	6.49
500,001 to 1,000,000	5	3,517,037	2.45
1,000,001 and above	5	115,023,187	79.88
Grand Totals	3,468	144,000,000	100.00

Statement on Corporate Governance
for the year ended 31st December 2016

Table 9: Shareholder's Profile

Category	Number of Shareholders	Number of Shares	Shareholding
Local Institutions	154	91,049,579	63.23
Local Individuals	3,029	50,238,236	34.89
Foreign Investors	222	2,712,185	1.88
Total	**3,468**	**144,000,000**	**100**

Dr. John P. N Simba

Chairman

Mugo Kibati

Group Chief Executive Officer

Business Review

Sanlam life

Sanlam Life profitability grew by 87% from 2015 despite the decline in premium income. The growth in profitability was favoured by growth in the investment income of 55%. This was driven by good investment return from the interest bearing exposure.

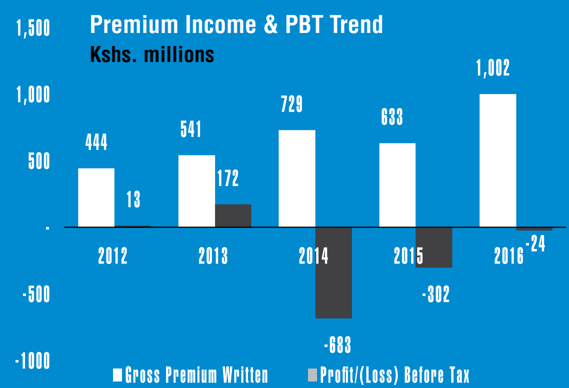
Gross written premium declined by 5% to KShs. 4.4b from KShs.4.6b achieved in 2015. Premium income growth was hampered by competitive market pressure that affected growth in the corporate business, while the retail business experienced the anticipated effects of streamlining the distribution channels and agency force for productivity.

Sanlam Life

Kshs. 2.09b

Shareholders' funds increased to Kshs.2.09b up from Kshs. 1.68b due to increase in profitability while expenses grew marginally by 12% from Kshs. 703m in 2015 to 789m in 2016.

Sanlam General



Policyholder benefits increased from KShs. 4b to KShs. 4.3b. This is also a reflection of the value Sanlam Life creates for customers.

Shareholders' funds increased to Kshs.2.09b up from Kshs. 1.68b due to increase in profitability while expenses grew marginally by 12% from Kshs. 703m in 2015 to 789m in 2016.

The solvency position of the company increased to 1.48 from 1.31 in December 2015 due to significant increase in investment income.

The Company achieved numerous milestones despite a difficult year. Going forward, Sanlam Life will keep investing in it's operational capacity to better serve target customer needs and fully exploit growth opportunities identified or those that will emerge.

Sanlam General Business Review

Sanlam General Insurance Limited posted production of Kshs. 1b, a 58% growth from prior year production of Kshs. 633m. Loss before tax improved by 92% to close at 24.3m compared to 302.4m in 2015.

Claims incurred stood at Kshs. 134.6m compared to Kshs. 538.3m in 2015. The drop of 75% from the prior year is driven by reduced claims as a result of discontinued underwriting of motor PSV class. Management expenses grew by 11% from prior year level of Kshs. 434.8m to stand at Kshs. 481.6m.

Investment income realized Kshs. 0.9m, a reduction by 100% from prior year performance of Kshs. 210m. The performance has been impacted by a Kshs. 60m loss on sale of investment property, and prudent revaluation of the investment property that maintained them at the same level as last year.

Overall, shareholder's funds have grown by 88% from Kshs 270m in 2015 to Kshs. 506m in 2016 following capital injection of Kshs. 250m. Total assets have grown by 14% from Kshs 2.27b in 2015 to Kshs 2.58b.

Looking ahead

The Company's focus is on diversifying its business to offer a wide range of insurance solutions to its clients. In the coming period, we will continue solidifying our presence in the local marine space and look forward to launching the travel insurance in the second quarter.

Asset Management Business

Fee income from our investment business increased by 31% to KShs. 156m from KShs.119m on account of satisfactory growth in assets under management (AUM) and performance fees earned based on significant outperformance of benchmarks. The Operating Profit of KShs. 46m increased from KShs. 24m in 2015 mainly attributable to the growth in revenues in line with the growth in AUM as well as cost containment.

The business also delivered stellar investment returns for all its clients substantially outperforming all client benchmarks. A higher allocation to bonds and credit instruments underpinned the outperformance during the year. The stock selection equally delivered good results returning significant positive performance compared to the NSE 20 index which had a -21.1% return and the NASI index which also delivered a -8.5%. On 5 year, 3 year and 1 year basis the returns for all clients were significantly above benchmark a reflection of the wealth we continue to create for our clients.

Sanlam Life

87%

Sanlam Life profitability grew by 87% from 2015 despite the decline in premium income.

55%

The growth in profitability was favoured by growth in the group investment income of 55%.

Kshs. 4.3 billion

Policyholder benefits increased from KShs. 4b to KShs. 4.3b. This is also a reflection of the value Sanlam Life creates for customers

1.48

The solvency position of the company increased to 1.48 from 1.31 in December 2015 due to significant increase in investment income.

Sanlam General

Kshs. 1 billion

Sanlam General Insurance Limited posted production of Kshs. 1b, a 58% growth from prior year gross premiums of Kshs. 633m.

88%

Overall, shareholder's funds have grown by 88% from Kshs 270m in 2015 to Kshs. 506m in 2016 following capital injection of Kshs. 250m.

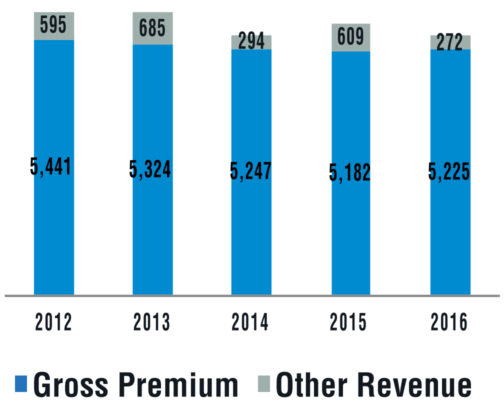
Sanlam Investments

Kshs. 46 million

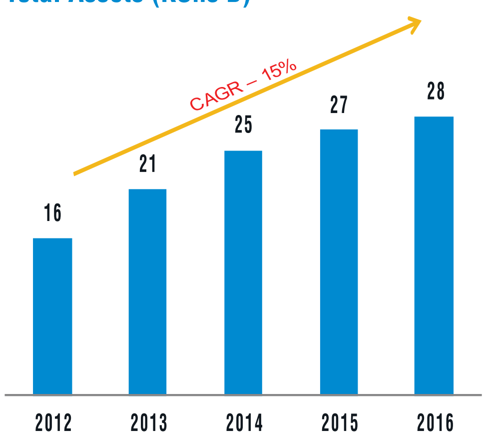
The Operating Profit of KShs. 46m increased from KShs. 24m in 2015 mainly attributable to the growth in revenues in line with the growth in AUM as well as cost containment.

Financial Reports

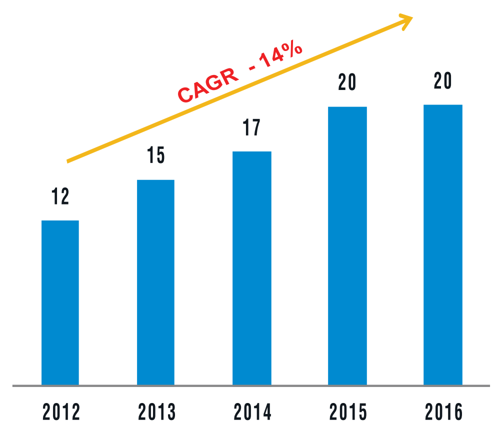
Group Revenues & PBT (KShs M)



Total Assets (KShs B)



Policyholder Assets (KShs B)



Statement of Directors' Responsibilities

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

The directors accept responsibility for the presentation and preparation of financial statements of the Group and Company in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible in preparing the financial statements, to assess the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so. The audit of the financial statements does not relieve the directors of this responsibility.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Group and Company at 31 December 2016 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the board of directors on 16th February 2017 and signed on its behalf by:

Dr. John P. N Simba
Chairman

Mugo Kibati
Group Chief Executive Officer

Report of the Statutory Actuary - Sanlam Life Insurance Limited

Certificate of Solvency in respect of Sanlam Life Insurance Limited's Life and Pension Policies:

I have conducted a statutory actuarial valuation of the long-term business of Sanlam Life Insurance Limited as at 31 December 2016.

This valuation has been conducted in accordance with generally accepted actuarial principles and in compliance with the requirements of the Insurance Act. These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies. In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the long-term business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance and pension fund business did not exceed the amount of the Statutory Insurance Funds as at 31 December 2016.

Giles T Waugh FASSAFIA

GTWaugh

Statutory Actuary
Fellow of the Actuarial Society of South Africa

17th February 2017

Report of the Statutory Actuary – Sanlam General Insurance Limited

I have conducted an actuarial valuation of Sanlam General Insurance Limited as at 31 December 2016.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act Cap 487 of the Laws of Kenya. Those principles require prudent principles for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the financial statements of the company.

In my opinion, the non-life insurance business of the Company was financially sound and the value of actuarial liabilities did not exceed the claims and premium reserves held by the Company.

Abed Muriithi

Actuarial Services (East Africa) Limited

14th February 2017

Embedded value report

1. **a) Definition of Embedded Value**

This report sets out the embedded value and the value of new business of Sanlam Kenya Plc. The embedded value represents an estimate of the economic value of the Company excluding the value attributable to future new business. The embedded value comprises:

- The value of the shareholders' net assets; plus
- The value of the in-force business.

The value of in-force business is the present value of future profits arising from business in force at the valuation date, discounted at the risk discount rate.

b) European Embedded Value Principles (EEV)

Sanlam Kenya Plc has fully adopted the revised embedded value guidance from the Chief Financial Officers (CFO) Forum's European Embedded Value (EEV) Principles.

2. Embedded Value Results

	2016	2015
	KShs.'000	KShs.'000
a) Group embedded value		
Shareholders' adjusted net assets	3,117,325	3,167,136
Net value of in-force business	1,572,946	2,053,254
Gross value of in-force business	2,760,199	3,411,813
Tax provision	(828,060)	(1,023,544)
Cost of Capital Adequacy Requirement (CAR)	(359,193)	(335,015)
Embedded value	4,690,271	5,220,390
(b) Embedded Value Earnings		
The embedded value earnings are derived as follows:		
Embedded value at end of year	4,690,271	5,220,390
Embedded value at beginning of year	(5,220,390)	(6,442,567)
Change in embedded value	(530,119)	(1,222,177)
Dividends paid in the year	-	-
Embedded value earnings	(530,119)	(1,222,177)

	2016	2015
These earnings can be analysed as follows:	KShs.'000	KShs.'000
Adjustment to fair value of subsidiary	(17,972)	(1,130,100)
Roll forward	501,687	422,148
Investment return on free assets	59,770	35,741
Expected return on life business in-force	441,917	386,407
Change over the period	(1,013,834)	(514,226)
Value of new business	(88,203)	108,287
Changes in assumptions and methodology	(466,316)	(133,460)
Experience variations	(15,242)	(252,319)
Decrease in NAV for other subsidiaries	(444,073)	(236,734)
Total earnings	(530,119)	(1,222,177)

3. Value of New Business

Value at point of sale (gross of tax)	(82,541)	197,922
Tax on value at point of sale	24,762	(59,377)
Cost of CAR at point of sale	(30,424)	(30,258)
Value of new business	(88,203)	108,287

4. Sensitivity to the Risk Discount Rate

The risk discount rate appropriate to an investor will vary depending on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future profits of the Group. The sensitivity of the embedded value to the risk discount rate is set out below:

Risk Discount Rate	16.80%	17.80% (basis)	18.80%
	KShs.'000	**KShs.'000**	**KShs.'000**
Shareholders' net assets	3,169,477	3,169,477	3,169,477
Value of in-force business	1,668,562	1,572,946	1,483,881
Embedded value	4,838,039	4,742,423	4,653,358
Value of one year's new business	(74,925)	(88,203)	(100,567)

5. Assumptions

The assumptions used in the calculation of the embedded value are based on the Group's best estimate of future experience.

The main assumptions used are as follows:

a) Economic Assumptions

The main economic assumptions (p.a.) used are as follows:

	2016	2015
	%p.a	%p.a
Risk discount rate	17.80	19.10
Overall investment returns (pre tax)	13.48	14.83
Expense inflation rate	9.80	11.10

The effect of the above economic assumptions on embedded value is as follows:

	2016	2015
	KShs.'000	KShs.'000
Risk discount rate	100,070	(169,459)
Overall investment returns (pre tax)	(157,852)	373,483
Expense inflation rate	37,684	(70,908)
Total	(20,098)	133,116

b) Mortality Rates

The assumptions for future mortality rates are based on the results of recent experience investigations conducted by the Group.

c) Expenses

The maintenance expense assumption is based on the results of recently conducted internal expense investigations.

d) Premium Escalations

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on new business written during the year to 31 December 2016.

e) Persistency / Surrender Basis

The assumptions for lapse and surrender rates are based on the results of recent experience investigations conducted by the Group.

f) Tax

Allowance was made for the current life office taxation basis

6. Sensitivities

This section illustrates the effect of different assumptions on the value of in-force business net of cost of capital.

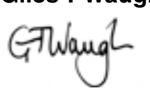
	Value of in force KShs'000	% change over base
Values as at 31 December 2016	**1,572,946**	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	1,640,869	4.3%
Equity/property assets fall by 10% without a corresponding fall/rise in dividend/rental yield - Assume portfolio asset mix is rebalanced after fall in market values	1,560,808	-0.8%
Increase expected return on equities/property assets by 1,0% p.a. due to a change in the equity/property risk premium with no consequential changes to discount rates	1,646,324	4.7%
Shock scenario *	1,768,964	12.5%
Expenses and persistency		
Non commission maintenance unit expenses (excluding investment expenses) decrease by 10%	1,697,358	7.9%
Discontinuance rates decrease by 10%	1,587,253	0.9%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	1,615,749	2.7%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	1,575,311	0.2%
The sensitivity of the value of new business is as follows:		
Values of one year new business as at 31 December 2015	**(88,203)**	
Investment return (and inflation) decreased by 1,0% and with bonus rates and discount rates changing commensurately	(54,645)	-38.0%
Increase expected return on equities/property assets by 1,0% p.a. due to a change in the equity/property risk premium with no consequential changes to discount rates	(79,098)	-10.3%
Shock scenario *	(71,673)	-18.7%
New business volumes decrease by 10%	(119,657)	35.7%
Expenses and persistency		
Maintenance unit expenses (excluding investment expenses) decrease by 10%	(74,273)	-15.8%
Non commission acquisition expenses decrease by 10%	(58,133)	-34.1%
Discontinuance rates decrease by 10%	(84,144)	-4.6%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	(76,356)	-13.4%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	(89,435)	1.4%

Notes: Shock scenario*: Shock scenario is defined as an immediate 30% drop in equity values, 15% drop in property values, overseas assets fall at least 20% and fixed interest yields rise 25% (i.e. higher assumed returns and inflation rates as well as risk discount rates).

Assumed Management Action

Mortality charges have been assumed to change in line with the costs of providing benefits.

Giles T Waugh FASSA FIA



Statutory Actuary, Fellow of the Actuarial Society of South Africa.

17th February 2017

Report of the Independent Auditor to the members of Sanlam Kenya PLC

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Sanlam Kenya Plc (the “Company”) and its subsidiaries (together, the Group) set out on pages 62 to 164, which comprise the consolidated and company statement of financial position at 31 December 2016 and the consolidated and company statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2016 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities The insurance contract liabilities as disclosed under note 26 is made up of outstanding claims, policy holder liabilities and incurred but not reported claims (IBNR). The estimation of insurance contract liabilities involves significant judgement given the inherent uncertainty in estimating expected future outflows in relation to claims incurred. They are determined annually on the basis of the best information available. The actuarial valuation of the policy holder liabilities for the life business has been carried out using a gross premium valuation method, in compliance with the change in regulation (Insurance Act 1984, amendment dated January 2017). The key assumptions applied in the estimation of this liability are on mortality rates, expenses, interest rate, and lapses.Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors as well as internal factors such as portfolio mix, policy conditions and claims underwriting) in order to arrive at the estimated actuarial liability that presents the likely outcome from the range of possible outcomes. A margin for adverse deviation may also be included in the liability valuation. The general insuranceliabilities represent the ultimate cost of settling all claims arising from incidents occurring prior to the end of each reporting period, but not settled at that date. The valuation of these liabilities relies on accurate data about the volume, amount and the pattern of current and historic claims both internal and external to the business. Small changes in these assumptions can result in a material impact to the estimate. Premium debtors comprise a significant proportion of the assets of the Company. The nature of the insurance industry in Kenya is such that a significant amount of premium is received through intermediaries (agents/brokers). The judgement involved in estimating the impairment provision required for uncollectable debtors is subjective and thus makes this an area of significance.	Our procedures included the following: • We evaluated and tested controls around the claim handling, settling and valuation; • We checked a sample of claims to supporting documents; • We performed reconciliations between the claims data and that used to calculate the reserves; • We considered the methodology and assumptions used by the appointed actuary to compute the policy holder liabilities and incurred but not reported claims (IBNR) as at 31 December 2016. • We assessed the valuation methods used against generally accepted actuarial practice and the Insurance Regulatory Authority (IRA) guidelines on valuation of technical liabilities. • We obtained and reviewed the actuarial valuation reports to confirm that the balances reported in the financial statements were consistent with the results of the independent actuary valuation. • We evaluated and tested controls of the underwriting process which included how premium is booked in the system to ascertain that the premium debtor balance was supported by valid debit notes; • On a sample basis, we verified the make up of the outstanding debtor balances by reviewing the signed debit notes; • We tested the process management has applied in making the impairment provisions; • We validated the debtors ageing and challenged management on the recoverability of overdue balances.

pwc

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, 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 management and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of 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 misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of thefinancial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 judgement 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 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in thefinancial 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Auditor's responsibilities for the audit of the financial statements (continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal requirements

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

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

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books;

iii) the company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge - P/No.1244.

PricewaterhouseCoopers

Certified Public Accountants
2 March 2017
Nairobi

Group and company statement of profit or loss

for the year ended 31 December 2016

		Group		Company	
		2016	2015	2016	2015
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Gross premium income	4(a)	5,224,546	5,181,614	-	-
Premium ceded to reinsurers	4(b)	(392,341)	(384,628)	-	-
Net premium income		**4,832,205**	**4,796,986**	**-**	**-**
Fees and commission income	5	74,955	80,220	-	-
Investment income	6(a)	2,518,645	2,388,531	1,197	4,962
Fair value losses	6(b)	(450,341)	(637,144)	-	-
Impairment of financial assets		(93,397)	-	-	-
Other operating revenue	6(c)	272,007	608,591	496,318	517,790
Total other revenue		2,321,869	2,440,198	497,515	522,752
Total revenue		**7,154,074**	**7,237,184**	**497,515**	**522,752**
Gross benefits and claims paid	7(a)	(4,193,984)	(3,620,249)	-	-
Claims ceded to reinsurers	7(a)	204,498	96,593	-	-
Gross change in insurance contract liabilities	7(a)	(1,205,314)	(1,469,763)	-	-
Gross change in investment contract liabilities	7(a)	600,054	663,994	-	-
Change in contract liabilities ceded to reinsurers	7(a)	116,279	72,210	-	-
Net benefits and claims		**(4,478,467)**	**(4,257,215)**	**-**	**-**
Fee and commission expense	7(b)	(660,731)	(834,991)	-	-
Cost of sales	7(c)	(28,009)	(63,178)	(28,009)	(63,178)
Other operating and administrative expenses	8	(1,669,594)	(1,466,658)	(206,238)	(279,962)
Impairment of goodwill	13(b)	-	(564,080)	-	-
Impairment of investment in subsidiary	15(a)	-	-	-	(539,562)
Total benefits, claims and other expenses		**(6,836,801)**	**(7,186,122)**	**(234,247)**	**(882,701)**
Profit before share of profit of associate		317,273	51,062	263,268	(359,949)
Share of profit of associate	15(b)	(220)	3,263	-	-
Profit before tax		**317,053**	**54,325**	**263,268**	**(359,949)**
Income tax expense	10	(246,430)	(26,975)	6,831	(56,201)
Profit for the year		**70,623**	**27,350**	**270,099**	**(416,150)**
Profit attributable to:					
Owners of the parent		90,252	(61,559)	270,009	(416,150)
Non-controlling interests		(19,629)	88,909	-	-
Earnings per share:					
Basic	32	0.63	(0.43)	1.88	(2.89)
Diluted	32	0.63	(0.43)	1.88	(2.89)

Group and company statement of other comprehensive income

for the year ended 31 December 2016

		Group		Company	
		2016	**2015**	**2016**	**2015**
	Note	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Profit for the year:		70,623	27,350	270,099	(416,150)
Other comprehensive income net of tax	17	23,249	-	-	-
Total comprehensive income for the year		**93,872**	**27,350**	**270,099**	**(416,150)**
Attributable to:					
Owners of the parent		106,061	(61,559)	270,009	(416,150)
Non-controlling interests		(12,189)	88,909	-	-

Group and company statement of financial position

as at 31 December 2016

		Group		Company	
		2016	2015	2016	2015
	Note	KShs.'000	KShs.'000	KShs.'000	KShs.'000
ASSETS					
Intangible assets	11	116,661	129,821	-	-
Property and equipment	12	177,071	134,138	9,826	3,870
Goodwill	13	-	-	-	-
Investment properties	14	2,761,200	2,674,799	-	-
Investments in subsidiaries	15(a)	-	-	1,343,604	1,129,929
Investment in associate	15(b)	21,572	21,792	4,861	4,861
Deferred income tax	29	182,721	170,225	24,883	17,236
Loans	16	930,564	965,495	-	-
Held to maturity financial assets	17(a)	8,836,392	8,069,169	-	-
Available for sale financial assets	17(a)	104,653	80,364	-	-
Financial assets at fair value through profit or loss	17(a)	10,566,547	10,039,667	-	-
Reinsurance share of insurance contract liabilities	18	554,983	326,697	-	-
Land and development	22	127,366	77,038	127,366	77,038
Current income tax	10	65,583	27,329	15,423	-
Insurance receivables	23(a)	550,622	234,576	-	-
Receivables and other financial assets	23(b)	798,792	222,224	366,767	155,455
Deferred acquisition costs	23(c)	150,427	19,776	-	-
Deposits with financial institutions	24	2,033,481	3,693,324	-	-
Cash and bank balances	24	463,955	222,844	11,659	57,634
TOTAL ASSETS		**28,442,590**	**27,109,278**	**1,904,389**	**1,446,023**

