Focus
100 years +

Annual Report and Financial Statements
2018

Sanlam
Wealthsmiths

years

Focus
100 years +

Our business is driven by Sanlam's vision of being the leader in client-centric wealth creation, management and protection. We are well-positioned and resourced to meet business needs and service clients locally and across the borders as part of Africa's largest non-bank financial services firm. We are pursuing a consolidated Group synergies strategy to achieve our vision.

Vision, Mission and Values

Purpose (Mission)

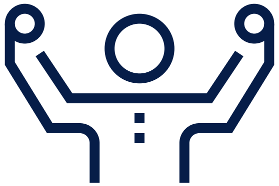
Sanlam Kenya Plc is committed to help create a world worth living in and enable people to live the best possible life within it.

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

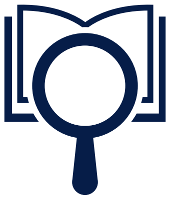


We are determined and resolute

For over 100 years, we have been doing business with readiness, resolve and deep-rooted conviction. We are committed, resolute, determined and purposeful in what we do.

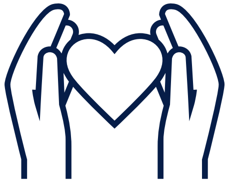
We are solid and sensible

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.

Customer Excellence

At Sanlam, our customers are vital to the growth and sustainability of our business, especially in a highly competitive industry. We always strive to deliver an unmatched customer experience, which is a key differentiator. Our employees are equally essential in maintaining excellent customer experiences and we continuously develop them to ensure they are aligned on our mission, vision and core values.

To our investors and stakeholders

Sanlam Kenya, formerly Pan Africa Insurance Holdings, is a diversified financial services group listed on the Nairobi Securities Exchange that provides a comprehensive suite of financial solutions tailored to meet the distinctive Kenyan market needs.

Through its subsidiaries Sanlam Life Insurance Limited and Sanlam General Insurance Limited, Sanlam Kenya is well positioned to meet unique client needs in the General and Life Insurance space.

Founded on a rich heritage and good corporate citizenship, Sanlam Kenya currently features a branch network of 22 client experience centres across Kenya's major towns. The firm enjoys an estimated market share of 6% in the life insurance industry in Kenya, serving 99,401 policyholders under individual life and 236,507 under group life.

Globally, Sanlam is one of the 50 largest internationally active insurance groups in the world with a presence in 45 countries. Our vision is to be the leader in client-centric wealth creation, management and protection, to be a leading player in Pan-African financial services while carving a niche in wealth and investment management in specific developed markets.

Sanlam operates through a number of subsidiaries, associated companies and joint ventures. Sanlam Life is the largest operating subsidiary and the holding company of most of Sanlam's operations in emerging markets.

Sanlam has a decentralised management structure and conducts operations through five business clusters: Sanlam Personal Finance, Sanlam Emerging Markets, Sanlam Investment Group, Santam and Sanlam Corporate. The Group provides comprehensive and tailored financial solutions to individual and institutional clients across all market segments. Sanlam's areas of expertise include insurance (life and general), financial planning, retirement, investments and wealth.

The Group also has stakes in operations based in Namibia, Botswana, Swaziland, Zimbabwe, Mozambique, Mauritius, Malawi, Zambia, Tanzania, Rwanda, Uganda, Kenya, Nigeria, Morocco, Angola, Algeria, Tunisia, Ghana, Niger, Mali, Senegal, Guinea, Burkina Faso, Côte d'Ivoire, Togo, Benin, Cameroon, Gabon, Republic of the Congo, Madagascar, Lebanon, Saudi Arabia, India, Malaysia and the United Kingdom and has interests in the USA, Australia, Burundi, Lesotho and the Philippines.

Through its subsidiaries Sanlam Life Insurance Limited and Sanlam General Insurance Limited, Sanlam Kenya is well positioned to meet unique client needs in the General and Life Insurance space.

44

Globally, Sanlam is one of the 50 largest internationally active insurance groups in the world with a presence in 44 countries.

6%

The firm enjoys an estimated market share of 6% in the Kenyan life insurance industry, serving 99,401 policyholders under individual life and 236,507 under group life.

Company information

Principal place of business
Sanlam Tower, Waiyaki Way, Westlands
P.O Box 44041 - 00100
Nairobi

Registered office
LR No. 1870/V/72
Sanlam Tower, Waiyaki Way, Westlands
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

Co-operative Bank of Kenya Limited
Ukulima Branch
P.O. Box 74956 - 00200
Nairobi

Family Bank Limited
Kenyatta Avenue Branch
P.O. Box 74145 - 00200
Nairobi

National Bank of Kenya Limited
Kenyatta Avenue
P.O. Box 30645 - 00100
Nairobi

Group Company Secretary
Emma Wachira
Sanlam Tower
Waiyaki Way
Westlands
P.O. Box 44041 - 00100
Nairobi

Independent auditor
PricewaterhouseCoopers
PwC Tower, Waiyaki Way/Chiromo Road
Westlands
P.O. Box 43963 - 00100
Nairobi