Group and company statement of financial position (continued)

as at 31 December 2016

		Group		Company	
EQUITY AND LIABILITIES		**2016**	**2015**	**2016**	**2015**
CAPITAL AND RESERVES		**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Issued share capital	25	720,000	720,000	720,000	720,000
Revaluation reserves		15,809	-	-	-
Statutory fund	25	2,814,653	2,184,710	-	-
Retained earnings		219,746	811,364	(131,042)	(401,141)
Shareholder's funds		**3,770,208**	**3,716,074**	**588,958**	**318,859**
Non-controlling interests		162,036	85,973	-	-
TOTAL CAPITAL AND RESERVES		**3,932,244**	**3,802,047**	**588,958**	**318,859**
LIABILITIES					
Insurance contract liabilities	26	12,704,048	11,397,467	-	-
Investment contract liabilities	26	7,653,977	8,269,515	-	-
Payables under deposit administration contracts	26	1,489,407	1,434,573	-	-
Unearned premium	27	474,115	273,895	-	-
Deferred income tax	29	844,396	655,413	-	-
Provisions	28	51,925	51,925	-	-
Current income tax	10	8,668	4,438	-	1,429
Insurance payables	30	802,471	464,273	-	-
Payables and other charges	31	481,339	755,732	1,315,431	1,125,735
TOTAL LIABILITIES		**24,510,346**	**23,307,231**	**1,315,431**	**1,127,164**
TOTAL EQUITY AND LIABILITIES		**28,442,590**	**27,109,278**	**1,904,389**	**1,446,023**

The financial statements were approved by the Board of Directors on 16th February 2017 and signed on its behalf by:

Dr. John P. N Simba

Chairman

16th February 2017

Mugo Kibati

Group Chief Executive Officer

16th February 2017

Group statement of changes in equity

for the year ended 31 December 2016

		Attributable to owners of Sanlam Kenya Plc Limited							
	Note	Share capital	Share Premium	Revaluation surplus	Statutory fund	Retained earnings	Total	Non con-trolling interests	Total
		KShsh.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Year Ended 31 December 2016:									
At 1 January		720,000	-	-	2,184,710	811,364	**3,716,074**	85,973	**3,802,047**
Profit or loss:									
Total comprehensive income		-	-	15,809	-	90,252	**106,061**	(12,189)	**93,872**
Transfer to statutory fund	25	-	-	-	629,943	(629,943)	**-**	-	**-**
Transactions with minorities	25	-	-	-	-	(51,927)	**(51,927)**	88,252	**36,325**
At 31 December		720,000	-	15,809	2,814,653	219,746	**3,770,208**	162,036	**3,932,244**
Year Ended 31 December 2015:									
At 1 January		480,000	124,431	-	1,848,043	1,325,159	**3,777,633**	-	**3,777,633**
Profit or loss:									
Total comprehensive income		-	-	-	-	(61,559)	**(61,559)**	88,909	**27,350**
Transfer to statutory fund	25	-	-	-	336,667	(336,667)	**-**	-	-
Transactions with owners:									
Minority interests at date of acquisition		-	-	-	-	-	**-**	(2,936)	**(2,936)**
Bonus issue		240,000	(124,431)	-	-	(115,569)	**-**	-	**-**
At 31 December		720,000	-	-	2,184,710	811,364	**3,716,074**	85,973	**3,802,047**

Company statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital KShs.'000	Share premium KShs.'000	Retained earnings KShs.'000	Total KShs.'000
Year Ended 31 December 2016:					
At 1 January		720,000	-	(401,141)	318,859
Total comprehensive income:					
Loss for the year		-	-	270,099	270,099
At 31 December		720,000	-	(131,042)	588,958
Year Ended 31 December 2015:					
At 1 January		480,000	124,431	130,578	735,009
Total comprehensive income:					
Loss for the year		-	-	(416,150)	(416,150)
Transactions with owners:					
Bonus issue		240,000	(124,431)	(115,569)	-
At 31 December		720,000	-	(401,141)	318,859

Group statement of cash flows

for the year ended 31 December 2016

	Note	2016	2015
		KShs. '000	KShs. '000
Operating activities			
Net cash utilised in operations	35(a)	(2,337,522)	(762,835)
Investing activities			
Purchase of intangible assets	11	(5,962)	(13,813)
Purchase of property and equipment	12	(87,170)	(40,983)
Purchase of investment property	14	(624,788)	(424,192)
Net purchase of financial assets through profit and loss	17	(667,666)	(293,512)
Purchase of government securities	17	(763,962)	(878,550)
Disposal/Maturities of government securities		51,900	-
Acquisition of subsidiary		-	(456,428)
Proceeds from disposal of property	12	-	350,041
Proceeds from disposal of investment property	14	540,000	50,000
Investments in land and development	22	(50,238)	56,181
Policy and Mortgage Loans advanced	19/20	(748,675)	(757,750)
Policy and Mortgage Loans repaid	19/20	898,309	974,563
Rental income	6	53,879	41,975
Dividend income received	6	161,788	132,757
Interest received		2,125,050	1,957,418
Net cash generated from investing activities		882,465	697,707
Financing activities			
Proceeds from issue of share capital to non-controlling interests		36,325	-
Net cash generated from financing activities		36,325	-
Decrease in cash and cash equivalents		(1,418,732)	(65,128)
Cash and cash equivalents at start of year		3,916,168	3,981,296
Cash and cash equivalents at end of year	24	**2,497,436**	**3,916,168**

Company statement of cashflows

for the year ended 31 December 2016

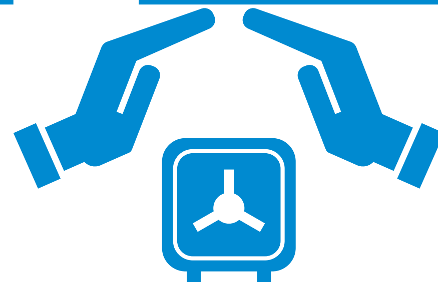
	Note	2016	2015
		KShs.'000	KShs.'000
Operating activities			
Net cash (utilised in)/generated from operations	35(b)	(4,628)	562,630
Investing activities			
Investment income		2,782	4,962
Dividends received		250,000	-
Investment in land and development	22	(50,328)	56,181
Purchase of property and equipment		(8,351)	(168)
Investments in subsidiaries	15	(213,675)	(700,707)
Net cash utilised in investing activities		(19,571)	(639,732)
Financing activities			
Interest paid		(21,775)	-
Net cash utilised in financing activities		(21,775)	-
Decrease in cash and cash equivalents		(45,974)	(77,102)
Cash and cash equivalents at start of year	24	57,634	134,736
Cash and cash equivalents at end of year	24	11,659	57,634

KShs 28,442,590

5% growth in Total Assets driven by growth in invested assets

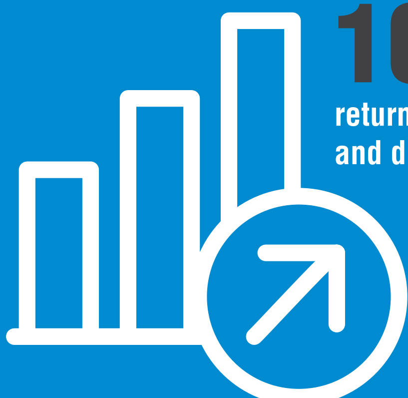
KShs 20 billion

51% growth in Assets Under Management



KShs 21,847,432

4% growth in policyholder liabilities



10.5%

return on individual pension plans and deposit administration

Basis of preparation and accounting policies

1. General information

Sanlam Kenya Plc underwrites life and non-life insurance risks such as those associated with death, disability, credit protection, mortgage protection and property protection through its subsidiaries Sanlam Life Insurance Limited and Sanlam General Insurance Limited. The Group through its subsidiary Sanlam Investments Limited, also provide its customers with diversified asset management solutions for their savings and retirement needs. The Company does business in Kenya and employs over 1,000 employees (staff and agents).

2. Significant accounting policies

Introduction

The Group has identified the accounting policies that are most significant to its business operations and the understanding of its results. In each case, the determination of these is fundamental to the financial results and position, and requires management to make complex judgements based on information and financial data that may change in future periods. Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce materially different results. These policies (as set out below) are in accordance with and comply with IFRS and have been applied consistently for all periods presented unless otherwise noted.

a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act. The measurement basis used is the historical cost basis, as modified by the carrying of certain property and equipment, investment property and certain investments at fair value, impaired assets at their recoverable amounts and actuarially determined liabilities at their present value. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, which is also the functional currency.
The financial statements comprise the statement of profit or loss, statements of other comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows, and notes. For purposes of the Kenyan companies Act, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss. Income and expenses, excluding the components of other comprehensive income, are recognised in the statement of profit or loss. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expenses (including reclassification adjustments) that are not recognised in the statement of profit or loss as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to statement of profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognised in the statement of changes in equity.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the Group. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in note (ff).

b) Changes in accounting policy and disclosures

(i) **New and amended standards adopted by the Company**

The following standards and amendments have been applied by the Group for the first time for the financial year beginning 1 January 2016: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2. Significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)
(i) New and amended standards adopted by the Company (continued)

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

- Notes – confirmation that the notes do not need to be presented in a particular order.

- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not material to the Group.

ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess the impact of the new standards.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

IFRS 16,'Leases' After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns

b) Changes in accounting policy and disclosures (continued)

ii) **New standards and interpretations not yet adopted (continued)**

expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standards is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

Recognition of Deferred Tax Asset for Unrealised Losses-Amendment to IAS 12;Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

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

The amendment to IAS 12 is effective 1 January 2017.

The Group is yet to assess the impact of the new standards.

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

c) Consolidation

The consolidation of financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016.

i. Subsidiaries

Subsidiaries are all entities over which the company has controls when it they are exposed, or the company has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure or rights to variable returns from its involvement with the investee and ,
- The ability to use its power over the investee to affect returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group con siders all the relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee

b) Changes in accounting policy and disclosures (continued)

i. Subsidiaries (continued)

- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses on a continuous basis whether or not it controls an investee.

The purchase method of accounting is applied to account for acquisitions of subsidiaries. The cost of an acquisition is measured as the fair value of consideration transferred, equity instruments issued and liabilities assumed at the date of exchange. Costs directly attributable to an acquisition are expensed in the statement of comprehensive income. Identifiable assets and liabilities acquired and contingent liabilities assumed are recognised at fair value at acquisition date. The excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets and contingent liabilities represents goodwill and is accounted for in terms of the accounting policy note for goodwill. If the cost of an acquisition is less than the fair value of the net identifiable assets and contingent liabilities, the difference is recognised in the statement of comprehensive income.

The results of subsidiaries and consolidated funds are included from the effective dates when the Group has control to the effective dates when the Group ceases to have control, using accounting policies uniform to the Group. Intergroup transactions, balances and unrealised profits on intergroup transactions are eliminated. Unrealised losses are also eliminated unless the transaction indicates the impairment of the asset transferred.

The interest of non-controlling shareholders in subsidiaries is stated at the non-controlling shareholders' share of the recognised values of the subsidiaries' assets and liabilities. Net losses attributable to non-controlling shareholders in excess of the non-controlling interest are recognised as negative reserves against non-controlling shareholders' interest.

ii. Associates

An associate is an entity, not being a subsidiary, in which the Sanlam Group has a long-term investment and over which it has the ability to exercise significant influence, being the ability to participate in the financial and operating policies of the entity without being able to jointly control or control those policies by virtue of a majority vote.

Investments in associates are recognised on the date significant influence is obtained and derecognised on the date significant influence is lost. Investments in associates, other than those investments, or portions thereof, held by investment-linked life insurance funds, are initially recognised at cost. The results of these associated companies after initial recognition are accounted for using the equity method of accounting, whereby the Group's share of associates' post-acquisition profit or loss is recognised in the Group statement of comprehensive income as equity-accounted earnings, and the Group's share of associates' other post-acquisition movement in equity reserves (other than those related to dividends) is recognised in reserves, with a corresponding adjustment to the carrying value of investments in associates. Net losses are only recognised to the extent of the net investment in an associate, unless the Group has incurred obligations or made payments on behalf of the associate. Equity-accounted earnings are based on accounting policies uniform to those of the Group. The carrying amount is reviewed bi-annually for impairment and written down where this is considered necessary. The carrying value of the investment in an associate includes goodwill. Investments in associates, or portions thereof, held by investment-linked life insurance funds are treated as investments at fair value through profit or loss and are not equity-accounted.

d) Goodwill

Goodwill arises on the acquisition of a subsidiary company or the acquisition of a business. It represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets of the subsidiary or business at the date of acquisition. Goodwill is not amortised. The gain or loss on the disposal of a subsidiary or business includes the carrying amount of goodwill attributable to the entity or business sold.

Goodwill arises on the acquisition of a subsidiary company or the acquisition of a business. It represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets of the subsidiary or business at the date of acquisition. Goodwill is not amortised. The gain or loss on the disposal of a subsidiary or business includes the carrying amount of goodwill attributable to the entity or business sold.

For impairment purposes the carrying amount of goodwill is allocated to cash generating units, reviewed bi-annually for impairment and written down where this is considered necessary. Impairment losses in respect of goodwill are recognised in the statement of comprehensive income and are not reversed. Where a number of related businesses acquired in the same business combination are allocated to different Group business divisions, the related goodwill is allocated to those cash generating units that expect to benefit from the synergies of the business combination.

Goodwill in respect of associates and joint ventures is included in the carrying value of investments in associates and joint ventures. For impairment purposes each investment is tested for impairment individually and goodwill is not tested

2. Significant accounting policies (continued)

d) Goodwill (continued)

separately from the investment in associates and joint ventures, nor is any impairment allocated to any underlying assets.

e) Segment reporting

An operating segment is a component of an entity:

i. That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)

ii. Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decision about resources to be allocated to the segment and assess its performance, and

iii. For which discrete financial information is available.

a) An operating segment may engage in business activities for which it has yet to earn revenues for example start-up operations may be operating segments before earning revenues.

f) Revenue recognition

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the course of the Group's activities. It is recognised when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably. It is stated net of Value Added Tax, rebates and trade discounts.

When revenue is recognised the group estimates whether rebates or trade discounts will be provided and include this estimate in measuring the revenue at the amount received or receivable. Later changes in estimates are included in the revenue line.

Sale of goods are recognised upon the delivery of the product and customer acceptance, while sale of services are recognised upon performance of the service and customer acceptance based on the proportion of actual service rendered to the total services to be provided.

i. Gross premiums

Gross recurring premiums on life and investment contracts with discretionary participating features are recognised as revenue when payable by the policyholder. For single premium business revenue is recognised on the date on which the policy is effective. Gross written premiums under short term life insurance contracts comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. For general insurance business, premium income is recognised on assumption of risks. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

ii. Reinsurance premiums

Gross reinsurance premiums on life and investment contracts with discretionary participation features are recognised as an expense when payable or on the date on which the policy is effective. Gross written premiums under short term life reinsurance contracts and general insurance contracts comprise the total premiums payable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts or risk is assumed. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

iii. Fees and commission income

Insurance and market linked investment contract liabilities policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods then they are deferred and recognised over those future periods.

iv. Investment income

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established.

Rental income is recognised on an accrual basis, apart from operating leases that contain fixed escalation clauses, where it is recognised on a straight-line basis over the lease term. The excess of rental income on a straight-line over cash received is recognised as part of the carrying amount of properties in the statement of financial position.

2. Significant accounting policies (continued)

f) Revenue recognition (continued)

iv) Investment income (continued)

Dividends are recognised when the Group's right to receive the payment is established.

v. Realised / unrealised gains and losses

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

vi. Financial services income

Financial services income includes income from investment management and related activities. This is based on the value of the assets managed on behalf of clients such as fund management fees, collective investment and linked product administration fees. Initial fees that relate to the future rendering of services are deferred and recognised as those future services are rendered.

g) Benefits, claims and expenses recognition

i. Gross benefits and claims

Gross benefits and claims for life insurance contracts and for investment contracts with discretionary participation features are included the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims as well as changes in the gross valuation of insurance and market linked investment contract liabilities. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

ii. Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Reinsurance claims is measured with reference to the corresponding insurance liability recognised and the reinsurance agreement.

h) Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims or insurance contract liabilities associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

Gains or losses on buying reinsurance are recognised in the statement of profit or loss immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

i) Policyholder benefits

Policyholder benefits incurred comprise benefits paid in the year and changes in the provision for insurance contract liabilities. Benefits paid represent all cash payments made during the year, whether arising from events during that or earlier years. Insurance contract liabilities represent the estimated ultimate cost of settling all benefits accruing to policyholders and are discounted to the present value.

j) Deposit administration contracts

The Group administers the funds of a number of retirement benefit schemes on behalf of the retirement schemes. The liability of the Group to the schemes is measured at fair value and is included in the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the asset and liability in the statement of financial position and are not recognised as gross premium and investments income in the consolidated statement of profit or loss.

Assets under the deposit administration contracts are registered in the name of the administrator and have therefore been accounted as financial instruments in the statement of financial position.

k) Property and equipment

All categories of property and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment.

Motor vehicles, furniture, equipment and computers are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

2. Significant accounting policies (continued)

k) Property and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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. Repairs and maintenance expenses are charged to the statement of profit or loss in the year in which they are incurred.

Land and buildings are subsequently stated at valuation. Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the statement of profit or loss. Annually, the difference between depreciation charge based on the revalued carrying amount of the asset charged to the statement of profit or loss and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

Depreciation is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life using the following annual rates:

Freehold land	-	Nil
Computers	-	25%
Motor vehicles	-	25%
Furniture and Equipment	-	12.5%

Depreciation on an item of property and equipment commences when it is available for use and continues to be depreciated until it is derecognised, even if during that period the item is idle. Depreciation of an item ceases when the item is retired from active use or is being held for disposal. If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for.

As no parts of items of property and equipment have a cost that is significant in relation to the total cost of the item, the same rate of depreciation is applied to the whole item. The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

l) Investment properties

Investment properties comprise properties held to earn rental income and/or for capital appreciation. Investment properties are carried at fair value based on valuations by Sanlam Properties, less the cumulative straight-line rental adjustment (refer to the accounting policy for investment income). The valuators have appropriate qualifications and extensive experience in property valuations. Fair values are determined by discounting expected future cash flows at appropriate market interest rates. Valuations are carried out monthly. Changes in the fair value of investment properties are recognised in the statement of comprehensive income as investment surpluses.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. The Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Limited and Lloyd Masika as at 31 December 2016 and as at 31 December 2015.

When investment properties become owner-occupied, the Sanlam Group reclassifies them to owner-occupied properties at a deemed cost equal to the fair value of the investment properties at the date of reclassification. When owner-occupied properties become investment properties, they are reclassified to investment properties at a deemed cost equal to the fair value of the properties at the date of reclassification. The difference between the carrying value and fair value of the properties at the date of reclassification to investment properties is recognised in other comprehensive income as a revaluation surplus.

Investment properties are derecognised when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from their disposal

m) Intangible assets

Acquired intangible assets are recognised at cost on acquisition date. Subsequent to initial recognition, these assets are reflected at their depreciated cost prices less provisions for impairment in value, where appropriate. Amortisation is provided for on a straight-line basis, taking into account the residual value and estimated useful lives of the assets. The residual values, estimated useful lives of the assets and depreciation methods are reviewed at each statement of financial position date and adjusted, as appropriate. Other intangible assets are assessed for indicators of impairment on a bi-annual basis and written down for impairment where this is considered necessary.

Costs associated with software development for internal use are capitalised if the completion of

2. Significant accounting policies (continued)

m) Intangible assets (continued)

the software development is technically feasible, the Group has the intent and ability to complete the development and use the asset, the asset can be reliably measured and will generate future economic benefits.

No value is attributed to internally developed brands or similar rights. Costs incurred on these items are charged to the statement of comprehensive income in the period in which they are incurred.

n) Borrowing costs

In the instance of specific funding being obtained, the net borrowing cost capitalised is the actual borrowing cost incurred on the amount borrowed specifically to finance the asset less any investment income earned on surplus funds. In the case of general borrowings, the capitalised borrowing cost is determined using the overall weighted average cost of the general borrowings during the year and applying this rate to the costs incurred on the asset. The amount capitalised can never exceed the borrowing costs incurred. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

o) Financial instruments

nFinancial instruments carried on the statement of financial position include investments (excluding investment properties, associates and joint ventures), receivables, cash, deposits and similar securities, investment policy contracts, term finance liabilities, liabilities in respect of external investors in consolidated funds and trade creditors.

Recognition and derecognition

Financial instruments are recognised when the Group becomes party to a contractual arrangement that constitutes a financial asset or financial liability for the Group that is not subject to suspensive conditions. Financial assets are derecognised when the contractual rights to receive the cash flows expire or when the asset is transferred. Financial liabilities are derecognised when the obligation to deliver cash or other resources in terms of the contract is discharged, cancelled or expires.

Collateral placed at counter-parties as part of the Group's capital market activities are not derecognised. No transfer of ownership takes place in respect of collateral other than cash and any such collateral accepted by counter-parties may not be used for any purpose other than being held as security for the trades to which such security relates. In respect of cash security, ownership transfers in law. However, the counterparty has an obligation to refund the same amount of cash, together with interest, if no default has occurred in respect of the trades to which such cash security relates. Cash collateral is accordingly also not derecognised.

Classification

Financial instruments are classified into the following categories:

- Financial assets: At fair value through profit or loss

Loans and receivables

- Financial liabilities: At fair value through profit or loss

Other financial liabilities

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities assumed. Financial instruments classified as at fair value through profit or loss comprise held-for-trading assets and liabilities as well as financial instruments designated as at fair value through profit or loss. All non-trading financial instruments are designated as at fair value through profit or loss apart from:

- Working capital receivables that are classified as loans and receivables based on their short-term nature;
- Financial assets acquired as part of interest margin business to match specific financial liabilities, which are classified as loans and receivables;
- Term finance liabilities incurred as part of interest margin business and matched by specific financial assets, which are classified as other financial liabilities; and
- Working capital payables that are classified as other financial liabilities based on their short-term nature.

The Group designates financial instruments as at fair value through profit or loss in line with its risk management policies and procedures that are based on the management of the Group's capital and activities on a fair value basis, apart from the exceptions outlined above. The Group's internal management reporting basis is consistent with the classification of its financial instruments.

Initial measurement

Financial instruments at fair value through profit or loss are initially recognised at fair value. Costs directly attributable to the acquisition of financial assets classified as at fair value through profit or loss are recognised in the statement of comprehensive income as investment surpluses. Other financial instruments are recognised at the fair value of the consideration given or received in exchange for the instrument plus transaction costs that are directly

o) Financial instruments (continued)

Initial measurement (continued)

attributable to their acquisition. Regular way investment transactions are recognised by using trade date accounting.

Subsequent measurement and impairment

Financial instruments classified as at fair value through profit or loss are carried at fair value after initial recognition, with changes in fair value recognised in the statement of comprehensive income as investment surpluses. The particular valuation methods adopted are disclosed in the individual policy statements associated with each item. Loans and receivables and other financial liabilities are carried at amortised cost using the effective interest rate method. The carrying values of all loans and receivables are assessed for indicators of impairment bi-annually. A financial asset is deemed to be impaired when there is objective evidence of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the asset's estimated future cash flows discounted at the original effective interest rate, and is recognised in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can objectively be attributed to an event occurring

after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income, to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

p) Foreign currency translation reserve

The exchange differences arising on the translation of foreign operations to the presentation currency are transferred to the foreign currency translation reserve. On disposal of the net investment, the cumulative exchange differences relating to the operations disposed of are released to the statement of comprehensive income.

q) Leases

Leases of assets, under which the lessor effectively retains all the risks and benefits of ownership, are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases, where the Group effectively assumes all the risks and benefits of ownership, are classified as finance leases. Finance leases are capitalised at inception at the lower of the present value of minimum lease payments and the fair value of the leased assets. The effective interest rate method is used to allocate lease payments between finance cost and the lease liability. The finance cost component is recognised as an expense in the statement of comprehensive income. Finance lease assets recognised are depreciated, where applicable, over the shorter of the assets' useful lives and the lease terms.

r) Land and development

Land and development, comprising plots held for resale is stated at the lower of cost and net realisable value. The cost of land and development includes infrastructure costs incurred in respect of unsold plots, which are capitalised and released to income as the plots are sold. Cost is calculated on specific costs incurred to bring land and development to its present condition.

s) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss. Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in (o) have been met.

t) Financial and insurance liabilities

Insurance contract liabilities (including investment contracts with discretionary participation features) and reinsurance assets. Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income (for non-market linked insurance contracts this item is excluded) from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

2. Significant accounting policies (continued)

t) Financial and insurance liabilities (continued)

A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss. The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. It is assumed that premiums are earned uniformly over the contract period.

The Group used the twelfth method in computing this reserve. The estimate of the incurred claims that have not yet been reported to the Group (IBNR) is computed using the basic chain ladder method. The basic assumption using this method is that claims will emerge in a similar way in each development year.

Profits originated from margins of adverse deviations on run-off contracts are recognised in the statement of profit or loss over the life of the contract, whereas losses are fully recognised in the statement of profit or loss during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, net of related PVIF and DAC (deferred acquisition cost – refer to policy aa), by using an existing liability adequacy test as laid out under the Kenyan Insurance Act.

u) Employee entitlements

i. Retirement benefit obligations

The Company operates a defined contribution retirement benefit scheme for qualifying employees. The Company and all its employees also contribute to the National Social Security Fund which is also a defined contribution scheme. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Company's contributions to the defined contribution schemes are charged to the statement of profit or loss in the year to which they relate.

ii. Cash settled non-share entitlements

The Company has a long-term retirement benefit scheme that is separately administered by Trustees under a legal entity registered with the Retirement Benefits Authority (RBA). The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay qualifying employees the benefits due to them on vestation. The amount expensed each year is based on the increase in value of In-force (VIF) and charged directly to the statement of profit or loss on approval by the Board of directors. The Company has no claim whatsoever on the amounts that have not vested as this is redistributed to the existing qualifying members.

iii. Bonus

Staff are entitled to a bonus which is based on preset performance parameters on an annual basis. The full cost of the bonus is expensed in the year in which it is earned.

iv. Other entitlements

The estimated monetary liability for employees accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

v) Other financial liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the statement of profit or loss. Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities at fair value through profit or loss which are carried at fair value.

Borrowings and trade and other liabilities are classified as financial liabilities and are carried at amortised cost.

Gains and losses on financial liabilities at amortised cost are recognised on derecognition and through the amortisation process. Gains and loss on financial liabilities at fair value through profit or loss are recognised in the statement of profit or loss.

w) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the claim payable plus directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

x) Administration costs

A***dministration costs include, inter alia, indirect taxes such as VAT, property and administration expenses relating to owner-occupied property, property and investment expenses related to the management of the policyholders' investments, claims handling costs, product development and training costs.***

2. Significant accounting policies (continued)

y) Taxation

Normal income tax

Current income tax is provided in respect of taxable income at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred income tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes using the liability method, except for:

- Temporary differences relating to investments in associates, joint ventures and subsidiaries where the Group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future; and

- Temporary differences arising from the initial recognition of assets or liabilities in transactions other than business combinations that at transaction date do not affect either accounting or taxable profit or loss.

The amount of deferred income tax provided is based on the expected realisation or settlement of the deferred tax assets and liabilities using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets relating to unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Deferred tax balances are reflected at current values and have not been discounted.

Sales taxes and premium taxes

Revenues, expenses and assets and liabilities are recognised net of the amount of sales taxes and premium taxes except:

- when the sales or premium tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, or

- receivables and payables that are measured with the amount of sales or premium tax included.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

z) Dividends

Dividends proposed or declared after the statement of financial position date are not recognised at the statement of financial position date.

aa) Deferred acquisition cost

Incremental costs directly attributable to the acquisition of insurance and investment contracts with discretionary participating features and investment management services are capitalized to a Deferred acquisition cost (DAC) asset if they are separately identifiable, can be measured reliably and its probable that they will be recovered. DAC are amortized in the statement of profit or loss over the term of the contracts as the related services are rendered and revenue recognized, which varies from year to year depending on the outstanding term of the contracts in force. The DAC asset is tested for impairment bi annually and written down when it is not expected to be fully recovered. For the period to the end of the year, no DAC asset has been recognized since the incremental costs cannot be separately identified and measured reliably.

bb) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions for onerous contracts are recognised when the expected benefits to be derived from contracts are less than the unavoidable cost of meeting the obligations under the contracts. Provisions are measured at the present value of the amounts that are expected to be paid to settle the obligations.

cc) Cash, deposits and similar securities

Cash, deposits and similar securities consist of cash at hand, call deposits at banks, negotiable certificates of deposit and other short-term highly liquid investments, net of bank overdrafts. In the statement of financial position, bank overdrafts are included as borrowings under current liabilities.

For the purpose of the consolidated cash flow, cash and cash equivalents consist of Cash, deposits and similar securities as defined above, net of outstanding bank overdrafts.

dd) Use of estimates, assumptions and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect items reported in the Group statement of financial position and statement of comprehensive income, as well as contingent liabilities. The major items subject to the application of estimates, assumptions and judgements include:

dd) Use of estimates, assumptions and judgements (continued)

i. Impairment of goodwill and value of business acquired

ii. Policy liabilities in respect of long-term insurance contracts and investment contracts other than those with investment management services

iii. Policy liabilities for investment contracts with investment management services

iv. The ultimate liability arising from claims under general insurance contracts

Although estimates are based on management's best knowledge and judgement of current facts as at the statement of financial position date, the actual outcome may differ from these estimates, possibly significantly. Refer to note 37 for further information on critical estimates and judgements.

3. Segment information

The core business of the Group is underwriting of long-term and short-term business. The Insurance Act (Regulations under section 180 subsection 9) defines the following classes for the purpose of accounting.

Serial Number: Brief description of class

31 Bond investment business

32 Industrial life assurance business

33 Ordinary life assurance business

34 Superannuation business

The Group does not underwrite bond investment and industrial life assurance business.

Superannuation business as defined by the above regulation means life assurance business being the issuing of or the undertaking of liability under superannuation, group life and permanent health insurance policy:-

(a) That is vested in the trustees of a fund established or maintained by a person, being a fund the terms and conditions applicable to which provide for:

   (i) the payment of contributions to the fund by that person; and payments being made from the fund, on account of injury, sickness, retirement or death of the employees of that person or of a Company in which that person has a controlling interest; or

(b) That was:

   (i) effected for the purposes of a superannuation or retirement scheme; or accepted by the person maintaining such a scheme for the purpose of the scheme.

For management purposes, the Group is organised into business units based on decision making, allocation of resources, products and services.

The four reportable operating segments as follows:

(i) The ordinary life insurance segment offers individual life insurance products.

(ii) The superannuation segment deals with group insurance schemes.

(iii) The general insurance segment offers general insurance products

(iv) The investments segment provides investment management services

No operating segments have been aggregated to form the above reportable operating segments.

In the Group, the Ordinary Life and Superannuation segments are the business of Sanlam Life Insurance Limited. The General business segment is the business of Sanlam General Insurance Limited while the other companies handle the Investments segment. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results include those transfers between segments which are then eliminated on consolidation.

The Group operating segments are all based in one geographical area in Kenya.

3. Segment information (continued)

Segment statement of profit or loss for the year ended 31 December 2016	Ordinary life KShs:000	Super-annuation KShs:000	General business KShs:000	Investments KShs:000	Consolidation adjustments KShs.'000	Total KShs:000
Gross written premiums from external customers	2,507,245	1,889,094	828,207	-	-	5,224,546
Premiums ceded to reinsurers	(29,550)	(182,525)	(180,266)	-	-	(392,341)
Net premium Income	2,477,695	1,706,569	647,941	-	-	4,832,205
Fee and commission income	869	39,377	34,709	-	-	74,955
Interest income	535,104	556,945	37,798	48,430	-	1,178,277
Investment income	715,174	522,718	22,661	142,623	(330,000)	1,073,176
Fair value gains and losses	(154,651)	-	(60,029)	(298,469)	-	(513,149)
Impairment of financial assets	(53,791)	(39,606)	-	-	-	(93,397)
Other operating revenue	3,668	22,231	474	575,634	-	602,007
Total other revenue	1,046,373	1,101,665	35,613	468,218	(330,000)	2,321,869
Total revenue	3,524,068	2,808,234	683,554	468,218	(330,000)	7,154,074
Gross benefits and claims paid	(1,981,042)	(1,704,911)	(508,032)	-	-	(4,193,985)
Claims ceded to reinsurers	13,761	76,294	114,444	-	-	204,499
Gross change in insurance contract liabilities	(752,484)	(554,395)	101,565	-	-	(1,205,314)
Gross change in investment contract liabilities	600,054	-	-	-	-	600,054
Change in contract liabilities ceded to reinsurers	-	(41,091)	157,370	-	-	116,279
Net benefits and claims	(2,119,711)	(2,224,103)	(134,653)	-	-	(4,478,467)
Cost of sales	-	-	-	(28,009)	-	(28,009)
Fee and commission expense	(427,233)	(141,906)	(91,592)	-	-	(660,731)
Depreciation and amortization	(6,612)	(9,918)	(10,029)	(4,375)	-	(30,934)
Other operating and administrative expenses	(609,009)	(163,867)	(471,587)	(394,199)	-	(1,638,662)
Total benefits, claims and other expenses	(3,162,565)	(2,539,794)	(707,861)	(426,583)	-	(6,836,803)
Profit before share of profit of associate	361,503	268,440	(24,307)	41,636	(330,000)	317,272
Share of loss of associate	-	-		-	(220)	(220)
Profit before tax	361,503	268,439	(24,307)	41,636	(330,220)	317,052
Other comprehensive income			23,249			23,249
Income tax expense	(124,935)	(92,773)	(30,338)	1,618	-	(246,428)
Profit for the year	236,568	175,666	(31,396)	43,254	(330,220)	93,872

3. Segment information (continued)

All expenses, including depreciation and amortization costs, have been charged to the respective operating segments. All revenues and expenses are included in the consolidated statement of profit or loss.

The consolidation adjustment of KShs 330,000,000 relates to the elimination of dividend income from Sanlam Securities and Sanlam Investments to Sanlam Kenya Plc.

Segment statement of profit or loss for the year ended 31 December 2015

	Ordinary life KShs.'000	Super-annuation KShs.'000	General business KShs.'000	Investments KShs.'000	Consolidation adjustments KShs.'000	Total KShs.'000
Gross written premiums from external customers	2,591,505	2,051,535	538,574	-	-	5,181,614
Premiums ceded to reinsurers	(34,040)	(232,864)	(117,724)	-	-	(384,628)
Net premium Income	2,557,465	1,818,671	420,850	-	-	4,796,986
Fee and commission income	-	44,576	35,644	-	-	80,220
Interest income	605,811	630,538	47,212	48,305	-	1,331,866
Investment income	547,526	396,249	15,848	118,504	-	1,078,127
Fair value gains and losses	(794,061)	5,066	183,349	(52,960)	-	(658,606)
Other operating revenue	6,631	-		601,960	-	608,591
Total other revenue	365,907	1,076,429	282,053	715,809	-	2,440,198
Total revenue	2,923,372	2,895,100	702,903	715,809	-	7,237,184
Gross benefits and claims paid	(1,772,849)	(1,536,836)	(310,564)	-	-	(3,620,249)
Claims ceded to reinsurers	(19,997)	73,236	43,354	-	-	96,593
Gross change in insurance contract liabilities	(663,373)	(813,258)	6,868	-	-	(1,469,763)
Gross change in investment contract liabilities	663,994	-	-	-	-	663,994
Change in contract liabilities ceded to reinsurers	-	52,192	20,018	-	-	72,210
Net benefits and claims	(1,792,225)	(2,224,666)	(240,324)	-	-	(4,257,215)
Cost of sales	-	-	-	(63,178)	-	(63,178)
Fee and commission expense	(586,447)	(175,058)	(60,899)	(12,587)	-	(834,991)
Depreciation and amortization	(17,496)	(26,245)	(8,333)	(3,271)	-	(55,345)
Other operating and administrative expenses	(548,880)	(110,788)	(369,882)	(921,325)	539,562	(1,411,313)
Goodwill impairment	-	-	-	-	(564,080)	(564,080)
Total benefits, claims and other expenses	(2,945,048)	(2,536,757)	(679,438)	(1,000,361)	(24,518)	(7,186,122)
Profit before share of profit of associate	(21,676)	358,343	23,465	(284,552)	(24,518)	51,062
Share of profit of associate	-	-		-	3,263	3,263
Profit before tax	(21,676)	358,343	23,465	(284,552)	(21,255)	54,325
Income tax expense	(64,904)	(67,552)	130,601	(73,120)	-	(74,975)
Consolidation adjustment	-	-	-	-	48,000	48,000
Profit for the year	(86,580)	290,791	154,066	(357,672)	26,745	27,350

3. Segment information (continued)

All expenses, including depreciation and amortization costs, have been charged to the respective operating segments.

Segment statement of financial position

At 31 December 2016:	Ordinary life	Super annuation	General Business	Investments	Consolidation adjustment	Group
ASSETS	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Intangible assets	101,987	-	11,739	2,935	-	116,661
Property and equipment	138,418	-	23,604	15,049	-	177,071
Investment properties	2,244,500	-	516,700	-	-	2,761,200
Equity accounted investments	-	-	-	4,861	16,711	21,572
Investments in subsidiaries	-	-	-	1,402,204	(1,402,204)	-
Financial instruments	9,421,697	8,667,101	344,451	1,074,343	-	19,507,592
Long term reinsurance assets	-	134,296	420,687	-	-	554,983
Land and development	-	-	-	127,366	-	127,366
Insurance receivables	106,846	99,263	344,513	-	-	550,622
Other assets	2,596,421	999,610	923,543	1,675,278	(1,569,329)	4,625,523
Total assets	**14,609,869**	**9,900,270**	**2,585,237**	**4,302,036**	**(2,954,822)**	**28,442,590**
LIABILITIES						
Insurance contracts liabilities	7,563,701	3,725,405	1,414,942	-	-	12,704,048
Investment contract liabilities	3,627,717	4,026,260	-	-	-	7,653,977
Deposit administration contracts	1,489,407	-	-	-	-	1,489,407
Other non-current liabilities	844,396	-	-	-	-	844,396
Other liabilities	951,148	154,412	663,930	1,618,357	(1,569,329)	1,818,518
Total liabilities	**14,476,369**	**7,906,077**	**2,078,872**	**1,618,357**	**(1,569,329)**	**24,510,346**
NET ASSETS	**133,500**	**1,994,193**	**506,365**	**2,683,679**	**(1,385,493)**	**3,932,244**

3. Segment information (continued)

Segment statement of financial position

At 31 December 2015:	Ordinary life	Super annuation	Investments	General Business	Consolidation adjustment	Group
ASSETS	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Intangible assets	115,837	-	3,221	10,763	-	129,821
Property and equipment	96,387	-	9,941	27,810	-	134,138
Investment properties	1,558,099	-	-	1,116,700	-	2,674,799
Equity accounted investments	-	-	4,861	-	16,931	21,792
Investments in subsidiaries	-	-	1,188,529	-	(1,188,529)	-
Financial instruments	8,789,176	7,722,631	1,372,812	289,581	-	18,174,200
Long term reinsurance assets	-	93,205	-	233,492	-	326,697
Land and development	-	-	77,038		-	77,038
Insurance receivables	77,253	28,564	-	128,759	-	234,576
Other assets	3,847,070	481,032	1,573,830	467,861	(1,033,576)	5,336,217
Total assets	**14,483,822**	**8,325,432**	**4,230,232**	**2,274,966**	**(2,205,174)**	**27,109,278**
LIABILITIES						
Insurance contracts liabilities	6,622,655	3,261,904	-	1,512,908	-	11,397,467
Investment contract liabilities	3,919,461	4,350,054	-	-	-	8,269,515
Deposit administration contracts	1,434,573	-	-	-	-	1,434,573
Other non-current liabilities	655,413	-	-	-	-	655,413
Other liabilities	819,066	66,649	1,223,824	474,300	(1,033,576)	1,550,263
Total liabilities	**13,451,168**	**7,678,607**	**1,223,824**	**1,987,208**	**(1,033,576)**	**23,307,231**
NET ASSETS	**1,032,654**	**646,825**	**3,006,408**	**287,758**	**(1,171,598)**	**3,802,047**

3. Segment information (continued)

Other segment reporting disclosures

For the year ended 31 December 2016	Ordinary life	Super annuation	Investments	General Business	Consolidation adjustment	Group
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Additions to non-current assets	697,243	729,471	222,916	45,763	-	1,659,393
For the year ended 31 December 2015						
Additions to non-current assets	1,242,696	521,752	1,477,379	24,252	-	3,266,079

4. a) Group gross premium income

The principal activity of the Group is the underwriting of long-term and general insurance business as defined by the Insurance Act. Premium income can be analysed between the two main lines of insurance business as follows

i) Long term insurance business	**2016**	**2015**
	KShs.'000	**KShs.'000**
New business: Recurring		
Individual life	363,120	434,580
Group business	155,535	225,631
New business: Single premiums		
Individual life	100	2,648
Group business	1,415,528	1,455,724
Total new business	1,934,283	2,118,583
Renewal recurring		
Individual life	2,144,025	2,154,277
Group business	318,031	370,180
Total renewal premium income	**2,462,056**	**2,524,457**
Total long term business gross premium income	**4,396,339**	**4,643,040**

4. a) Group gross premium income (continued)

ii) General insurance business		
	2016	2015
Class of business	KShs.'000	KShs.'000
Engineering	14,886	11,750
Fire	23,692	14,787
Liability	25,541	8,838
Marine	5,926	2,670
Motor	493,040	310,365
Personal Accident	10,803	7,015
Medical	200,162	116,347
Theft	21,030	51,858
Workman's Compensation	14,972	7,867
Other	18,155	7,077
Total general business gross premium income	**828,207**	**538,574**
Total group gross premium income	**5,224,546**	**5,181,614**

b) Premiums ceded to reinsurers

Section 29(1) of the Insurance Act requires all registered underwriters to have in place appropriate reinsurance arrangements being arrangements approved by the Commissioner of Insurance in respect of insurance business underwritten in the course of the business.

The premiums ceded to reinsurers can be analyzed by the main classes of business as follows;

	2016	2015
	KShs.'000	KShs.'000
Long term insurance business		
Ordinary life	29,550	34,040
Super annuation	182,525	232,864
General insurance business	180,266	117,724
Total premiums ceded to reinsurers	**392,341**	**384,628**

5. Fee and commission income

Fee	-	-
Commission received	74,955	80,220
	74,955	**80,220**

6. Investment return

a) Investment income	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**
Rental income:				
Gross rental income	69,420	56,023	-	-
Net rental expenses	(15,544)	(14,048)	-	-
	53,876	41,975	-	-
Financial assets designated at fair value through profit or loss				
- Interest income	929,556	806,494	-	-
- Dividend income	161,788	132,757	-	-
Interest income on held to maturity financial assets	1,029,167	974,078	-	-
Interest income on loans to related parties	21,775	15,612	-	-
Interest income on loans and receivables	214,512	250,493	-	-
Interest income on cash and cash equivalents	107,971	167,122	1,197	4,962
Total investment income	2,518,645	2,388,531	1,197	4,962

6. Investment return (continued)

b) Fair value gains/ (losses)	Group	
	2016	2015
	KShs.'000	KShs.'000
Unrealised fair value gains on investment properties	61,613	175,200
Realised fair value losses on investment properties	(60,000)	-
Financial assets at fair value through profit or loss		
- Realised (losses)/gains on equity securities	(352,083)	176,604
- Unrealised (losses)/gains on debt securities	37,443	(20,049)
- Unrealised losses on equity securities	(137,314)	(968,899)
Total fair value losses	(450,341)	(637,144)

The realised gains and losses on disposals relate to the gains/losses made on financial instruments since the last reporting date.

c) Other operating revenue and expenses	Group		Company	
	2016	2015	2016	2015
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Plot sales	186,600	563,500	186,600	563,500
Other income	85,407	45,091	309,718	(45,710)
Total other income	272,007	608,591	496,318	517,790

7. Details of expenses

a) Claims and benefits paid	**Group**	
	2016	**2015**
	KShs.'000	**KShs.'000**
Insurance contracts with fixed and guaranteed terms		
- Death and disability claims	1,420,238	1,360,962
- Maturity and survival benefits	1,176,665	1,071,588
- Policy surrenders	241,541	156,029
- Annuities	847,508	721,106
General insurance business claims	508,032	310,564
Gross benefits and claims paid	4,193,984	3,620,249
Claims ceded to reinsurers	(204,498)	(96,593)
Gross change in actuarial value of insurance contract liabilities	1,205,314	1,469,763
Gross change in actuarial value of investment contract liabilities	(600,054)	(663,994)
Change in contract liabilities ceded to reinsurers	(116,279)	(72,210)
Net benefits and claims	4,478,467	4,257,215

b) Fee and commission expense	**Group**	
	2016	**2015**
	KShs.'000	**KShs.'000**
Payable to agents	518,825	647,346
Administration fee	-	12,587
Payable to brokers and other intermediaries	141,906	175,058
Fee and commission expense	660,731	834,991

c) Cost of sales	**Group**		**Company**	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**
Construction	18,788	42,378	18,788	42,378
Land	5,707	12,873	5,707	12,873
Legal costs	3,514	7,927	3,514	7,927
	28,009	63,178	28,009	63,178

Items of cost of sales represent costs incurred in the sale of land.

8. Operating expenses

	Group		Company	
	2016	2015	2016	2015
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Other operating charges include:				
Staff costs (Note 9)	776,306	603,485	172,267	65,439
Amortisation (Note 11)	19,122	16,437	-	-
Depreciation (Note 12)	44,237	41,860	2,395	1,516
Fees for managerial and administrative services:				
Auditors remuneration	10,133	9,552	1,263	-
Tax audit fees	2,132	2,550	815	-
Legal fees	20,841	21,037	3,823	5,741
Actuarial fees	4,420	7,871	-	-
Total fees for managerial and administrative services:	37,526	41,010	5,901	5,741
Premium tax and stamp duty	37,968	39,738	-	-
Premium collection charges	51,761	73,974	-	-
Advertising	52,127	29,606	18,050	6,171
Office rent	79,494	59,503	2,353	730
Repairs and maintenance	13,945	7,345	5,272	365
Other expenses	557,108	553,700	-	200,000
Total operating expenses	1,669,594	1,466,658	206,238	279,962

9. Staff costs

	Group		Company	
	2016	2015	2016	2015
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Staff costs include the following:				
Defined contribution pension costs	47,326	42,382	13,445	6,397
Social security benefit costs	1,987	1,944	190	52
Salaries and other short term benefits	709,993	536,447	144,632	58,990
Long term incentive costs	17,000	22,712	14,000	-
	776,306	603,485	172,267	65,439

10. Income tax expense

	Group		Company	
	2016	2015	2016	2015
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Statement of financial position:				
At start of the year:	22,891	92,787	(1,428)	71,681
Instalment tax paid	103,968	156,844	16,238	71,681
Under/(over)provision from prior years	-	(83,893)	(6,218)	(88,589)
Current income tax charge	(69,943)	(142,847)	6,831	(56,201)
	56,916	22,891	15,423	(1,428)
At the end of the year:				
Assets				
Income tax receivable	65,583	27,329	15,423	-
Deferred income tax (Note 29)	182,721	170,225	24,883	17,236
	248,304	197,554	40,306	17,236
Liabilities				
Current tax liability	(8,668)	(4,438)	-	(1,428)
Deferred income tax (Note 29)	(844,396)	(655,413)	-	-
	(853,064)	(659,851)	-	(1,428)
Statement of profit or loss				
Current year tax charge	69,943	142,847	816	73,110
Deferred income tax charge /(credit) (Note 29)	188,983	(119,306)	(6,727)	(16,909)
Under/(over) provision from prior years	(12,496)	3,434	(920)	-
Current year tax charge	246,430	26,975	(6,831)	56,201

10. Income tax expense (continued)

	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**
Reconciliation of income tax expense to tax based on accounting profit:-				
Profit before income tax	317,053	54,325	263,268	(359,949)
Tax calculated at a statutory rate of 30%	95,116	16,298	78,980	(107,985)
Tax effect of:				
Income not subject to tax	(97,997)	(71,376)	(99,000)	161,869
Expenses not deductible for tax	60,328	18,947	13,189	2,317
Deferred income tax charge/ (credit) (Note 29)	188,983	101,000	-	-
Income tax expense	246,430	26,975	6,831	56,201

11. Group intangible assets

Year ended 31 December 2016	**Software**
	KShs.'000
Cost:	
At 1 January	183,881
Acquired through business combinations	-
Additions	5,962
At 31 December	189,843
Amortisation and impairment	
At start of year	(54,060)
Acquired through business combinations	-
Charge for the year	(19,122)
At 31 December	(73,182)
Carrying amount	
At 31 December	116,661

11. Group intangible assets (continued)

Year ended 31 December 2015	**Software**
	KShs.'000
Cost:	
At 1 January	155,851
Acquired through business combinations	14,217
Additions	13,813
At 31 December	183,881
Amortisation and impairment	
At start of year	(27,237)
Acquired through business combinations	(10,386)
Charge for the year	(16,437)
At 31 December	(54,060)
Carrying amount	
At 31 December	129,821

12. (a) Group property and equipment

Year ended 31 December 2016	Land and buildings	Motor vehicles	Computer equipment	Furniture and equipment	Total
		KShs.'000	KShs.'000	KShs.'000	KShs.'000
Cost					
At 1 January	-	15,596	180,992	272,263	468,851
Acquired through business combinations	-	-	-	-	-
Adjustment	-	-	-	-	-
Additions	-	-	14,453	72,717	87,170
Disposals	-				
At 31 December	-	15,596	195,445	344,980	556,021
Depreciation and impairment					
At 1 January	-	(15,572)	(162,866)	(156,275)	(334,713)
Acquired through business combinations	-	-	-	-	-
Charge for the year	-	(24)	(15,503)	(29,160)	(44,237)
At 31 December	-	(15,596)	(178,369)	(185,435)	(378,950)
Carrying amount					
At 1 January	-	24	18,126	115,988	134,138
At 31 December	-	-	17,076	159,545	176,621

The useful lives of property and equipment are assessed every year.

No borrowing costs have been capitalised in the additions to property and equipment. None of the above assets was pledged as collateral for liabilities

12. (a) Group property and equipment (continued)

Year ended 31 December 2015	Land and buildings	Motor vehicles	Computer equipment	Furniture and equipment	Total
		KShs.'000	KShs.'000	KShs.'000	KShs.'000
Cost					
At 1 January	-	12,485	141,773	201,948	356,206
Acquired through business combinations	350,000	3,117	30,071	38,480	421,668
Adjustment	-	(6)	-	-	(6)
Additions	-	-	9,148	31,835	40,983
Disposals	(350,000)	-	-	-	(350,000)
At 31 December	-	15,596	180,992	272,263	468,851
Depreciation and impairment					
At 1 January	-	(10,431)	(124,492)	(110,138)	(245,061)
Acquired through business combinations	-	(3,117)	(23,414)	(21,261)	(47,792)
Charge for the year	-	(2,024)	(14,960)	(24,876)	(41,860)
At 31 December	-	(15,572)	(162,866)	(156,275)	(334,713)
Carrying amount					
At 1 January	-	2,054	17,281	91,810	111,145
At 31 December	-	24	18,126	115,988	134,138

12. (b) Company property and equipment

Year ended 31 December 2016	Computer equipment	Furniture and equipment	Total
	KShs.'000	KShs.'000	KShs.'000
Cost			
At 1 January	1,207	12,100	13,307
Additions	1,605	6,746	8,351
At 31 December	2,812	18,846	21,658
Depreciation and impairment			
At 1 January	(1,143)	(8,294)	(9,437)
Charge for the year	(286)	(2,109)	(2,395)
At 31 December	(1,429)	(10,403)	(11,832)
Carrying amount			
At 31 December	1,383	8,443	9,826

Year ended 31 December 2015	Computer equipment	Furniture and equipment	Total
	KShs.'000	KShs.'000	KShs.'000
At 1 January	1,039	12,100	13,139
Additions	168	-	168
At 31 December	1,207	12,100	13,307
Depreciation and impairment			
At 1 January	(1,111)	(6,810)	(7,921)
Charge for the year	(32)	(1,484)	(1,516)
At 31 December	(1,143)	(8,294)	(9,437)
Carrying amount			
At 31 December	64	3,806	3,870

13. (a) Goodwill

On 1 March 2015, the Group completed a part acquisition of Sanlam General Insurance Limited ("Gateway") with Gateway becoming a subsidiary of the Group. The transaction resulted in the recognition of goodwill in the consolidated accounts of the Group as a result of the business combination.

The following table summarises the consideration paid to shareholders of Gateway to acquire a 51% stake in the company, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	KShs.'000
Total consideration	561,024
Recognised amounts of identifiable net liabilities at fair value	5,992
Non-controlling interest	(2,936)
Goodwill	**564,080**

Acquisition-related costs of KShs 37,764,000 were charged to operating costs in the consolidated statement of profit or loss for the year ended 31 December 2015.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to groups of cash-generating units for the purpose of impairment testing. The allocation is made to those groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

13. (a) Goodwill (continued)

The recognised amounts of the identifiable net liabilities at fair value were as follows;

	KShs.'000
Property and equipment	373,876
Intangible assets	3,831
Investment property	1,034,000
Equity investments	113,948
Secured loans	6,673
Insurance receivables	79,592
Reinsurers' share of insurance liabilities	188,377
Deferred acquisition costs	17,984
Other receivables	23,132
Government securities	229,700
Deposits with financial institutions	174,984
Corporate tax payable	8,411
Cash and bank balances	13,757
Outstanding claims provisions	(1,714,347)
Incurred but not reported provisions	(24,827)
Unearned premium	(240,220)
Payables arising from reinsurance arrangements	(64,606)
Other payables	(54,232)
Bank overdraft	(84,146)
Income tax payable	(42,665)
Deferred income tax liability	(48,821)
Dividend payable	(393)
Total identifiable net liabilities	**(5,992)**

13. (a) Goodwill (continued)

Had Sanlam General been consolidated from 1 January 2015, the consolidated statement of profit or loss for the year ended 31 December 2015 would show pro-forma revenue of KShs 5,261,883,000 and a loss of KShs 9,227,000

13. (b) Impairment of goodwill

The Group tests whether intangible assets (being goodwill and acquisition-related intangible assets) have suffered any impairment. The recoverable amounts of cash-generating units have been determined using value-in-use calculations. These calculations require the use of estimates. Based on these impairment tests, impairment losses, if any, are identified and recorded in the financial statements.

The recoverable amount of the cash-generating unit is based on the higher of value in use and fair value less cost to dispose. The value in use is determined by means of cash flow projections based on the five year budgeted cash flows of the cash generating unit.

Cash flows to perpetuity were arrived at by assuming a 7% growth rate and these were used to compute the terminal value of the company. The discount rate used to determine the value in use of the cash generating unit was 22.4% which was determined by adding the risk adjustment of 10% to the risk free rate of 12.4% as determined by the yield on a treasury bond.

The annual impairment tests carried out by the Group for 2015 indicated that the operating segment that contained goodwill was impaired since the carrying value of the cash-generating unit was higher than the recoverable amount of the cash-generating unit. The Group therefore recognised an impairment loss in the consolidated statement of profit or loss for the year ended 31 December 2015 equal to the carrying value before impairment (KShs 564,080,000).

14. Investment property

	2016	2015	2016	2015
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
	Work in Progress	Other	Total	
At 1 January	508,599	2,166,200	2,674,799	1,091,407
Additions	624,788	-	624,788	424,192
Disposals	-	(600,000)	(600,000)	(50,000)
Acquisitions	-	-	-	1,034,000
Fair value gains	-	61,613	61,613	175,200
At 31 December	1,133,387	1,627,813	2,761,200	2,674,799

14. Investment property (continued)

Investment properties are stated at fair value, which has been determined based on valuations performed by Knight Frank Limited and Lloyd Masika as at 31 December 2016 and 31 December 2015. Knight Frank Limited and Lloyd Masika are industry specialists in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The valuation takes into account recent prices of similar properties with adjustments being made to reflect any changes in economic conditions since the date of the transactions at those prices.

The fair value of investment property is determined by Knight Frank Valuers Limited and Lloyd Masika using recognised valuation techniques. These techniques comprise both the Market Value (MV) method and Market Rent (MR) method.

Under the MV method, a property's fair value is estimated by determining the estimated amount for which the property should exchange on the valuation date between a willing buyer and a willing seller in an arms-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

The MR method is based on an opinion of the best rent at which a new letting of an interest in property would have been completed at the date of valuation assuming: The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arms-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion

The fair value of investment property is included within Level 3.

Valuations are performed on an annual basis and the fair value gains and losses are recorded within the statement of profit or loss.

The Group entered into operating leases for its investment properties. The rental income arising during the year and the expenses arising in respect of such properties during the year are disclosed in Note 6.

The fair valuation basis takes into account the existing use and the tenancies and also considers the normal lease structure for similar buildings. Investment property under construction relates to capitalised costs in respect of the ongoing construction of the group's headquarters at Westlands. The investment has been accounted for at cost as per the requirements of IAS 40 until such a time when the fair value can be reliably determined.

15. (a) Investments in subsidiaries

Company	Shareholding	2016	2015
		KShs.'000	KShs.'000
Sanlam Life Insurance Limited	100%	230,261	230,261
Sanlam Securities Limited	100%	679,009	679,009
Sanlam Investments Limited	100%	59,514	59,514
Sanlam General Insurance Limited	68%	914,382	700,707
		1,883,166	1,669,491
Less: Impairment provision		(539,562)	(539,562)
		1,343,604	1,129,929

In 2015, the Company completed part acquisition of Sanlam General Insurance (formerly Gateway Insurance) with Sanlam General becoming a subsidiary of the company. The Company paid to shareholders of Gateway Insurance Company an amount of KShs 561,024,000to acquire a 51% stake in the company and subscribed to additional shares in Gateway amounting to KShs 139,684,000 to increase its shareholding to 56%. The total investment in Gateway as at 31 December 2015 was therefore KShs 700,707,000.

Acquisition-related costs of KShs 37,764,000 were charged to operating costs in the statement of profit or loss for the year ended 31 December 2015. The summarised financial information for Sanlam General is included in the general business column in the segmental information.

In 2016 Sanlam Kenya made additional investments of KShs 213,675,000 in Sanlam General.

15. (a) Investments in subsidiaries (continued)

As a result of prior year adjustments passed in the accounting records of Gateway in 2015, the shareholder funds of the Company significantly reduced from the date of acquisition. As a result the management of Sanlam Kenya Plccarried out an impairment test on the investment in Gateway. The recoverable amount of the subsidiary was determined based on the valuation described in note 13(b). Based on this valuation, an impairment charge of KShs539,562,000 was recognised in the Company statement of profit or loss for the year ended 31 December 2015.

Set out below is the summarised financial information for the subsidiary whose non-controlling interest is material to the group;

Sanlam General Insurance

	2016	2015
Summarised statement of financial position	**KShs'000**	**KShs'000**
Total assets		
Total liabilities	2,585,232	2,274,967
	(2,078,870)	(2,005,062)
Net assets	506,362	269,905
Summarised statement of comprehensive income		
Gross earned premiums	828,207	618,843
Underwriting loss	(37,693)	(512,516)
Loss before income tax	(24,307)	(302,393)
Income tax expense	(12,485)	130,602
Other comprehensive income	23,249	48,000
Total comprehensive loss for the year	(13,543)	(123,791)
Total comprehensive income allocated to non-controlling interests	(19,629)	88,909
Summarised cash flows		
Net cash generated from operating activities	(811,648)	(438,595)
Net cash generated from /(used in) investing activities	507,353	430,928
Net decrease in cash and cash equivalents	(54,295)	130,214
Cash and cash equivalents at beginning of year	-	825
Exchange gain on cash and cash equivalents	280,330	149,291
Cash and cash equivalents at end of year	226,035	280,330

15. (b) Investment in associate

Investments comprise:	Principal activity	Share holding	Share Holding
Runda Water Limited	Water distribution	24.90%	24.90%

Runda Water Limited is a private entity incorporated in Kenya. The entity is not listed on any public exchange and there is no published price quotation for the fair value of this investment.

15. (b) Investment in associate (continued)

The share capital consists solely of ordinary shares, which are held directly by the group.

The reporting date of Runda Water Limited is the same as the Group and both use uniform accounting policies.

There are no contingent liabilities relating to the group's interest in the associates.

	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs. '000**	**KShs. '000**
At 1 January	21,792	18,529	4,861	4,861
Share of results before tax	(220)	4,661	-	-
Share of tax	-	(1,398)	-	-
Share of profit of associate	(220)	3,263	-	-
Movements in carrying amount	(220)	3,263	-	-
At 31 December	21,572	21,792	4,861	4,861

	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs. '000**	**KShs. '000**
Associates' statement of financial position:				
Assets	158,373	163,635	-	-
Liabilities	(71,016)	(76,116)	-	-
Total net assets	87,357	87,519	-	-
Share of associates' net assets:	21,572	21,792		
Associates' revenue and profit:				
Revenue	18,136	39,031	-	-
Profit/(Loss)	(220)	4,661	-	-

16. Loans

	Group	
	2016	**2015**
	KShs.'000	**KShs.'000**
Mortgage loans (Note 19)	366,500	384,968
Policy loans (Note 20)	564,064	580,527
Total Loans	930,564	965,495

Loans, receivables and other financial assets, cash and cash equivalents make up the loans receivable category. As at the reporting date, the carrying value of the loans receivable fairly approximates the fair value of the loans. Mortgage loans are secured on the underlying property while policy loans are secured by policyholder benefits due.

17. Financial instruments

(a) Summary per category

As at 31 December 2016:	Designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
Public sector stocks and loans	6,302,671	8,836,392	-	15,139,063
Equities and similar securities	4,263,876	-	104,653	4,368,529
	10,566,547	8,836,392	104,653	19,507,592

As at 31 December 2015:	Designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
Public sector stocks and loans	6,095,168	8,069,169	-	14,164,337
Equities and similar securities	3,944,499	-	80,364	4,024,863
	10,039,667	8,069,169	80,364	18,189,200

The movement in financial assets is as shown below:

As at 31 December 2016:	Designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
Opening balance	10,039,667	8,069,169	80,364	18,189,200
Purchases	667,666	763,962	-	1,431,268
Disposals	(729,631)	-	-	(729,631)
Maturities	-	(51,900)	-	(51,900)
Net investment income:				
Premium/(Discount)	691,386	55,161	-	746,547
Fair value gains	(102,541)	-	24,289	(79,292)
Closing balance	10,566,547	8,836,392	104,653	19,507,592

As at 31 December 2015:	Designated as fair value through profit or loss KShs.'000	Held-to-maturity KShs.'000	Available for sale KShs.'000	Total KShs.'000
Opening balance	10,430,570	7,026,753	-	17,457,323
Purchases	293,512	878,550	-	1,172,062
Acquired through business combinations	127,928	229,700	80,364	437,992
Maturities	-	(27,741)	-	(27,741)
Net investment income:				
Premium/(Discount)	-	(38,093)	-	(38,093)
Fair value gains	(812,343)	-	-	(812,343)
Closing balance	10,039,667	8,069,169	80,364	18,189,200

17. Financial instruments (continued)
(a) Summary per category (continued)

Maturity analysis:

	< 1 year	1 - 5 years	> 5 years	Open ended	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
As at 31 December 2016:					
Public sector stocks and loans	605,183	3,479,605	11,054,275	-	15,139,063
Equities and similar securities	-	-	-	4,368,529	4,368,529
	605,183	3,479,605	11,054,275	4,368,529	19,507,592
As at 31 December 2015:					
Public sector stocks and loans	424,931	3,257,797	10,481,609	-	14,164,337
Equities and similar securities	-	-	-	4,024,863	4,024,863
	424,931	3,257,797	10,481,609	4,024,863	18,189,200

Loans and receivables are analyzed in Notes 19 and 20. Held-to-maturity investments comprise Government bonds held under lien as required by the Insurance Regulatory Authority. The Group has the positive intention and ability to hold until maturity. The fair value as at 31 December 2016 of Held-to-maturity investments was KShs. 7.802 billion (2015: KShs 7.563 billion). Loans are adequately secured while Government bonds that are considered to be risk free hence the securities are not impaired.

(b) Determination of fair value and fair value hierarchy

Below follows required disclosure of fair value measurements, using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosures only cover instruments measured at fair value.

Level 1

Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Fair value of the deposit administration liabilities is based on the fair value of the assets backing these liabilities. The assets are traded in an active market and quoted prices are available

Level 2

Included in level 2 category are financial assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique such as discounted cash flows, based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.The Group's level 2 financial assets indicated below comprise of government securities which are held to maturity. Fair value is determined by discounting estimated cash flows with a discount rate based on a market yield for similar instruments at year-end. Inputs applied include a market discount rate and credit risk of the counterparty.

Level 3

Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

17. Financial instruments (continued)

(b) Determination of fair value and fair value hierarchy (continued)

Level 3 (continued)

	Level 1	Level 2	Level 3	Total fair value
As at 31 December 2016:	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial assets :				
Equities and similar securities	3,286,098	977,778	104,653	4,368,529
Public sector stocks and loans	6,302,671	8,836,392	-	15,139,063
Non-financial assets at fair value				
Investment properties	-	-	2,761,200	2,761,200
	9,588,769	9,814,170	2,865,853	22,268,792

	Level 1	Level 2	Level 3	Total fair value
As at 31 December 2016:	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial liabilities:				
Investment contract liabilities	-	7,653,977	-	7,653,977
Deposit administration contracts	-	1,489,407	-	1,489,407
	-	9,143,384	-	9,143,384

	Level 1	Level 2	Level 3	Total fair value
As at 31 December 2015:	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial assets :				
Equities and similar securities	2,655,610	1,288,889	80,364	4,024,863
Public sector stocks and loans	6,095,168	8,069,169	-	14,164,337
Non-financial assets at fair value;				
Investment properties	-	-	2,674,799	2,674,799
	8,750,778	9,358,058	2,755,163	20,863,999
Financial liabilities:				
Investment contract liabilities	-	8,269,515	-	8,269,515
Deposit administration contracts	-	1,434,573	-	1,434,573
	-	9,704,088	-	9,704,088

17. Financial instruments (continued)

(b) Determination of fair value and fair value hierarchy (continued)

Level 3 (continued)

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3

Investment properties

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2016 are as shown below

Description	Input	Sensitivity used*	Effect on fair value KShs '000
Investment property	Estimated rental value	10%	+/ -276,120
	Discount rate	1%	+/ - 27,612
	Rental growth rate	1%	+/ - 27,612
	Inflation rate	10%	+/ -276,120
	Long term vacancy rate	1%	+/ - 27,612

**The sensitivity analysis refers to a percentage amount added or deducted from the input and the effect this has on the fair value.*

Significant increases (decreases) in estimated rental value and rent growth rate in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in long-term vacancy rate and discount rate in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally:

- Similar change in the rent growth rate and discount rate
- Opposite change in the long term vacancy rate

The movement in investment properties (Level 3) are disclosed on Note 14.

18. Reinsurance asset

The reinsurance asset can be broken down as follows;

	Group	
	2016	2015
	KShs. '000	KShs. '000
Long term business reinsurance asset	134,296	93,205
General business reinsurance asset	420,687	233,492
Total reinsurance asset	554,983	326,697

18. Reinsurance asset (continued)

The following is a summary of the movements in the reinsurance asset

i. Long term reinsurance asset movement		
	Group	
	2016	**2015**
	KShs. '000	**KShs. '000**
Opening balance	93,205	145,397
Current year movement	41,091	(52,192)
	134,296	93,205

ii. General reinsurance asset movement		
As at 1 January 2016		
Reinsurer's share of contract liabilities (Note 26(a))	166,371	158,025
Reinsurer's share of unearned premium (Note 27)	67,121	30,352
Current year movements		
Increase in reinsurer's share of contract liabilities (Note 26(a))	160,970	8,346
Increase in reinsurer's share of unearned premiums (Note 27)	26,225	36,769
At 31 December 2016		
Reinsurer's share of contract liabilities (Note 26(a))	327,341	166,371
Reinsurer's share of unearned premium (Note 27)	93,346	67,121
Total reinsurer's share of liabilities	420,687	233,492

19. Mortgage loans

	Group	
	2016	**2015**
	KShs. '000	**KShs. '000**
At start of year	390,719	398,130
Accrued interest	37,728	38,957
Additional loans advanced	30,884	40,929
Loan repayments	(86,757)	(87,297)
At end of year	372,574	390,719
Impairment:		
At 1 January	(5,751)	(5,751)
Increase during the year	(323)	-
At 31 December	(6,074)	(5,751)
At end of year (Note 16)	366,500	384,968
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	2,267	2,377
In 1 - 5 years	13,609	14,272
After 5 years	356,698	374,070
Provision for impairment	(6,074)	(5,751)
	366,500	384,968
Loans at:		
Market rate	84,466	88,580
Concessionary rate:		
Staff loans	288,108	302,139
Provision for impairment	(6,074)	(5,751)
	366,500	384,968

These loans are carried at amortized cost. None of the above loans have had their terms renegotiated. The fair value of collateral (charged buildings) on the mortgage loans amounted to KShs. 867,670,000 (2015: KShs. 1,064,575,000). The Group can liquidate the collateral in case of default. The average concessionary rate was at 8% (2015: 8%). The loans at concessionary rate are based on rates published by Kenya Revenue Authority on a quarterly basis.

20. Policy loans

	Group	
	2016	2015
	KShs.'000	KShs.'000
At start of year	580,824	665,782
Additions	717,791	716,821
Repayments	(811,552)	(887,266)
Interest accrued	77,298	85,487
At end of year	564,361	580,824
Provision for impairment:		
At start of the year	(297)	(297)
(Increase) during the year	-	-
At end of the year	(297)	(297)
Net policy loans	564,064	580,527

The collateral for the policy loans is the cash surrender value of the underlying policy. In case of default the loan is written off against the cash surrender value. The carrying amount disclosed above reasonably approximate fair value at the reporting date.

21. Weighted average effective interest rate

The following table summarises the fixed average effective interest rates at the yearend on the principal interest-bearing investments. The interest contractual rates do not fluctuate during the term of the investments.

	2016	2015
Treasury bills	13%	9%
Treasury bonds	13%	12%
Mortgage loans and commercial papers	10%	11%
Deposits with financial institutions	8%	12%
Policy loans	16%	16%

22. Land and development

	Group		Company	
	2016	2015	2016	2015
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
At start of year	77,038	133,219	77,038	133,219
Additions	75,000		75,000	
Disposals	(24,672)	(56,181)	(24,672)	(56,181)
As at December	127,366	77,038	127,366	77,038

Land and development refers to land which is held by the company for resale.

23. Receivables and deferred acquisition costs

(a) Insurance receivables		Group	
		2016	2015
		KShs.'000	KShs.'000
Due from policyholders		1,663,765	1,164,802
Provision for doubtful debts	38(u)	(1,192,861)	(957,828)
Amount due from policyholders		470,904	206,974
Amounts due from reinsurers		98,432	48,288
Provision for doubtful debts		(20,686)	(20,686)
Amounts due from agents, brokers and intermediaries		1,972	-
Provision for doubtful debts		-	-
		550,622	234,576

The amounts receivable do not carry interest and are due within period ranging from 30 days to 180 days.

The impairment is charged to expenses in the respective period.

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

23. Receivables and deferred acquisition costs (continued)

(b) Receivables and other financial assets

	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs. '000**	**KShs.'000**	**KShs. '000**
Amounts due from related parties (Note 36)	69,932	25,804	156,190	82,752
Rent outstanding	3,058	3,940	-	-
Other receivables	708,699	176,253	210,577	72,703
Prepayments	17,103	16,227	-	-
Total	798,792	222,224	366,767	155,455

The carrying amounts disclosed above reasonably approximate fair value at reporting date due to their short-term nature.

(c) Deferred acquisition costs

The movement in deferred acquisition costs is shown below;

	Group	
	2016	**2015**
	KShs.'000	**KShs.'000**
At start of year	19,776	-
Acquired through business combinations	-	17,984
Net movements in the year	130,651	1,792
At end of year	150,427	19,776

24. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**
Cash and bank balances	463,955	222,844	11,659	57,634
Deposits with financial institutions	2,033,481	3,693,324	-	-
Total	2,497,436	3,916,168	11,659	57,634

24. Cash and cash equivalents (continued)

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. All deposits are subject to an average interest rate of 8% (2015: 12%).The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

25. Share capital and reserves

Share capital	Ordinary shares	2016	2015
	Thousands	KShs.'000	KShs.'000
At start and end of year	144,000	720,000	480,000
Bonus issue; Nil (2015; 1:2)		-	240,000
At the end of the year	144,000	720,000	720,000

The total number of authorised ordinary shares is 400,000,000 with a par value of KShs. 5 per share. There are 144,000,000 shares in issue with a par value of KShs. 5 per share. All issued shares are fully paid.

Share premium

On 16 February 2000, a rights issue of one share for every one share held was made at a price of KShs. 21.50 per share. A total of 24,000,000 were issued. The net proceeds from the rights issue was KShs. 484,431,000, after deducting issue expenses amounting to KShs. 31,569,000, hence a share premium arising of KShs. 364,431,000.

In 2011, the company issued 48,000,000 bonus shares in the proportion of 1 new share for one fully paid. The share premium hence reduced from KShs 364,431,000 to KShs 124,431,000.The issued shares were listed at the Nairobi Securities Exchange in July 2011.

In 2015, the company issued 48,000,000 bonus shares in the proportion of 1 new share for two fully paid. The whole share premium of KShs 124,431,000 was capitalised and the remaining KShs 115,569,000 capitalised from retained earnings. The issued shares were listed at the Nairobi Securities Exchange in July 2015.

Statutory fund

The statutory fund represents a reserve maintained within the long term insurance business and represents unallocated surpluses from previous actuarial valuations as required by section 46(5) of the Insurance Act. Transfers from this fund are made upon recommendation of the actuary. This movement has been shown on the statement of changes in equity.

	Group	
	2016	2015
	KShs.'000	KShs.'000
Balance at the beginning of the year	2,184,710	1,848,043
Surplus for the year	629,943	336,667
Closing fund	2,814,653	2,184,710

26. Insurance contract liabilities

The insurance contract liabilities are made up of liabilities arising from both general and long term insurance contracts. The balances as presented in the statement of financial position are made up as follows;

	Group	
	2016	**2015**
	KShs.'000	**KShs.'000**
Insurance contract liabilities		
- General insurance policy liabilities	1,414,942	1,512,908
- Long term policy liabilities	11,289,106	9,884,559
Total insurance contract liabilities	12,704,048	11,397,467
Investment contract liabilities - long-term	7,653,977	8,269,515
Payables under deposit administration contracts - long-term	1,489,407	1,434,573
Total investment contract liabilities	9,143,384	9,704,088
Total Liabilities	**21,847,432**	**21,101,555**

For purposes of the financial statement disclosures, the liabilities have been categorized as follows;

	Group	
	2016	**2015**
	KShs.'000	**KShs.'000**
General policy liabilities (Note 26(a))	1,414,942	1,512,908
Long term policy liabilities (insurance and investment contracts) (Note 26(b))	18,943,083	18,154,074
Payables under deposit administration (Note 26(b))	1,489,407	1,434,573

26. Insurance contract liabilities (continued)

(a) Group general policy liabilities

The movement in the Group general insurance contract liabilities and reinsurance assets are shown below;

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
At beginning of year	1,512,908	166,371	1,346,537	1,739,174	158,025	1,581,149
Cash paid for claims settled in year	(508,032)	(114,444)	(393,588)	(608,982)	(55,625)	(553,357)
Movement in liabilities						
- arising from IBNR	32,693	748	31,945	50,279	23,971	26,308
- arising from current year claims	225,373	167,404	57,969	332,437	40,000	292,437
- arising from prior year claims	152,000	107,262	44,738			
Total at end of year	1,414,942	327,341	1,087,601	1,512,908	166,371	1,346,537
Notified claims	1,234,659	290,346	944,313	1,361,318	130,125	1,231,193
Incurred but not reported	180,283	36,995	143,288	151,590	36,246	115,344
Total at end of year	1,414,942	327,341	1,087,601	1,512,908	166,371	1,346,537

b) Group long-term policy liabilities

Long term policy liabilities refer to the amount that needs to be set aside by the life assurance company in order to be able to cover future obligations to policy holders. It is the difference between the present value of the future benefits and the present value of the expected premiums. In the case of unit linked policies, it is the current value of the fund held by the Group on behalf of policy holders.

Current value of unit linked fund is determined by multiplying the number of units purchased by the policyholder from premium by the unit price as at the valuation date. This is done at a policy by policy level. The number of units purchased is a function of allocated premium using factors based on age, term and defined allocation criteria.

26. Insurance contract liabilities (continued)

b) Group long-term policy liabilities (continued)

Summary of movements is shown below:

	2016			2015		
	Total	Insurance& Investment contracts	Deposit admin contracts	Total	Insurance& Investment contracts	Deposit admin contracts
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
(i) Analysis of movement in policy liabilities:						
Premium income/contributions (net)	4,457,569	4,184,264	273,305	4,636,807	4,376,136	260,671
Income on Investment	2,512,489	2,277,890	234,599	1,537,462	1,460,388	77,074
Asset management fees	(91,066)	(76,701)	(14,365)	(72,847)	(62,627)	(10,220)
Net investment income	2,421,423	2,201,189	220,234	1,464,615	1,397,761	66,854
Income	6,878,992	6,385,453	493,539	6,101,422	5,773,897	327,525
Policy benefits (net)	(4,012,757)	(3,595,898)	(416,859)	(3,712,799)	(3,256,446)	(456,353)
Sales remuneration and administrative expenses	(1,433,540)	(1,411,694)	(21,846)	(1,440,887)	(1,420,393)	(20,494)
Transfer from shareholders	-	-	-	-	-	-
Transfer to statutory fund	(629,943)	(629,943)	-	(336,667)	(336,667)	-
Outflow	(6,076,240)	(5,637,535)	(438,705)	(5,490,353)	(5,013,506)	(476,847)
Net movement for the year	802,752	747,918	54,834	611,069	760,391	(149,322)
Balance at beginning of the year	19,495,442	18,060,869	1,434,573	18,886,373	17,300,478	1,583,895
Contract liabilities ceded to reinsurers	134,296	134,296	-	93,205	93,205	-
Balance at end of year	20,432,490	18,943,083	1,489,407	19,588,647	18,154,074	1,434,573

The assets backing the amounts payable under deposits administration contracts are included in the investments reported by the group under fair value through profit and loss and deposits with financial institutions. The carrying values of the liabilities approximate the fair value of the investments.

26. Insurance contract liabilities (continued)

b) Group long-term policy liabilities (continued)

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

(ii) Maturity analysis of long term policy liabilities:

	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
	< 1 year	**1-5 years**	**>5 years**	**open ended**	**Total**
As at December 2016:					
Linked and market-related investment contract liabilities	1,231,267	4,257,946	2,094,656	70,108	7,653,977
Insurance Contract liabilities:					
Reversionary bonus policies	185,012	200,777	2,111,308	-	2,497,097
Other non-participating liabilities	1,088,566	3,199,643	4,394,526	109,274	8,792,009
Total insurance contracts liabilities:	1,273,578	3,400,420	6,505,834	109,274	11,289,106
Deposit administration contracts	-	-	-	1,489,407	1,489,407
Total long term policy liabilities	2,504,845	7,658,366	8,600,490	1,668,789	20,432,490
As at December 2015:					
Linked and market-related insurance contract liabilities	1,330,286	4,600,373	2,263,110	75,746	8,269,515
Insurance Contract liabilities:					
Reversionary bonus policies	307,071	314,482	653,749	-	1,275,302
Other non-participating liabilities	808,054	2,662,869	5,042,655	95,679	8,609,257
Total insurance contracts liabilities:	1,115,125	2,977,351	5,696,406	95,679	9,884,561
Deposit administration contracts	-	-	-	1,434,573	1,434,573
Total long term policy liabilities	2,445,411	7,577,725	7,959,513	1,605,998	19,588,649

The maturity analysis for the long term policy liabilities is derived from the contract period of the underlying policies.

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

26. Insurance contract liabilities (continued)
b) Group long-term policy liabilities (continued)

The following is a summary of the contract provisions and related reinsurance assets as at 31 December 2016.

	Gross provisions	Reinsurance assets	Net
	KShs.'000	**KShs.'000**	**KShs.'000**
Long-term business			
Insurance contracts liabilities	11,289,106	(134,296)	11,154,810
Investment contract liabilities	7,653,977	-	7,653,977
Deposit administration contracts	1,489,407	-	1,489,407
Total	20,432,490	(134,296)	20,298,194

The following is a summary of the contract provisions and related reinsurance assets as at 31 December 2015.

	Gross provisions	Reinsurance assets	Net
	KShs.'000	**KShs.'000**	**KShs.'000**
Long-term business			
Insurance contracts liabilities	9,884,559	(93,205)	9,791,354
Investment contracts liabilities	8,269,515	-	8,269,515
Deposit administration contracts	1,434,573	-	1,434,573
Total	19,588,647	(93,205)	19,495,442

The summary of the movements in the reinsurance asset is outlined in Note 18.

26. Insurance contract liabilities (continued)

c) Interest and bonus declaration

Deposit administration contracts

The liabilities of the Group in respect of funds managed under deposit administration contracts are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 10.5% (2015: 5%).

Insurance contracts

The insurance contract liabilities are shown gross of bonus declaration. Bonus to with profit policies was declared and credited as follows:

	2016	2015
Reversionary bonus	2.5%	2.0%
Terminal bonus	2.5%	2.0%
Total bonus declared	5.0%	4.0%

Reversionary bonus vest immediately while terminal bonus vest after 8 years or on maturity if earlier.

27. Unearned premium

Unearned premiums reserve represents the liability for general business contracts where the Group's obligations are not yet expired at the year end. The movements in the reserve are as shown below;

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
At beginning of year	273,895	(67,121)	206,773	240,220	(30,352)	209,868
Net increase in the period	200,220	(26,225)	173,995	33,675	(36,769)	(3,095)
At end of year	474,115	(93,346)	380,770	273,895	(67,121)	206,773

28. Provisions

	Group	
	2016	**2015**
	KShs.'000	**KShs.'000**
General provision on insurance claims	34,620	34,620
Specific provision for financial guarantee	17,305	17,305
Total	51,925	51,925

The movement in the provisions is as follows:		
At 1 January	51,925	51,925
Unused amounts reversed	-	-
At end of year	51,925	51,925

The above provisions relate to provisions on insurance claims under special arrangements and the directors have a reason to believe the amounts provided will be paid out as benefits under the claims.

29. Deferred income tax

a) Group

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

For the year ended 31 December 2016	At start of year KShs. '000	(Charge)/ credit to profit or loss KShs. '000	At end of year KShs. '000
Property and equipment	4,079	1,480	5,559
Quoted shares – fair value gain	(9,435)	-	(9,435)
Unrealised fair value losses	798	17,319	18,117
Provisions	174,783	(42,346)	132,437
Tax losses carried forward	3,234	36,043	39,277
Deferred tax on life fund surplus	(655,413)	(188,983)	(844,396)
Total	(481,954)	(176,487)	(658,441)
Sanlam Life Insurance Limited	(655,413)	(188,983)	(844,396)
Sanlam Securities Limited	19,705	16,701	36,406
Mae Properties Limited	3,234	-	3,234
Sanlam Investments Limited	3,503	633	4,136
Sanlam Kenya Plc	17,236	7,647	24,883
Sanlam General Insurance Limited	129,781	(12,485)	117,296
Total	(481,954)	(176,487)	(658,441)

29. Deferred income tax (continued)

a) Group (continued)

The impact of deferred tax movement to the financial statements is depicted below:

For the year ended 31 December 2016:	At start of year KShs.'000	(Charge)/credit to Income statement KShs.'000	At end of year KShs.'000
Property and equipment	4,079	658	4,737
Quoted shares – fair value gain	(9,435)	-	(9,435)
Unrealised fair value losses	798	17,319	18,117
Provisions	174,783	(42,346)	132,437
Tax losses carried forward	3,234	36,043	39,277
Deferred tax on life fund surplus	(655,413)	(188,983)	(844,396)
Total	(481,954)	(176,487)	(658,441)
Deferred tax not recognised	3,234	-	3,234
Deferred tax asset	170,225	12,496	182,721
Deferred tax liability	(655,413)	(188,983)	(844,396)

For the year ended 31 December 2015	At start of year KShs. '000	Acquired through business combinations KShs. '000	(Charge)/ credit to profit or loss KShs. '000	At end of year KShs. '000
Property and equipment	(1,766)	(48,821)	54,666	4,079
Quoted shares – fair value gain	(22,649)		13,214	(9,435)
Unrealised fair value losses	518		280	798
Provisions	26,071		148,712	174,783
Tax losses carried forward	3,234		-	3,234
Deferred tax on life fund surplus	(554,413)		(101,000)	(655,413)
Total	(549,005)	(48,821)	115,872	(481,954)
Sanlam Life Insurance Limited	(554,413)		(101,000)	(655,413)
Sanlam Securities Limited	(1,185)		20,890	19,705
Mae Properties Limited	3,234		-	3,234
Sanlam Investments Limited	3,032		471	3,503
Sanlam Kenya Plc	327		16,909	17,236
Sanlam General Insurance Limited	-	(48,821)	178,602	129,781
Total	(549,005)	(48,821)	115,872	(481,954)

Mae properties limited's deferred tax asset has not been recognised as the directors are of the view that the company may not generate any taxable income in the near future to precipitate utilisation of the same.

29. Deferred income tax (continued)

b) Company

For the year ended 31 December 2016:	At start of year	(Charge)/ credit to profit or loss	At end of year
	KShs.'000	KShs.'000	KShs.'000
Plant and equipment	312	804	1,116
Provisions	16,924	6,843	23,883
Deferred tax	17,236	7,647	24,883

For the year ended 31 December 2015:	At start of year	(Charge)/ credit to profit or loss	At end of year
	KShs.'000	KShs.'000	KShs.'000
Plant and equipment	224	88	312
Provisions	103	16,821	16,924
Deferred tax	327	16,909	17,236

30. Insurance payables

	Group	
	2016	2015
	KShs.'000	KShs.'000
Outstanding claims	441,990	418,412
Payables arising out of direct insurance	245,238	519
Payables arising out of reinsurance operations	115,243	45,342
Total insurance payables	802,471	464,273

The amounts payable do not carry interest and are due within period ranging from 30 days to 180 days.

31. Payables and other charges

	Group		Company	
	2016	2015	2016	2015
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Amounts due to related parties (Note 36)	-	23,033	1,135,895	929,278
Unclaimed dividends	-	31,322	-	31,715
Stale cheques	39,075	58,560	-	-
Deposits received from sale of plots	3,200	11,400	3,200	11,400
Accruals	138,774	138,639	17,519	52,762
Other payables	300,290	492,778	158,817	100,580
Total	481,339	755,732	1,315,431	1,125,735

The carrying amounts disclosed above reasonably approximate fair value at reporting date due to their short-term nature. The amounts payable do not carry interest and are due within a period ranging from 30 days to 180 days. Payables and other charges are included in financial liabilities at amortized cost.

32. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computation:

a) Group		
	2016	**2015**
	KShs.'000	**KShs.'000**
Net profit attributable to ordinary shareholders for basic and diluted earnings	90,252	(61,559)
Weighted average number of ordinary shares for basic and diluted earnings per share	144,000	144,000
Basic earnings per ordinary share KShs.	0.63	(0.43)
Diluted earnings per ordinary share KShs.	0.63	(0.43)
b) Company		
Net (loss)/profit attributable to ordinary shareholders for basic and diluted earnings	270,099	(416,150)
Weighted average number of ordinary shares for basic and diluted earnings per share	144,000	144,000
Basic earnings per ordinary share KShs.	1.88	(2.89)
Diluted earnings per ordinary share KShs.	1.88	(2.89)

There have been no other transactions involving ordinary shares between the reporting date and date of completion of these financial statements.

33. Contingent liabilities – Group

Companies in the Group are defendants to legal proceedings filed against them by third parties. Unverified claims have also been placed against the former Pan Africa Insurance Group Limited (See Note 28). The directors are of the opinion that the outcome of these proceedings and claims will not have a material impact on the financial position of the Group.

The Group operates in the insurance industry and is subject to legal proceeding in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings (including litigations), the directors are of the opinion that the results of the Group, having sought the advice of the Group's legal counsel, will not have a material effect on its results and financial position.

The quantum has not been disclosed as these amounts are unverifiable.

The Group is also subject to insurance solvency regulations and these are detailed in Note 37. There are no contingencies associated with the Group's compliance or lack of compliance with such regulations.

34. Capital commitments – Group

The Group is in the process of constructing new head office at Westland's. The construction is at an advanced stage with completion expected at the first quarter of 2018.

Capital commitments:		
Capital commitments to completion of the head office are as follows:		
	Payable	
	2016	**2015**
	KShs.'000	**KShs.'000**
Not later than 1 year	1,037,965	815,434
Later than 1 year but not later than 5 years	190,646	1,037,965
Total	1,228,611	1,853,399

The Group has entered into commercial property leases in respect of its investment property portfolio, including the Group's unutilized office space. Leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

34. Capital commitments – Group (continued)

Operating lease commitments:

The future minimum lease commitments under non-cancellable operating leases are as follows:

	Receivable		Payable	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**
Not later than 1 year	19,029	17,299	11,914	10,831
Later than 1 year but not later than 5 years	97,134	88,304	60,818	55,289
More than 5 years	30,642	27,856	19,817	17,443
Total	146,805	133,459	92,549	83,563

35. Cash generated from operations

a) Group

Reconciliation of profit before income tax to cash generated from operations:

	2016	**2015**
	KShs. '000	**KShs. '000**
Profit before tax:	317,053	54,325
Adjusted for:		
Interest income on financial assets at fair value through profit and loss	(929,556)	(806,494)
Interest income on held to maturity financial assets	(1,029,167)	(974,078)
Revaluation gain on investment property	(61,613)	(175,200)
Depreciation and amortization	63,360	58,297
Fair value gains on financial assets at fair value through profit or loss	511,954	812,344
Rental income	(53,879)	(41,975)
Investment income	(506,042)	(566,178)
Goodwill impairment write back	-	564,080
Consolidation adjustments (share of associate's loss / (profit))	220	(3,263)
	(1,687,670)	(1,078,142)
	2016	**2015**

35. Cash generated from operations (continued)

a) Group (continued)

	KShs. '000	KShs. '000
Changes in working capital:		
Actuarial value of policyholders liabilities	691,043	481,933
Payables under deposit administration contracts	54,834	(149,322)
Reinsurance asset	(228,286)	7,077
Insurance receivables	(550,622)	96,266
Insurance payables	338,198	(6,552)
Other receivables	(576,568)	(80,666)
Trade and other payables	(274,393)	36,088
Cash generated from / (used in) operations	(2,233,464)	(693,318)
Tax paid	(104,058)	(69,517)
Net cash generated from/(used in) operations	(2,337,522)	(762,835)

Reconciliation of profit before income tax to cash generated from operations

35. Cash generated from operations (continued)

b) Company

Cash flow from operations	2016 KShs.'000	2015 KShs.'000
Profit / (Loss) before tax	263,268	(359,949)
Adjustment for:		
Investment income	(2,783)	(4,962)
Depreciation and amortization	2,395	1,516
Dividend income	(330,000)	-
Interest expense	21,775	
Impairment in investment in subsidiary	-	539,562
	(45,345)	176,167
Changes in working capital		
Other receivables	(131,312)	(91,221)
Trade and other payables	189,696	477,684
	13,039	562,630
Tax paid	(17,667)	-
Net cash generated from/(used in) operations	(4,628)	562,630

36. Related party transactions

a) Amounts due from related parties:	Group		Company	
	2016	2015	2016	2015
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Sanlam Securities Limited (Subsidiary)	-	-	122,273	40,247
Hubris Holdings Limited (Parent)	31,455	25,643	1,652	1,429
Sanlam Emerging Markets Proprietary Limited (Ultimate Parent)	38,316	-	-	-
Sanlam Investment Management South Africa (Sister company)	161	161	-	-
Sanlam Investments Limited (Subsidiary)	-	-	10,262	-
Sanlam General Insurance Limited (Subsidiary)	-	-	22,003	41,076
Total	69,932	25,804	156,190	82,752

There were no provisions made or amounts written off on related party balances during the year (2015: nil).The amounts due from related parties are non-interest bearing and will be paid using cash and cash equivalents.

36. Related party transactions (continued)

b) Amounts due to related parties:

	Group		Company	
	2016	**2015**	**2016**	**2015**
Payables to related parties	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Sanlam Life Insurance Limited (Subsidiary)	-	-	775,203	581,879
Sanlam Securities Limited (Subsidiary)	-	-	298,634	284,959
Sanlam Emerging Markets Proprietary Limited (Ultimate Parent)	-	23,033	-	-
Mae properties Limited (Subsidiary)	-	-	62,058	62,440
Total	-	23,033	1,135,895	929,278

Amounts due to related parties are interest bearing at 12.5% p.a. All other balances due to related parties are not interest bearing and will be paid using cash and cash equivalents. The amounts are payable within one year.

	Group		Company	
c) Key management compensation:	**2016**	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**
Salaries and other short-term employment benefits	161,227	176,434	81,819	60,210
Post-employment benefits	27,489	22,906	10,227	6,342
	188,716	199,340	92,046	66,552
d) Directors' remuneration:				
Fees	20,646	19,340	6,340	5,712
Other emoluments (included in (c) above)	39,856	33,745	39,856	33,745
Total	60,502	53,085	46,196	39,457
Mortgage loans to key management where collateral is accepted as security	34,525	85,568	-	-

36. Related party transactions (continued)

e) Directors' pension

The Group does not cater for any director's pension.

	Group		Company	
	2016	**2015**	**2016**	**2015**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**
f) Other related party transactions through the statement of profit or loss				
Investment income:				
Investment management fees- Sanlam Investments Limited	64,923	56,799	-	-
Other operating income				
Management expenses:				
Management fees- Sanlam Emerging Markets Proprietary Limited	12,420	11,611	-	-

g) Particulars of the Group's principal subsidiaries are shown below:

	Country of incorporation and domicile	**Primary business operation**	**% Held**
Sanlam Life Insurance Limited	Kenya	Life insurance	100
Sanlam General Insurance Limited	Kenya	General insurance	68
Sanlam Securities Limited	Kenya	Investment	100
Sanlam Investments Limited	Kenya	Investment Managers	100
Mae Properties Limited	Kenya	Investment in Properties (dormant)	100
Chem Chemi Mineral Water Limited	Kenya	Dealing with bottled water (dormant)	100

The assets and liabilities held by the respective companies can only be transferred within the subsidiaries if a proper Board resolution is passed and sanctioned by the shareholders as provided by the regulatory framework touching on transfer of the said assets and liabilities.

37. Critical accounting estimates and judgements

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the amounts reported for the Group's assets and liabilities. Management applies judgement in determining best estimates of future experience. These judgements are based on historical experience and reasonable expectations of future events and changes in experience. Estimates and assumptions are regularly updated to reflect actual experience. It is reasonably possible that actual outcomes in future financial years may differ to the current assumptions and judgements, possibly significantly, which could require a material adjustment to the carrying amounts of the affected assets and liabilities.

The critical estimates and judgements made in applying the Group's accounting policies are summarised below. Given the correlation between assumptions, it is not possible to demonstrate the effect of changes in key assumptions while other assumptions remain unchanged. Further, in some instances the sensitivities are non-linear. Interdependencies between certain assumptions cannot be quantified and are accordingly not included in the sensitivity analyses; the primary example being the relationship between economic conditions and lapse, surrender and paid-up risk.

An important indicator of the accuracy of assumptions used by a life insurance company is the experience variances reflected in the embedded value earnings during a period. The experience variances reported by the Group to date have been reasonable compared to the embedded value of covered business, confirming the accuracy of assumptions used by the Group.

37.1 Impairment of goodwill and value of business acquired

The recoverable amount of goodwill, value of business acquired and other intangible assets for impairment testing purposes has been determined based on the embedded value of life insurance businesses and the fair value of other businesses, as applicable, less the consolidated net asset value of the respective businesses. The embedded value (plus a value of new life insurance business multiple for goodwill) or fair value of a business therefore has a significant impact on whether an impairment of goodwill and/or value of business acquired is required

37.2 Policy liabilities in respect of long-term insurance contracts and investment contracts other than those with investment management services

The following process is followed to determine the valuation assumptions:

- Determine the best estimate for a particular assumption.
- Prescribed margins are then applied as required by the Insurance Regulation Authority's guidelines on the valuation of technical provisions.
- Discretionary margins may be applied as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

Investment return

Future investment return assumptions are derived from market-related interest rates on fixed-interest securities with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account.

Future bonus rates for participating business

Assumed future bonus rates are determined to be consistent with the valuation implicit rate assumptions.

Decrements

Assumptions with regard to future mortality, disability and disability payment termination rates and lapse, surrender and paid-up rates are consistent with the experience for the five years up to 30 October 2016. For annuity business, mortality rates are adjusted to allow for expected improvements in mortality rates. Assumptions with regard to future surrender and lapse rates are based on the experience for the 5 years ending 30 October 2016.

Expenses

Unit expenses are based on 31 December 2016 actual figures escalated at estimated expense inflation rates per annum.

37.3 Policy liabilities for investment contracts with investment management services

The valuation of these contracts is linked to the fair value of the supporting assets and deviations from future investment return assumptions will therefore not have a material impact.

37.4 The ultimate liability arising from claims under general insurance contracts

The estimation of the ultimate liability arising from claims under general insurance contracts is an important accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Group will ultimately incur.

The risk environment can change suddenly and unexpectedly owing to a wide range of events or influences. The Group is constantly refining

37.4 The ultimate liability arising from claims under general insurance contracts (continued)

its general insurance risk monitoring and management tools to enable the Group to assess risks appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which the Group operates means that there are, however, natural limits. There will never be absolute certainty in respect of identifying risks at an early stage, measuring them sufficiently or correctly estimating their real hazard potential.

Refer to the Capital and Risk Management Report further information on the estimation of the claims liability.

38. Capital management

Objective:

The Group's objective in managing its capital is to ensure that it supports the development of its business and is able to continue as a going concern, while at the same time maximising the return to its shareholders.

The Life insurance part of the Group business is subject to the following external capital requirements:

Condition:	Status:	
a)Required share capital (Life Insurer)	KShs. 150 million	Achieved
b)Margin of Solvency: Insurance Act-S.41(1)	Admitted Assets(AA)>Admitted Liability.	Achieved
c)Government Securities: Ins Act-S.50(1)(a)	10% AA in >2 years Govt Security.	Achieved
d)Securities under Lien(Insurance Act- S.32)	2.5% >2 years Govt Security	Achieved
e) Asset Management required core capital	KShs. 10mn or 3 times operational monthly expense	Achieved

The General insurance part of the Group business is subject to the following external capital requirements;

Condition:	Status:	
a)Required share capital (General Insurer)	KShs. 300 million	Achieved
b)Margin of Solvency: Insurance Act-S.41(1)	AA>AL + KShs. 10m or 15% of prior year net premiums	Achieved
c)Government Securities: Ins Act-S.50(1)(a)	10% AA in >2 years Govt Security.	Achieved
d)Securities under Lien(Insurance Act- S.32)	5% AA under lien with CBK	Achieved

Other businesses of the Group are not subject to any external capital requirements.

38. Capital management (continued)

The effective management of Sanlam Kenya Plc capital base is an essential component of meeting the Group's strategic objective of maximising shareholder value. The capital value used by the Group as the primary performance measurement base is the Group Embedded Value, as reported on pages 8 to 11. The Group Embedded Value is the aggregate of the following components:

- The embedded value of covered business, which comprises the long - term required capital supporting these operations and their net value of in - force business (refer embedded value report on page 9);

- The fair value of other Group operations, which includes the land and property development, capital markets and short - term insurance.

The management of the Group's capital base requires a continuous review of optimal capital levels, including the use of alternative sources of funding, to maximise return on Group Embedded Value. The Group has an integrated capital and risk management approach. The amount of capital required by the various businesses is directly linked to their exposure to financial and operational risks. Risk management is accordingly an important component of effective capital management.

All the subsidiaries of the Group are within the Kenyan jurisdiction and therefore apply the same capital management policies and processes.

Processes for managing capital:

a) Capital allocation methodology

Group businesses are each allocated an optimal level of capital and are measured against appropriate return hurdles.

The following methodology is used to determine the allocation of long-term required capital to the *covered business*:

The level and nature of the supporting capital is determined by minimum regulatory capital requirements as well as economic, risk and growth considerations. Regulatory capital must comply with specific requirements of the Insurance Act and Kenya Companies Act. A deterministic modelling process is used to determine the long-term required capital levels.

The fair value of *other Group operations* includes the working capital allocated to the respective operations.

The Group's policy to ensure appropriate capital levels is twofold:

(i) The Group dividend policy is based on the annual declaration of all discretionary capital that is not required for normal operations or expansion; and

(ii) Performance targets are set for other Group operations based on an expected return on the fair value of the businesses, equal to their internal hurdle rates. This ensures that all non-productive working capital is declared as a dividend to the Group.

b) Required capital

Long-term required capital – covered business

The Group's *covered business* requires significantly higher levels of allocated capital than the other Group operations. The optimisation of long-term required capital is accordingly a primary focus area of the Group's capital management philosophy given the significant potential to enhance shareholder value.

The following main strategies are used to achieve this objective:

i. Appropriate matching of assets and liabilities for policyholder solutions. This is especially important for long-duration policyholder solutions that expose the Group to interest rate risk, e.g. non-participating annuities, but also for participating business where asset/liability matching and investment strategy have a direct impact on capital requirements.

ii. Managing the impact of new business on capital requirements by limiting volumes of capital-intensive new business per business.

iii. The asset mix of the long-term required capital also impacts on the overall capital requirement. An increased exposure to interest-bearing instruments reduces the volatility of the capital base and accordingly also the capital requirement. The expected investment return on these instruments are however lower than equity with a potential negative impact on the return on Group Embedded Value. There is accordingly a trade-off between lower capital levels and the return on capital. The Group's stochastic capital model is used to determine the optimal asset mix that will ensure the highest return on capital.

38. Capital management (continued)
b) Required capital (continued)

iv. Certain of the Group's long term required capital covered business investments in other Group operations qualify, to a varying degree, to be utilised as regulatory capital for the covered business. Maximum capital efficiency can therefore be achieved by optimising the level of such investments held in the life companies' regulatory capital.

The Group continues to improve and further develop its capital management models and processes in line with international best practice and the current significant international developments surrounding solvency and capital requirements (for example the Solvency II initiative in the European Union).

Other Group operations

The performance measurement of other Group operations is based on the return achieved on the fair value of the businesses. Risk adjusted return targets are set for the businesses to ensure that each business' return target takes cognisance of the inherent risks in the business. This approach ensures that the management teams are focused on operational strategies that will optimise the return on fair value, thereby contributing to the Group's main objective of optimising return on Group Embedded Value.

c) Discretionary capital

Any capital in excess of requirements, and not optimally utilised, is identified on a continuous basis. The pursuit of structural growth initiatives has been set as the preferred application of Group capital, subject to such initiatives yielding the applicable hurdle rate and being complementary to or in support of Group strategy. Any discretionary capital not being efficiently redeployed will be returned to shareholders in the most effective form.

The Group's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Group's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the Group's performance by setting acceptable levels of risk. The Group's does not hedge against any risks.

39. Risk management

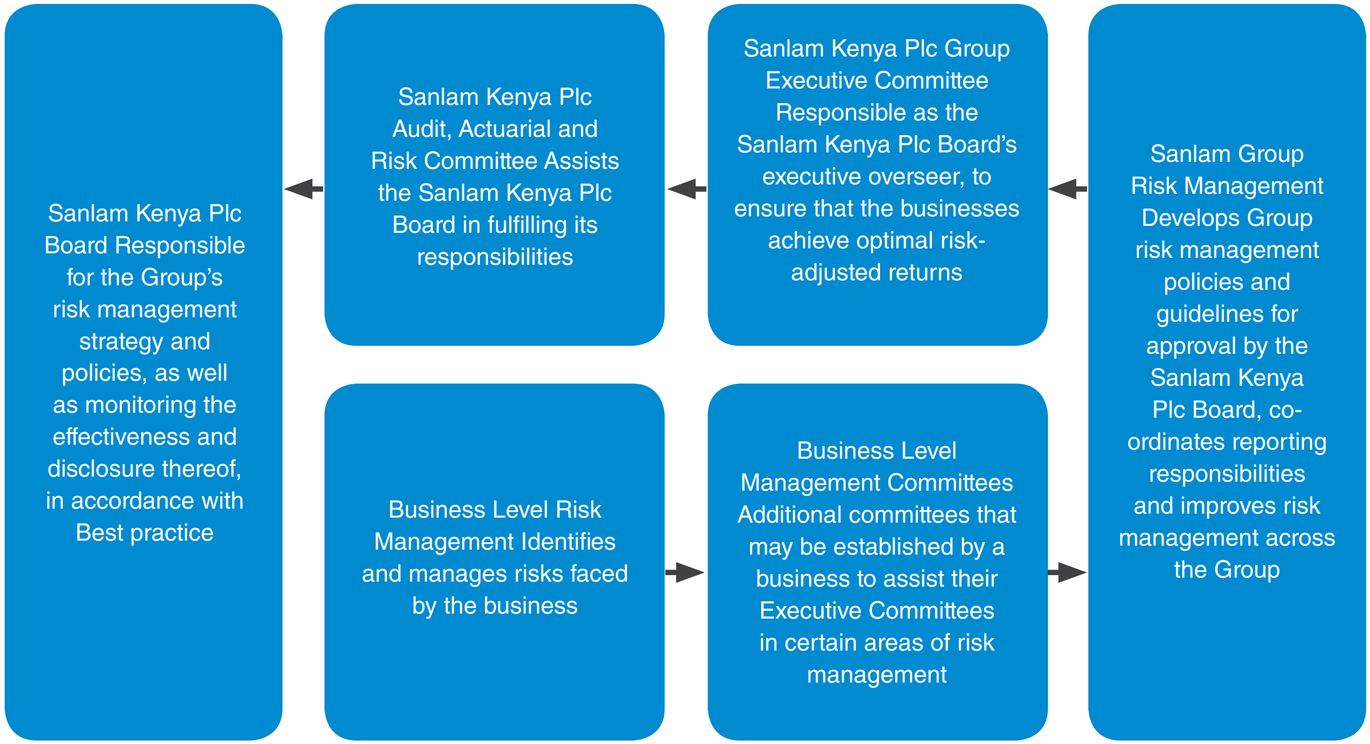
a) Governance structure

In terms of the Group's overall governance structure, the meetings of the Sanlam Kenya Plc, Sanlam Life Insurance Limited and Sanlam Securities Limited are combined to improve the flow of information and to increase the efficiency of the Boards. The agenda of the Board focuses on Group strategy, capital management, accounting policies, financial results, dividend policy, human resource development and corporate governance, Capital Markets Authority and Nairobi Securities Exchange requirements. The Sanlam Life Insurance Board is responsible for statutory matters across all Sanlam Kenya Plc businesses as well as monitoring operational efficiency and risk issues throughout the Group.

The Group operates within a decentralised business model. In terms of this philosophy, the Sanlam Kenya Plc Board sets the Group risk management policies and frameworks while the individual businesses take responsibility for all operational and risk-related matters on a business level, within the limits set by these policies and frameworks. The following diagram generically depicts the flow of risk management information from the individual businesses to the Sanlam Kenya Plc Board.

39. Risk management (continued)

a) Governance structure (continued)



A number of other risk monitoring mechanisms are operating within the Group as part of the overall risk management structure. The most important of these are illustrated in the following table.

39. Risk management (continued)

a) Governance structure (continued)

OTHER RISK MONITORING MECHANISMS

Capital Management
Reviews and oversees the management of the Group's capital base

Asset and Liability Matching
Determines appropriate investment policies and guidelines for policyholder portfolios where guarantees are provided

Non-listed Assets
The Audit Committee reviews and approves the valuation of all unlisted assets in the Group for recommendation to the Sanlam Kenya Plc Board

Compliance
Facilitates management of compliance through analysing of statutory and regulatory requirements, and monitoring implementation and execution thereof

Group Risk Forum
Aids co-ordination and transfer of knowledge between businesses and the Group, and assists Group Risk Management in identifying risks requiring escalation to the Sanlam Kenya Plc Board

Group Legal and Secretarial
Reviews and reports on corporate governance practices and structures. Reports on applicable Legal and compliance matters

General Manager (Finance)
Ensures that sound financial practices are followed, adequate and accurate reporting occurs, and financial statement risk is minimised

Actuarial
Monitors and reports on key risks affecting the life insurance operations. Determines capital requirements of the life insurance operations and the potential impact of strategic decisions thereon, by using appropriate modelling techniques

IT Risk Management
Manages and reports Group-wide IT risks

Sanlam Forensics
Investigates and reports on fraud and illegal behaviour in businesses

Investment Committee
Determines and monitors appropriate investment strategies for policyholder solutions

Internal Audit
Assists the Sanlam Kenya Plc Board and management by monitoring the adequacy and effectiveness of risk management in businesses

Risk Officer
Assists business management in their implementation of the Group risk management process, and to monitor the business' entire risk profile

39. Risk management (continued)

b) Group risk policies and guidelines

All risks are managed in terms of the policies and guidelines of the Board and its committees. Some of the main policies are:

i. The Group Strategic Risk Management (SRM);

ii. Group Risk Escalation Policy (REP);

iii. Group Business Continuity Policy (BCP);

iv. Group Information and Information Technology (I & IT) Risk Management Policy (ITRMP); and

v. Group Investment Policy

SRM, REP, BCP and ITRMP policies were developed by Sanlam Group Risk Management and have been implemented by all Group businesses. The maturity of the implementation within the Group does, however, vary from business to business due to different cost/benefit scenarios, complexity of risks and the degree of risk integration. At the quarterly Sanlam Kenya Plc Board, risk management reports are tabled that must also indicate the extent of compliance with the Sanlam Risk Management Policy.

The aim of the Group Escalation Policy is to ensure that key risks and risk events in any business in the Group are reported to the appropriate governance level. The Group Business Continuity Policy ensures that effective vertical and horizontal recovery abilities, consistent with business priorities, exist across the Group, to deal with disasters and related contingencies. The Sanlam Kenya Plc Group Strategic Risk Management is briefly summarised below:

Sanlam Kenya Plc Group Strategic Risk Management

Definition

SRM is a high-level over-arching approach to ensure that:

i. All risks which could jeopardise or enhance achievement of the Group's strategic goals are identified;

ii. Appropriate structures, policies, procedures and practices are in place to manage these risks;

iii. Sufficient organisational resources are applied to, and corporate culture is fully supportive of, the effective implementation of these structures, policies, procedures and practices;

iv. The organisation's risks are indeed being managed in accordance with the foregoing; and

v. The impact of strategic decisions on the risk-adjusted return on Group Embedded Value is considered by way of appropriate modelling techniques prior to such decisions being implemented.

Objective

The primary objective of SRM is to optimise the Group's risk-adjusted return on Group Embedded Value.

Philosophy

SRM is achieved by:

i. Applying a decentralised philosophy, in that the individual businesses are responsible for the identification of risks in their business and to apply appropriate risk management. Only significant risks are escalated to the Sanlam Kenya Plc Group level, in accordance with the Group Risk Escalation Policy (mentioned above). This policy guides the businesses to assess the impact of the risk (on a scale of insignificant to catastrophic), type of risk (on a scale of unlikely to already occurred/highly probable), and accordingly to determine the role players to whom the risk should be reported (from the Risk Officer of the business to the chairman of the Audit and Risk Committee).

ii. Implementing maximum loss limits, by using measures such as "value at risk", long term solvency requirements, capital adequacy requirements and sensitivities on return on embedded value/value of new business; and

iii. Clearly defining and documenting the business's risk appetite, being the degree of uncertainty that a business is willing to accept in pursuit of its goals, and describing it both qualitatively and quantitatively.

Risk is inherent in doing business, and includes all of the uncertain consequences of business activities that could prevent Sanlam Kenya Plc from achieving its strategic goals. Sanlam Kenya Plc SRM process is aimed at managing three elements of risk:

i. Opportunity: managing risk on the upside as an "offensive" function; focusing on actions taken by management to increase the probability of success and decrease the probability of failure.

ii. Hazard: managing risk on the downside as a "defensive" function; focusing on the prevention or mitigation of actions that can generate losses; and

iii. Uncertainty: managing the uncertainty associated with risk, focusing on achieving overall financial performance that falls within a defined acceptable range.

39. Risk management (continued)

Process

Each business has a documented process that links into the business's normal management process and includes:

- Strategic organisational and risk management context:
  - Strategic context (defining the business's strengths, weaknesses, opportunities and threats relative to its environment),
  - Organisational context (understanding the business's goals, strategies, capabilities and values),
  - Risk management context (setting of scope and boundaries),
- Developing risk evaluation criteria, defining a logical framework for risk identification, establishing a risk identification process, analysing the risks identified, evaluating the risks against established risk criteria, deciding on the appropriate action and communication, with the aim of continuous management and improvement.

c) Risk types

The Group is exposed to the following main risks:

	Risk type	Description	Potential significant impact
GENERAL RISKS	Operational	Operational risk is the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes:	All Group businesses
		Information and technology risk: the risk of obsolescence of infrastructure, deficiency in integration, failures/inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of data.	
		Going concern/business continuity risk: the risk that inadequate processes, people, financial controls and resources exist to continue business in the foreseeable future.	
		Legal risk: the risk that the Group will be exposed to contractual obligations which have not been provided for.	
		Compliance risk: the risk of not complying with laws and regulations, as well as investment management mandates.	
		Fraud risk: the risk of financial crime and unlawful conduct occurring within the Group.	
	Taxation	Taxation risk is the risk of financial loss due to changes in tax legislation that result in the actual tax on shareholders' fund earnings being higher than expected, with a corresponding reduction in return on Group Embedded Value; or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed policy benefits.	All Group businesses
	Reputational	Reputational risk is the risk that the actions of a business (e.g. the treatment of clients, employment equity and social responsibility) harm its reputation and brand.	All Group businesses
	Legislation	Legislation risk is the risk that unanticipated new acts or regulations will result in the need to change business practices that may lead to financial loss.	All Group businesses
	Strategic	Strategic risk is the risk that the Group's strategy is inappropriate or that the Group is unable to implement its strategy.	All Group businesses

39. Risk management (continued)

c) Risk types (continued)

FINANCIAL AND BUSINESS (SPECIFIC RISKS)

Risk type	Description	Potential significant impact
Market	Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price. Market risk includes:	Life insurance General insurance
	Equity risk: the risk that the fair value of cash flows of a financial instrument will fluctuate as a result of changes in equity prices.	
	Interest rate risk: the risk that the value of an unmatched financial instrument will fluctuate as a result of changes in interest rates and the risks that mismatch losses will be incurred in respect of a matched asset/liability position following changes in interest rates.	
	Foreign Exchange Risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	
	Property risk: the risk that the value of investment properties will fluctuate as a result of changes in the environment.	Life insurance
Credit	Credit risk is the risk that the group/company will incur a financial loss from the inability or unwillingness of counterparty to a financial instrument to discharge its contractual obligations. Credit risk includes:	Life insurance General insurance
	Reinsurance risk: concentration risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.	
Liquidity	Liquidity risk is the risk relating to the difficulty/inability to accessing/raising funds to meet commitments associated with financial instruments or policy contracts.	Life insurance Capital markets
Insurance	Insurance risk includes:	Life insurance General insurance
	Underwriting risk: the risk that the actual experience relating to mortality, disability and medical risks will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.	
	Persistency risk: the risk of financial loss due to negative lapse, surrender and paid-up experience.	
	Expense risk: the risk of loss due to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities.	
	Concentration risk: the risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile.	
Capital adequacy	Capital adequacy risk is the risk that there are insufficient assets to provide for variations in actual future experience, worse than that which has been assumed in the valuation bases.	Life insurance

1. Operational risk

The Group mitigates this risk through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions and other measures such as back-up facilities, contingency planning and insurance. The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions.

The management of risks associated with human resources is addressed in the Corporate Governance Report.

The following functionaries assist in mitigating operational risk:

Internal audit

A board-approved internal audit charter governs internal audit activity within the Group. A regular risk-focused review of internal control and risk management systems is carried out. The Group Internal Audit Manager has unrestricted access to the Chairman of the Audit Committee and the Sanlam Kenya Plc Board. The authority, resources, scope of work and effectiveness of the functions are reviewed regularly.

External audit

The Group's external auditors are PricewaterhouseCoopers. The report of the independent auditors for the year under review is contained on page 13 to 14 of this annual report. The external auditors consider internal control relevant to the entity's preparation and fair

39. Risk management (continued)
1. Operational risk (continued)
External audit (continued)

presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances and express an independent opinion on the annual financial statements. Non-audit services rendered by the external auditors are strictly governed by a Group policy in this regard. The Group applies a policy of compulsory rotation of audit partners.

External consultants

Sanlam Risk Management Unit performs an annual review of the Group's risk management processes. The purpose of this review is to continuously identify potential areas for improved risk management in line with developing international best practice.

i) Information and technology risk

IT risks are managed across the Group in an integrated manner following the enterprise risk management framework. Group IT is

the custodian of the Group's IT policy framework and ensures explicit focus on, and integration with the Group's IT governance

framework, which includes the governance of information security.

The Head of Group IT facilitates the process of identifying emerging IT risks as well as unpacking significant IT risks with Group-wide

strategic or operational impact. The Group IT committee provides guidance to the Head of Group IT regarding his duties, such as

the establishment of policy.

A quarterly IT governance report, summarising the Group-wide situation is delivered to the risk and compliance committee.

ii) Going concern / business continuity risk

The Board regularly considers and records the facts and assumptions on which it relies to conclude that Sanlam Kenya Entities will continue as a going concern. Reflecting on the year under review, the directors considered a number of facts and circumstances and are of the opinion that adequate resources exist to continue business in the foreseeable future and that Sanlam Kenya Entities will remain a going concern in the year ahead. The Board's statement to this effect is also contained in the statement on the responsibility of directors in the annual financial statements.

iii) Legal risk

During the development stage of any new product and for material transactions entered into by the Group, the legal resources of the Group monitor the drafting of the contract documents to ensure that rights and obligations of all parties are clearly set out. The Group seeks to minimise uncertainties through continuous consultation with internal and external legal advisers, to understand the nature of risks and to ensure that transactions are appropriately structured and documented.

iv) Compliance risk

Laws and regulations:

The Group considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Group compliance function facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

Compliance with Investment mandates:

The Investment Committee reviews compliance to Investment mandates on a quarterly basis. When a possible breach is detected, the fund manager is requested to confirm whether a breach has taken place, to explain the reason for the breach and indicate when it will be rectified (which is expected to be as soon as possible). Further action may be taken, depending on the type of breach. The detailed results of the mandate monitoring process are discussed with the Fund Managers on a monthly basis.

v) Fraud risk

The Group recognises that financial crime and unlawful conduct are in conflict with the principles of ethical behaviour, as set out in the Group' code of ethics, and undermines the organisational integrity of the Group. The financial crime combating policy for the Sanlam Kenya Plc Group is designed to counter the threat of financial crime and unlawful conduct. A zero-tolerance approach is applied in combating financial crime and all offenders will be prosecuted. The forensic services function at Group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that they may have an impact on the Group or executive of a business cluster. Group forensic services are also responsible for the formulation of Group standards in respect of the combating of unlawful conduct and the implementation of measures to monitor compliance with these standards.

The head of each business unit is responsible for the implementation of the policy in his or her respective business and is accountable to the Group Chief Executive and the Board of Sanlam Kenya Plc. Quarterly reports are submitted by Group Forensic Services to the Group's Audit Committee on the incidence of financial crime and unlawful conduct in the Group and on measures taken to prevent, detect, investigate and deal with such conduct.

39. Risk management (continued)
1. Operational risk (continued)

vi) Taxation risk

The risk is addressed through clear contracting to ensure that policy contracts entitle policyholders to after-tax returns, where applicable. The Group's internal tax resources monitor the impact of changes in tax legislation, participate in discussions with the tax legislator to comment on changes in legislation and are involved in the development of new products. External tax advice is obtained as required.

The Group consults widely with tax consultants when considering new initiatives to identify tax impact. As much as possible, the Group policy is to negotiate contracts gross of tax. Overseas contracts are negotiated inclusive of taxes and preference is given to parties in countries where Kenya has double taxation agreement.

2) Reputational risk

Actions with a potential reputational impact are escalated to the appropriate level of senior management. The Audit committee and board of directors are involved as required. Events with an industry-wide reputational impact are addressed through industry representative groups.

3) Legislation risk

Legislation risk is mitigated by ensuring that the Group has dedicated personnel that are involved in and therefore informed of relevant developments in legislation. The Group takes a pro-active approach in investigating and formulating views on all applicable issues facing the financial services industry. The risk is also managed as far as possible through clear contracting. The Group monitors and influences events to the extent possible by participation in discussions with legislators, directly and through industry organisations.

4) Strategic risk

The Group's governance structure and various monitoring tools in place ensure that any events that affect the achievement of the Group's strategy are escalated and addressed at the earliest opportunity. The Board has no tolerance for any breach of guidance.

Group strategy is addressed on a continuous basis at various forums within the Group, the most important of which are:

- The Group's strategic direction and success is discussed and evaluated at an annual strategic session of the Sanlam Kenya Plc Board as well as at the scheduled Board meetings during the year;

- As part of the annual budgeting process, the Group businesses present their strategic plans and budgets to the Sanlam Kenya Plc Executive Committee, who ensures that the businesses' strategies are aligned with the overall Group strategy; and

- The Sanlam Kenya Plc Executive Committee, which includes the chief executive of the various Group businesses, meets on a regular basis to discuss, among others, the achievement of the businesses' and Group's strategies. Any strategic issues are identified at these meetings and corrective actions are immediately implemented.

  Any strategic issues are identified at these meetings and corrective actions are immediately implemented.

Risk management: By business area

Investment management

The Group's investment management operations are primarily exposed to operational risks, as they have limited on-balance sheet exposure to financial instruments. Investment risk is borne principally by the client. The investment management operations are, however, exposed to market risk owing to the impact of market fluctuations on revenue levels, as investment fees are generally linked to the level of assets under management. This exposure is reduced through asset class and product diversification.

Investment performance

One of the key risks inherent to the investment management operations relates to the risk of consistently poor investment decisions i.e. incorrect asset allocation views and/or stock selection resulting in investment underperformance and impairment of the track record relative to benchmarks and/or peer groups. In order to mitigate this risk, the following areas are focused on:

- Recruitment and retention of high quality investment professionals and support staff who are organised into stable teams with a performance culture that receive pertinent training and development and regular employee appraisals;

- Optimisation of a robust investment process to affect good investment decisions;

- Rigour of the procedures for portfolio implementation;

- Effectiveness of the dealing desk; and

- Analyses of fund performance.

The above interventions are implemented with due cognisance of Sanlam Investments' fiduciary responsibility to at all times act in the best interest of the clients and in accordance with the investment mandate directives.

39. Risk management (continued)
4) Strategic risk (continued)

Life insurance

The Group's life insurance business is exposed to financial risk through the design of some policyholder solutions, and in respect of the value of the businesses' capital. Non - participating policyholder solutions and those that provide investment guarantees, such as market - related business, stable and reversionary bonus business and non-participating annuity business, expose the life insurance businesses to financial risk. Other business, such as linked policies and deposit (where the value of policy benefits is directly linked to the fair value of the supporting assets) does not expose the life insurance business to financial risk as this risk is assumed by the policyholder. The life insurance business' capital is invested in financial instruments and properties, which also exposes the businesses to financial risk, in the form of market, property, credit and liquidity risk. The management of these risks is described below.

5. Market risk

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 interest rates, equity prices, property prices, and foreign currency exchange rates. Market risk arises in business units due to fluctuations in both the value of liabilities and the value of investments held. At Group level, it also arises in relation to the overall portfolio businesses and in the value of investment assets owned directly by the shareholders.

a) Equity risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group's shareholders are exposed to the following sources of equity risk:

i. Direct equity shareholdings in shareholder funds

ii. The indirect impact from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken and

iii. Equity assets backing insurance liabilities that are not participating or not fully market linked

iv. Its interest in the free estate of long term with profit funds

Changes in prices of equities will have the following impact in the statement of profit or loss. The impact is net of tax

Gross Portfolio			
	KShs.'000	% change in base	KShs.'000
31 December 2016			
Equities and similar securities	1,218,478	+(-)44.4%	+(-)540,617
31 December 2015			
Equities and similar securities	1,759,095	+(-)32.1%	+(-)564,669

Change in base is the relative movement in the carrying value of equities and similar securities over the two reporting periods in review.

39. Risk management (continued)
5) Market risk (continued)
a) Equity risk (continued)

Linked and market-related business

Linked and market-related business relates to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Policyholders carry the full market risk in respect of linked business. Market-related policies however, provide for guaranteed minimum benefits at death or maturity, and therefore expose the life insurance business to market risk.

The risk relating to guaranteed minimum benefits is managed by appropriate investment policies, determined by the Actuarial committee, and by adjusting the level of guarantees for new policies to prevailing market conditions. These investment policies are then reflected in the investment guidelines for the policyholder portfolios.

Stable, reversionary bonus and participating annuity business (smoothed-bonus business)

These policies provide for the payment of an after-tax and after - cost investment return to the policyholder, in the form of bonuses. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the effects of volatile investment performance, and bonus rates are determined in line with the product design, policyholder reasonable expectations, affordability and the approved bonus philosophy. Any returns not yet distributed are retained in a bonus stabilisation reserve, for future distribution to policyholders.

In the event of adverse investment performance, this reserve may become negative. Negative bonus stabilisation reserves are allowed for in the valuation of these liabilities to the extent that the shortfall is expected to be recovered by declaring lower bonuses in the subsequent three years. The funding level of portfolios is bolstered through loans from shareholders in instances where negative stabilisation reserves will not be eliminated by these management actions. At end of year 2016, all stable and reversionary bonus business portfolios had a funding level in excess of 100%. (2015: 100%)

Equity risk is borne by policyholders to the extent that the after-tax and after - cost investment return is declared as bonuses. The capital portfolio is however exposed to some equity risk as an under performance in equity markets may result in an underfunded position that will require financial support by the capital portfolio. The Group manages this risk through an appropriate investment policy. Actuarial committee oversees the investment policy for the various smoothed-bonus portfolios. The aim is to find the optimum balance between high investment returns (to be able to declare competitive bonus rates) and stable investment returns given the need to meet guaranteed benefits and to support the granting of stable bonus rates. The requirements for the investment management of each portfolio are set out in investment guidelines, which cover, inter alia, the following:

- Limitations on exposure to volatile assets;
- The benchmarks for the performance measurement of each asset class and limits on deviations from these benchmarks;
- Credit risk limits;
- Limits on asset concentration – with regard to strategic investments, the exposure of policyholders' portfolios to these investments is based on portfolio investment considerations and restricted with reference to a specific counter's weight in the benchmark portfolio;
- Limits on exposure to some particular types of assets, such as unlisted equities, property and hedge funds; and
- Regulatory constraints.

Feedback on the investment policy and its implementation and the performance of the smoothed-bonus portfolios is provided quarterly to the Sanlam Kenya Plc Board.

b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk. The Group is not exposed to cash flow interest risk as it does hold instruments with a floating rate. The Group is however exposed to fair value interest risk as it holds investments in public sector loans and stocks which are designated at fair value though profit and loss. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The Group manages this risk by adopting close asset liability matching criteria, to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements. Interest rate risk is managed as follows with regard to long-term life business.

Changes in prices of public loans and stock as a result of changes in interest rates will have the following impact in the statement of profit or loss . The impact is net of tax.

39. Risk management (continued)
5) Market risk (continued)
b) Interest rate risk (continued)

	Gross portfolio	% change in base	2016	Gross portfolio	% change in base	2015
			KShs.'000			KShs.'000
Financial assets	-	-	-	-	-	-
Public sector stocks and loans	6,302,671	+(-)3.4%	+(-)214,567	6,095,168	+(-)3.0%	+(-)182,855

Linked and market - related business

Linked and market-related business relates to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Policyholders carry the full interest rate risk in respect of linked business.

The life business is exposed to interest rate risk to the extent that guaranteed minimum benefits at death or maturity are provided. Refer to equity risk in note (o) above for the management of market risk in respect of these policies.

Stable, reversionary bonus and participating annuity business (smoothed - bonus business)

The life business is exposed to interest rate risk to the extent that changes in effective interest rates result in negative stabilisation reserves that cannot be eliminated through the smoothed - bonus management action philosophy. In these circumstances the life insurance businesses will have to provide support to the policyholders' portfolios.

Guarantee plans

Our Flexi Saver and Flexi Educator policies provide for guaranteed maturity amounts. The life insurance business is therefore exposed to interest rate risk, if the assets backing these liabilities do not provide a comparable yield to the guaranteed value.

Interest rate risk is managed by matching the liabilities with assets that have similar investment return profiles as the liabilities.

c) Currency risk

The Group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either unit linked or with profit contract liabilities. For this reason, no sensitivity analysis is given for these holdings.

d) Property risk

The Group is subject to property price risk due to holdings of investment properties in a variety of locations. Investment in property is managed by a professional property manager with regard to liquidity requirements and the expectations of shareholders' and policyholders as well as overall risk appetite. The Group Investment Committee also monitors property assets owned directly by the Group on a quarterly basis.

The majority of the investment properties are held in respect of market-related and non-participating policyholder business as well as smoothed - bonus business. Refer to Equity Risk above for a description on how the risks associated with these types of business are managed.

Capital

Comprehensive measures and limits are in place to control the exposure of the life insurance businesses' capital to market risk. Continuous monitoring takes place to ensure that appropriate assets are held in support of the capital and investment return targets. Limits are applied in respect of the exposure to asset classes and individual counters.

i) Equity and interest rate risk

The capital is invested in equities and interest - bearing instruments that are valued at fair value and are therefore susceptible to market fluctuations. Investments in listed subsidiaries are reflected at net asset value based on the market value of the underlying investments.

ii) Currency risk

The exposure of the capital to currency risk is for the purpose of seeking international diversification of investments.

iii) Property risk

The capital portfolio has limited exposure to investment properties and accordingly the related property risk. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

Price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices

39. Risk management (continued)
Price risk (continued)

(other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market and careful and planned use of financial instruments.

sensitivities

Sensitivities that illustrate the effect of changes in investment return assumptions on the value of in-force (VIF) business are disclosed on page 13. The change in VIF relative to the base value is an indication of how the present value of future after-tax profits (including the allowance for the cost of capital at risk) are impacted based on these assumptions.

If investment return (and inflation) assumptions were to decrease by 1%, coupled with a 1% decrease in risk discount rates, and with bonus rates changing commensurately, the impact on the present value of future after-tax profits would be a decrease of KShs. 32.5 million (2015: decrease of KShs. 26.4million).

The basis of valuation of insurance contract liabilities is prescribed in the insurance Act of Kenya 1984. The Act prescribes Net premium valuation method which is very conservative. The rates prescribed by the Act are applicable for all insurers in the country.

Changes in economic mortality and expense assumptions will have the following impact in the statement of profit or loss

Sensitivities	**% change in base**	**Insurance Participating**	**Insurance non-participating**	**Shareholders' funds**
31 December 2016				
Interest rate	+(-) 3%	+(-)103,560	+(-)395,632	+(-)67,286
Equity/Property	+(-) 4%	+(-)38,931	+(-)93,452	+(-)53,251
31 December 2015				
Interest rate	+(-) 3%	+(-)96,720	+(-)368,983	+(-)73,741
Equity/Property	+(-) 4%	+(-)29,281	+(-)81,108	+(-)61,150

The above sensitivity analysis excluded unit linked investments, as the movement in assets and liabilities offset each other. Risk discount rate sensitivity is disclosed in note 4 of the Embedded Value Report

39. Risk management (continued)

2. Credit risk

The amount that best represents the Group's and Company maximum exposure to credit risk at end of year 2016 is tabulated in the industry analysis below:

	Government	Services	Financial Services	Manufacturing	Non Governmental Organizations	Others	Total
Group:							
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Public sector stocks and loans	3,788,403	2,514,268	-	-	-		6,302,671
Held to maturity	8,836,392	-	-	-	-	-	8,836,392
Reinsurers' share of technical provisions and reserves	-	-	554,983	-			554,983
Receivables arising out of direct insurance arrangements	-	-	550,622	-	-	-	550,622
Loans	-	-	-	-	-	930,564	930,564
Receivables and other financial assets	-	-	-	-	-	798,792	798,792
Cash and cash equivalents	-	-	2,497,436	-	-	-	2,497,436
	12,624,795	2,514,268	3,603,041	-	-	1,729,356	20,471,460
Company							
Receivables and other financial assets	-	-	-	-	-	366,767	366,767
Cash and cash equivalents	-	-	11,659	-	-	-	11,659
	-	-	11,659	-	-	366,767	378,426

39. Risk management (continued)

2. Credit risk (continued)

The amount that best represents the Group's and Company maximum exposure to credit risk at end of year 2015 is tabulated in the industry analysis below:

Group:

	Government	Services	Financial Services	Manufacturing	Non Governmental Organizations	Others	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Public sector stocks and loans	3,629,820	2,465,348	-	-	-		6,095,168
Held to maturity	8,069,169	-	-	-	-	-	8,069,169
Reinsurers' share of technical provisions and reserves	-	-	326,697	-			326,697
Receivables arising out of direct insurance arrangements	-	-	234,576	-	-	-	234,576
Loans	-	-	-	-	-	965,495	965,495
Receivables and other financial assets	-	-	-	-	-	222,224	222,224
Cash and cash equivalents	-	-	3,916,168	-	-	-	3,916,168
	11,698,989	2,465,348	4,477,441	-	-	1,187,719	19,829,497

Company

	Government	Services	Financial Services	Manufacturing	Non Governmental Organizations	Others	Total
Receivables and other financial assets	-	-	-	-	-	155,455	155,455
Cash and cash equivalents	-	-	57,634	-	-	-	57,634
	-	-	57,634	-	-	155,455	213,089

Credit exposure by credit rating

Owing to the fact that there is no readily available credit rating information, the group assesses the credit quality of the institution, taking into account its financial position, past experience and other factors

39. Risk management (continued)

2. Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Group and Company

Group:

31 December 2016	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Financial Instruments:	15,139,063			15,139,063
Reinsurers' share of technical provisions and reserves	554,983	-	-	554,983
Receivables arising out of direct insurance arrangements	550,622	-	1,192,862	1,743,484
Loans	725,948	204,616	6,074	936,638
Receivables and other financial assets	798,792	-	-	798,792
Cash and cash equivalents	2,497,436	-	-	2,497,436
Total	20,266,844	204,616	1,198,936	21,670,396

Company:

31 December 2016				
Financial Instruments:	-	-	-	-
Receivables and other financial assets	366,767	-	-	366,767
Cash and cash equivalents	11,659	-	-	11,659
Total	378,426	-	-	378,426

The fair value of collateral on the mortgage loans of KShs 366,500,000 (2015: 384,968,000) amounted to KShs. 867,670,000 (2015: KShs.1,064,575,000) while the surrender value of the policy loans adequately covers the outstanding loans of KShs 564,500,000 (2015: KShs 580,527,000) No collateral is held for any of the above assets. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

The credit quality of each class of financial asset that is neither past due nor impaired, has been assessed as acceptable within the parameters used to measure and monitor credit risk, as described above. There are no assets that would have been past due or impaired, had the terms not been renegotiated.

Credit risk - policyholder solutions and capital

Sanlam Kenya Plc recognises that a sound credit risk policy is essential to minimise the effect on the Group as a result of loss due to a major corporate failure and the possible systemic risk such a failure could lead to. The Sanlam Kenya Plc Investment Risk Policy and Strategy has been established for this purpose.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a Group-wide basis. The Group does not grade the credit quality of financial assets that are neither past due nor impaired. These activities in the Group are conducted mostly by Sanlam Investments (SIM) in terms of the investment guidelines granted to them by the Investment Committee. The Board of SIM has delegated responsibility for credit risk management to the Central Credit Committee.

The governance structures ensure that an appropriate credit culture and environment is maintained, such that no transactions are concluded outside areas of competence, nor without following normal procedures. This credit

39. Risk management (continued)
2. Credit risk (continued)
Credit risk - policyholder solutions and capital (continued)

culture is the product of a formal credit risk strategy and credit risk policy.

The credit risk strategy stipulates the parameters for approval of credit applications, such as: economic sector; risk concentration; maximum exposure per obligor, group, and industry; geographical location; product type; currency; maturity, anticipated profitability or excess spread; economic capital limits; and cyclical aspects of the economy.

All facilities are reviewed on at least an annual basis by the appropriate approval authority. Where possible, Sanlam Kenya Plc interest is protected by obtaining acceptable security. Covenants are also stipulated in the loan agreements, specifying actions that are agreed to.

In addition to the above measures, the portfolios are also managed in terms of the investment guidelines of the life insurance operations, which place limits in terms of the lowest credit quality that may be included in a portfolio, the average credit quality of instruments in a portfolio as well as limits on concentration risk.

The Group is also exposed to credit risk in respect of its working capital assets. The following are some of the main credit risk management actions:

- Unacceptable concentrations of credit risk to groups of counter-parties, business sectors and product types are avoided by dealing with a variety of major banks and spreading debtors and loans among a number of major industries, customers and geographic areas.

- Long-term insurance business debtors are secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

- Exposure to external financial institutions concerning deposits and similar transactions is monitored against approved limits.

At 31 December 2016:	Fully Performing KShs.'000	Past due but not impaired KShs.'000	Past due and impaired KShs.'000	Total KShs.'000
Financial assets:				
Public sectors stocks and loans	6,302,671	-	-	6,302,671
Held to maturity financial assets	8,836,392	-	-	8,836,392
Reinsurance assets	554,983	-	-	554,983
Receivables and other financial assets	801,247		-	801,247
Mortgages	362,230	4,270	6,074	372,574
Policy loans	364,015	200,346	297	564,658
Insurance receivables	563,876	-	1,192,861	1,756,737
Deposits with financial institutions	2,033,481	-	-	2,033,481
Cash at bank	463,955	-	-	463,955
Impairment charge			(1,199,232)	(1,199,232)
Gross financial assets	20,282,850	204,616	-	20,487,466

39. Risk management (continued)
2. Credit risk (continued)
Credit risk - policyholder solutions and capital (continued)

	Fully Performing	Past due but not impaired	Past due and impaired	Total
At 31 December 2015:	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial assets:				
Public sectors stocks and loans	6,095,168	-	-	6,095,168
Held to maturity financial assets	8,069,169	-	-	8,069,169
Reinsurance assets	326,697	-	-	326,697
Receivables and other financial assets	222,224		-	222,224
Mortgages	381,051	3,917	5,751	390,719
Policy loans	399,912	180,912	297	581,121
Insurance receivables	225,262	-	957,828	1,183,090
Deposits with financial institutions	3,693,324	-	-	3,693,324
Cash at bank	222,844	-	-	222,844
Impairment charge			(963,876)	(963,876)
Gross financial assets	19,635,651	184,829	-	19,820,480

The ageing analysis of past due but not impaired trade receivables is:

	Policy loans	Mortgage loans	Total
	KShs.'000	**KShs.'000**	**KShs.'000**
31 December 2016			
0-3 months	124,215	-	124,215
3-6 months	76,131	4,270	80,401
	200,346	4,270	204,616
31 December 2015			
0-3 months	112,165	-	112,165
3-6 months	68,747	3,917	72,664
	180,912	3,917	184,829

The past due receivables are not impaired and continue to be paid. An impairment provision of KShs 1,199.2 million (2015: KShs 963.9 million) is held against the impaired receivables. The Group holds collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

39. Risk management (continued)
2. Credit risk (continued)
Credit risk - policyholder solutions and capital (continued)

The following is a movement of impairment provision account:

	Mortgages	Policy loans	Insurance receivables	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
The movement in the provisions is as follows:				
At 1 January 2016	5,751	297	957,828	963,876
Additional provision	-	-	242,858	242,858
Unused amounts reversed	323	-	-	323
At end of year	6,074	297	1,200,686	1,207,057
At 1 January 2015	5,751	297	888,898	894,946
Additional provision	-	-	68,930	68,930
Unused amounts reversed	-	-	-	-
At end of year	5,751	297	957,828	963,876

Reinsurance risk

Sanlam Kenya Plc makes use of reinsurance to:

- Access underwriting expertise;
- Access product opportunities;
- Enable it to underwrite risks greater than its own risk appetite; and
- Protect its mortality/risk book against catastrophes.

The use of reinsurance exposes the Group to credit risk. The counterparty risks of reinsurers are managed under the Group's credit risk framework. The Group's reinsurance arrangements include proportionate, excess and catastrophe coverage. All risk exposures in excess of specified monetary limits are reinsured. Catastrophe insurance is in place for single-event disasters. Credit risk in respect of reinsurance is managed by placing the Group's reinsurance only with subsidiaries of companies that have high international or similar credit ratings.

Maximum exposure to credit risk

The life insurance businesses' maximum exposure to credit risk is equivalent to the amounts recognised in the statement of financial position and financial guarantees provided to parties outside the Group. There are no loan commitments provided that are irrevocable over the life of the facility (nor revocable only in adverse circumstances).

3. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities and policy holder liabilities. The board has developed a risk management framework for the management of the Group short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due.

The Group manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

Liquidity risk – policyholder solutions

Stable, reversionary bonus and participating annuity business (smoothed - bonus business)

39. Risk management (continued)
3. Liquidity risk (continued)
Liquidity risk – policyholder solutions (continued)

These policyholder solutions expose the Group to liquidity risks. Expected cash flows are taken into account in determining the investment guidelines and asset spread of the portfolios. Limits are also placed on the exposure to illiquid investments.

Guarantee plans

Other policyholder business

Policyholder portfolios supporting linked and market-related business, participating annuities and other non-participating life business are invested in appropriate assets, taking into account expected cash outflows.

The following table summarises the overall maturity profile of the business:

Year ended 31 December 2016:					
Group	**1 Year**	**1-5 Years**	**>5 Years**	**Open ended**	**Total**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial liabilities					
Market linked investment contracts	1,231,267	4,257,946	2,094,656	70,108	7,653,977
Non market related insurance contracts	1,273,578	3,400,420	6,505,834	109,274	11,289,106
Deposit administration contracts	-	-	-	1,489,407	1,489,407
Insurance payables	-			802,471	802,471
Provisions	-	51,925	-	-	51,925
Payables and other charges	478,339	-	-	-	478,339
Total liabilities	2,983,184	7,710,290	8,600,490	2,471,261	21,765,225
Company					
Payables and other charges	1,312,431	-	-	-	1,312,431
Total liabilities	1,312,431	-	-	-	1,312,431

39. Risk management (continued)

3. Liquidity risk (continued)

Guarantee plans (continued)

Year ended 31 December 2016:					
Group	**1 Year**	**1-5 Years**	**>5 Years**	**Open ended**	**Total**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial Assets:					
Equities and similar securities	-	-	-	4,368,529	4,368,529
Public sector stocks and loans	605,183	3,479,605	11,054,275	-	15,139,063
Mortgages and policy loans	9,306	549,033	372,226	-	930,564
Reinsurance assets	361,629	148,599	44,754	-	554,982
Insurance receivables	550,622	-	-	-	550,622
Receivables and other financial assets	798,792	-	-	-	798,792
Deposits with financial institutions	2,033,481	-	-	-	2,033,481
Cash and bank balances	463,955	-	-	-	463,955
Total assets	4,822,968	4,177,237	11,471,255	4,368,529	24,839,988
Company					
Receivables and other financial assets	366,767	-	-	-	366,767
Deposits with financial institutions	-	-	-	-	-
Cash and bank balances	11,659	-	-	-	11,659
Total assets	378,426	-	-	-	378,426

Year ended 31 December 2015:					
Group	**1 Year**	**1-5 Years**	**>5 Years**	**Open ended**	**Total**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial liabilities					
Market linked investment contracts liabilities	1,330,206	4,600,373	2,263,110	375,826	8,569,515
Non market related insurance contracts	1,381,938	3,400,420	6,505,834	109,275	11,397,467
Deposit administration contracts	-	-	-	1,434,573	1,434,573
Insurance payables	-			464,273	464,273
Provisions	-	51,925	-	-	51,925
Payables and other charges	755,732	-	-	-	755,732
Total liabilities	3,467,876	8,052,718	8,768,944	2,383,947	22,673,485
Company					
Payables and other charges	1,125,735	-	-	-	1,125,735
Total liabilities	1,125,735	-	-	-	1,125,735

39. Risk management (continued)

3. Liquidity risk (continued)

Guarantee plans (continued)

Year ended 31 December 2015:

Group	**1 Year**	**1-5 Years**	**>5 Years**	**Open ended**	**Total**
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Financial Assets:					
Equities and similar securities	-	-	-	4,024,863	4,024,863
Public sector stocks and loans	360,223	2,761,705	8,885,486	-	12,007,414
Mortgages and policy loans	9,655	569,642	386,198	-	965,495
Reinsurance assets	75,496	249,337	1,864	-	326,697
Insurance receivables	234,576	-	-	-	234,576
Receivables and other financial assets	222,224	-	-	-	222,224
Deposits with financial institutions	3,693,324	-	-	-	3,693,324
Cash and bank balances	222,844	-	-	-	222,844
Total assets	4,818,342	3,580,684	9,273,548	4,024,863	21,697,437
Company					
Receivables and other financial assets	155,455	-	-	-	155,455
Deposits with financial institutions	-	-	-	-	-
Cash and bank balances	57,634	-	-	-	57,634
Total assets	213,089	-	-	-	213,089

4. Insurance risk

Insurance risk arises from the writing of other non-participating life business, as these products are valued prospectively and therefore expose the long - term required capital to risk if actual experience differs from that which is assumed. The Group is however also exposed to persistency risk in respect of other policyholder solutions and insurance risk in respect of insurance contracts.

The Group manages underwriting risk through:

i. Underwriting risk

- Its product development process and underwriting policy to prevent anti - selection and ensure appropriate premium rates (loadings) for substandard risks;
- Adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks;
- Claims handling policy; and
- Adequate pricing and reserving.

39. Risk management (continued)

4. Insurance risk (continued)

i. Underwriting risk (continued)

Quarterly full actuarial valuations and the Group's regular profit reporting process assist in the timely identification of experience variances. The following policies and practices are used by the Group as part of its underwriting strategy to mitigate underwriting risk:

Policies and practices: underwriting strategy	
i)	All long-term insurance product additions and alterations are required to pass through the approval framework that forms part of the life insurance business' governance process. The statutory actuaries approve the policy conditions and premium rates of new and revised products;
ii)	Specific testing for HIV/Aids is carried out in all cases where the applications for risk cover exceed a set limit. Product pricing and reserving policies also include specific allowance for the risk of HIV/ Aids;
iii)	Applications for risk cover are reviewed by experienced underwriters and evaluated against established standards. Retention limits are applied to limit the exposure per individual life;
iv)	Appropriate income replacement levels apply to disability insurance;
v)	The experience of reinsurers is used where necessary for the rating of substandard risks;
vi)	The risk premiums for Group risk business and some of the in-force individual risk business can be adjusted within 12 months should claims experience deteriorate to the extent that such an adjustment is considered necessary.
	Risk profits are determined on a regular basis; and
vii)	Regular investigations into mortality and morbidity experience are conducted to ensure that corrective action, for example re-rating of premiums, is taken where necessary.

ii. Persistency risk

Distribution models are used by the Group to identify high-risk clients. Client relationship management programmes are aimed at managing client expectations and relationships to reduce lapse, surrender and paid-up rates. The design of insurance products excludes material lapse, surrender and paid-up value guarantees, subject to regulatory constraints, to limit financial loss at surrender. Persistency experience is monitored to ensure that negative experience is timorously identified and corrective action taken. The Group's reserving policy is based on the statutory required Gross Premium Method which ensures that adequate provision is made for lapses, surrenders and paid-up policies.

iii. Expense risk

Expenses are managed through the Group's budgeting process and continuous monitoring of actual expenses versus budgeted is conducted and reported on.

iv. Claims risk

The risk that Sanlam Kenya Plc may pay fraudulent claims (claims risk) is mitigated by employing highly trained client service staff to ensure that fraudulent claims are identified and investigated thoroughly. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The Sanlam forensic investigation team also advises on improvements to internal control systems.

The Group writes a diverse mix of business, and continually monitors this risk and the opportunities for mitigating actions through reinsurance. The Group's life insurance businesses are focused on different market segments, resulting in a mix of individual and institutional clients, as well as entry-level, middle market and high net worth clients.

39. Risk management (continued)

4. Insurance risk (continued)

iv. Claims risk (continued)

The tables below provide an analysis of the Group's exposure to the value of benefits insured:

Value of benefits insured per individual: non-participating life business

	Number of lives		Before Reinsurance		After reinsurance	
	2016	2015	2016	2015	2016	2015
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 – 500	216,764	235,142	3,067	3,115	2,233	2,179
500 - 1 000	39,168	42,489	10,359	10,519	7,481	7,302
1 000- 5 000	62,460	67,756	28,274	28,708	13,184	12,868
5 000- 8000	311	338	101,448	103,011	48,125	46,971
>8 000	354	384	152,270	154,615	73,428	71,668
	319,057	346,109	295,418	299,968	144,451	140,988

Non-participating annuity payable per annum per life insured

	Number of lives		Before Reinsurance		After reinsurance	
	2016	2015	2016	2015	2016	2015
KShs.'000			KShs.'000	KShs.'000	KShs.'000	KShs.'000
0 – 20	551	325	5,775	3,549	5,775	3,549
20 – 40	348	322	10,452	9,576	10,452	9,576
40 – 60	294	218	14,513	10,871	14,513	10,871
60 – 80	231	219	16,166	15,464	16,166	15,464
80-100	222	216	20,054	19,458	20,054	19,458
>100	2,068	1,943	764,805	674,561	764,805	674,561
	3,714	3,243	831,765	733,479	831,765	733,479

Concentration risk

Value of benefits insured per individual: participating life business (linked and market related)

	Number of lives		Before Reinsurance		After reinsurance	
	2016	2015	2016	2015	2016	2015
			KShs.'000	KShs.'000	KShs.'000	KShs.'000
With profits	28,460	27,743	10,415,223	10,700,356	10,415,223	10,700,356
Unit linked	40,656	51,166	-	-	-	-
Total	69,616	78,909	10,415,223	10,700,356	10,415,223	10,700,356

39. Risk management (continued)
4. Insurance risk (continued)

Capital adequacy risk

Refer to the capital management section (Note 38) for details on the management of the Group's capital base.

All subsidiaries of Sanlam Kenya Plc were adequately capitalised, with CAR covered 3.55 times by the excess of assets over liabilities.

Claims development table - long term insurance

The following tables show the estimates of cumulative incurred claims, including both claims notified and incurred but not reported claims (IBNR) for each successive year at each reporting date, together with cumulative payments to date

	Before 2006	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
At end of the year		784,257	1,274,676	1,003,251	762,994	892,333	1,233,696	1,674,761	2,258,375	2,710,947	3,309,685	3,685,952	
One year later		785,650	1,288,327	1,007,647	889,072	913,483	1,295,381	1,758,499	2,371,294	2,846,494	3,475,169		
Two years later		795,789	1,297,268	1,000,060	892,122	956,981	1,360,150	1,846,424	2,489,858	2,988,819			
Three years later		815,286	1,319,302	984,372	924,156	1,004,830	1,428,157	1,938,745	2,614,351				
Four years later		881,969	1,293,495	1,069,131	970,364	1,055,072	1,499,565	2,035,682					
Five years later		909,024	1,278,268	1,122,588	1,018,882	1,107,826	1,574,543						
Six years later		886,147	1,342,181	1,178,717	1,069,826	1,163,217							
Seven years later		930,454	1,409,290	1,237,653	1,123,317								
Eight years later		976,977	1,479,755	1,299,535									
Nine years later		1,025,826	1,553,742										
Ten years later		1,077,117											
Current estimate of cumulative claims incurred	Note 26	1,077,117	1,553,742	1,299,535	1,123,317	1,163,217	1,574,543	2,035,682	2,614,351	2,988,819	3,475,169	3,685,952	22,591,447

39. Risk management (continued)

4. Insurance risk (continued)

Claims development table - long term insurance

	Before 2006	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
At end of the year		(399,105)	(440,543)	(367,922)	(334,816)	(592,611)	(963,296)	(1,245,052)	(1,247,255)	(1,245,987)	(2,912,806)	(2,961,323)	
One year later		(406,546)	(511,332)	(484,893)	(405,884)	(609,642)	(983,932)	(1,320,073)	(1,326,777)	(1,330,281)	(3,078,290)		
Two years later		(437,762)	(521,173)	(498,735)	(400,755)	(701,168)	(1,046,646)	(1,398,846)	(1,410,276)	(2,548,925)			
Three years later		(578,965)	(673,100)	(493,966)	(789,778)	(749,017)	(1,112,495)	(1,481,557)	(2,271,152)				
Four years later		(662,770)	(661,332)	(865,292)	(835,986)	(799,259)	(1,181,637)	(1,780,306)					
Five years later		(683,101)	(1,016,570)	(918,749)	(884,504)	(852,013)	(1,304,202)						
Six years later		(704,728)	(1,080,483)	(974,878)	(935,448)	(907,404)							
Seven years later		(749,035)	(1,147,592)	(1,033,814)	(988,939)								
Eight years later		(795,558)	(1,218,057)	(1,095,696)									
Nine years later		(844,407)	(1,292,044)										
Ten years later		(895,698)											
Cumulative payments to date		(895,698)	(1,292,044)	(1,095,696)	(988,939)	(907,404)	(1,304,202)	(1,780,306)	(2,271,152)	(2,548,925)	(3,078,290)	(2,961,323)	(19,123,982)
Insurance payables per the statement of financial position	Note 26	181,419	261,698	203,839	134,378	255,813	270,341	255,376	343,199	439,894	396,879	724,629	3,467,465

40. Statutory compliance

Insurance Act

Sanlam Life Insurance Limited, a wholly owned subsidiary and Sanlam General Insurance Limited which the Company controls are licensed under the Kenya Insurance Act. The group is therefore required to comply with the provisions of insurance act.

Some of the key financial requirements are listed below.

a) Minimum Capital Requirement

The minimum paid up capital required for an insurer carrying on the business of life insurance is at least one hundred and fifty million Kenya shillings while for an insurer carrying on general business it is at least two hundred million shillings

The Group complied with this requirement with respect to long term insurance business as follows:

	2016	2015
	KShs.'000	KShs.'000
Paid up share capital	200,000	200,000
Share premium	30,260	30,260
Total paid up capital	230,260	230,260
Required capital	150,000	150,000

The Group complied with this requirement with respect to general insurance business as follows:

	2016	2015
	KShs.'000	KShs.'000
Paid up share capital	600,285	452,909
Share premium	102,759	135
Total paid up capital	703,044	453,044
Required capital	200,000	200,000

40. Statutory compliance(continued)

b) Admitted Assets - Sanlam Life Insurance Limited

Section 41-1 defines what constitutes admitted assets for the purpose of complying with the Kenya Insurance Act for a life insurance company

	2016	2015
	KShs.'000	KShs.'000
Total life assets	24,473,795	22,809,253
Non admitted assets	(410,210)	(295,911)
Admitted assets	24,063,585	22,513,342

	2016	2015
Assets not admitted comprise the following:	KShs.'000	KShs.'000
Premium debtors	199,002	91,248
Prepayment	15,533	15,181
Property and equipment	195,675	189,482
Total Non-admitted assets	410,210	295,911

Section 41 Subsection (1) of the Kenya Insurance Act requires an insurer carrying on in Kenya long term insurance business but not general insurance business shall keep at all times admitted assets of not less than the aggregate value of its admitted liabilities and ten million shillings or 5% plus admitted liabilities whichever is higher.

	2016	2015
	KShs.'000	KShs.'000
Total admitted assets(A)	24,063,585	22,513,342
Total admitted liabilities (B)	(22,402,698)	(21,128,983)
Surplus assets (A-B)	1,660,887	1,384,359
Less		
5% of Admitted liabilities	1,120,135	1,056,449
Solvency Margin as per insurance Act	540,752	327,910
No of times solvency cover	1.48	1.31

The Act further requires the insurer to maintain 5% of the admitted assets in lien with Insurance Regulatory Authority.

40. Statutory compliance (continued)

b) Admitted Assets - Sanlam Life Insurance Limited (continued)

	2016	2015
	KShs.'000	KShs.'000
Total assets under lien with IRA (A)	1,728,350	1,728,350
Lien amount required by insurance regulation (B)	1,204,250	1,125,667
Number of times lien cover (A/B)	1.44	1.54

c) Admitted Assets - Sanlam General Insurance Limited

Section 41-1 defines what constitutes admitted assets for the purpose of complying with the Kenya Insurance Act for a general insurance company

	2016	2015
	KShs.'000	KShs.'000
Total general assets	2,578,464	2,041,474
Non admitted assets	(762,334)	(275,266)
Admitted assets (A)	1,816,130	1,766,208

Section 41 Subsection (1) of the Kenya Insurance Act requires an insurer carrying on in Kenya general insurance business to keep at all times admitted assets of not less than the aggregate value of admitted liabilities and KShs10million, or 15% of net premium during the preceding financial year, whichever is greater.

		2016	2015
		KShs.'000	KShs.'000
1.	Solvency Margin		
	Total admitted assets	1,816,130	1,766,208
	Total admitted liabilities	(1,643,400)	(1,753,716)
	Surplus	172,730	12,492
2	Net premium 2015	490,977	574,351
	15% of net premium	73,647	86,153
3.	KShs 10 million		

For the General insurance business the solvency margin has been met with 15% of preceding year net premium being lower than the surplus of admitted assets.

PROXY FORM

To:
The Share Registrars
Image Registrars Limited
Barclays Plaza, 5th Floor, Loita Street
P.O. Box 9287- 00100
NAIROBI

I/We…………………………………………………………………………………..of ………………………………………………………

being member/members of **SANLAM KENYA PLC**

hereby appoint ……………………………………………………………………...of…………………………………………………….

or failing him/her …………………………………………………………………of …………………………………………………….

as my/our proxy to vote for me/us on my/our behalf at the 71st Annual General Meeting of the company to be held on 5th May 2017 at 10.00 am and at any adjournment thereof.

Signed/Sealed this ………………….............. day of ……………….................... 2017

Notes:

1. If you wish, you may appoint the Chairman of the meeting as your Proxy
2. In the case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised.
3. Completed proxy forms must be lodged with or posted to the Company's Share Registrars, so as to be received, no later than forty-eight hours before the time appointed for the holding of the Annual General meeting or any adjournment thereof.

Notes

Sanlam