Legal advisers
Kaplan & Stratton Advocates
Williamson House, 4th Ngong Avenue
Nairobi

Muriu Mungai Advocates
MMC Arches
Spring Valley Crescent
Nairobi

Anjarwalla & Khanna Advocates
The Oval, 3rd Floor, Westlands,
Nairobi

Muthaura Mugambi Ayugi & Njonjo Advocates
4th Floor, Capitol Hill Square, Upper Hill,
Nairobi

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

Sanlam at a Glance

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Our Leadership

Corporate Governance

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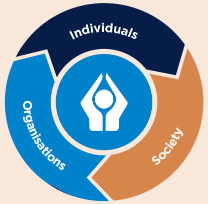
Product Innovation

Sanlam is positioned as an innovative investment brand and industry leader. We have been around for over a century and have always successfully adapted to our stakeholder' needs. We pay more emphasis on how we deliver our products to our clients, to differentiate us from our competitors. This is in line with our values of driving innovation and offering superior performance.

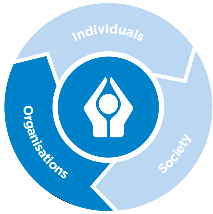
Sanlam at a Glance

Understanding how our business creates shared value



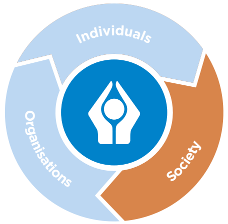
The cornerstone of our purpose, to build a world of Wealthsmiths™, is our ability to create shared value for our material stakeholders. This way, we strengthen their financial resilience and prosperity.

This contributes to a mutually beneficial value ecosystem for individuals, organisations and society.



Creating a world worth living in means that organisations have the benefit of:

- Opportunities to generate fee income for our sales agents as distribution partners for Sanlam products and services
- Facilitating sustainable economic growth through Sanlam's sound investment of client funds under management
- Technical partnerships with regulators to enable economic, social and regulatory resilience and prosperity



Creating a world worth living in means that society has the benefit of:

- Economic empowerment and choice
- Stability and liquidity in the financial sector through Sanlam's investment of client funds under management
- Trust in the financial sector as a result of technical partnerships
- Collaboration and trust between stakeholders in support of inclusive economic growth

Creating a world worth living in means that individuals have the benefit of:

- Wealth creation, management and protection through sound advice, fair treatment and a range of financial solutions that meet individual needs and expectations
- Employment opportunities and fair remuneration that leads to career development and financial security
- Growth in shareholder value for all our shareholders

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. This is what makes us Wealthsmiths™.

Our Stakeholder Network

Sanlam's strategic intent is to create sustainable value for all stakeholders. While we operate in an extended universe of stakeholders, we identify and select material stakeholders on the basis of their impact on Sanlam's business and the successful execution of our strategy. Sanlam's ability to create mutually beneficial financial resilience and prosperity is reflected in RoGEV, our primary performance target for measuring shareholder value creation.

Governance of stakeholder relationships

The Sanlam Board and executive management are responsible for managing Sanlam in a sustainable and stakeholder-inclusive manner. This includes overseeing the strategic risks that relate to the interface between Sanlam and its stakeholders, and balancing the needs, interests and expectations of all material stakeholders in the best interests of Sanlam over time. Read more about governance responsibilities to stakeholders in the online Governance Report.

Stakeholder relations

Sanlam's stakeholder strategy guides engagement with material stakeholders. An approved stakeholder communication policy is in place. Stakeholder engagement is continuous and depends on the needs of the various stakeholders and business clusters.

Each business cluster manages stakeholder engagement according to the specific focus in their operations. The clusters report to the Sanlam stakeholder hub on a quarterly basis on all stakeholder engagement activities and concerns raised.

The stakeholder hub is a centralised stakeholder database that serves as an issue log. The information in the stakeholder hub is collated and reported to the Social, Ethics and Sustainability (SES) committee on a quarterly basis. Group Market Development in the Group Office provides a support function for managing stakeholder relationships through face-to-face and client-centric engagement. This includes established relationships with multiple tertiary institutions in South Africa, trade unions, government departments, private sector institutions and affinity groups such as churches. Group Market Development further facilitates crossselling and collaboration between clusters to execute on market opportunities.

Stakeholder group	The basis of our relationship
Clients	Consumers of Sanlam's financial solutions to achieve their wealth creation, management and protection goals in support of financial resilience and prosperity
Employees	Providers of skills and expertise that support the activities underlying Sanlam's business model
Shareholders	Providers of financial capital at a Sanlam Group level
Business partners	Providers of products and services that enable Sanlam to conduct its business activities Co-investors in Sanlam businesses where appropriate
Society	The base from which demand for Sanlam's financial solutions is generated, and from which human resources are employed
Government	Partners to Sanlam's education, social and enterprise development programmes
Regulators	Providers of financial stability and a sustainable environment for financial services through prudential and market conduct regulation

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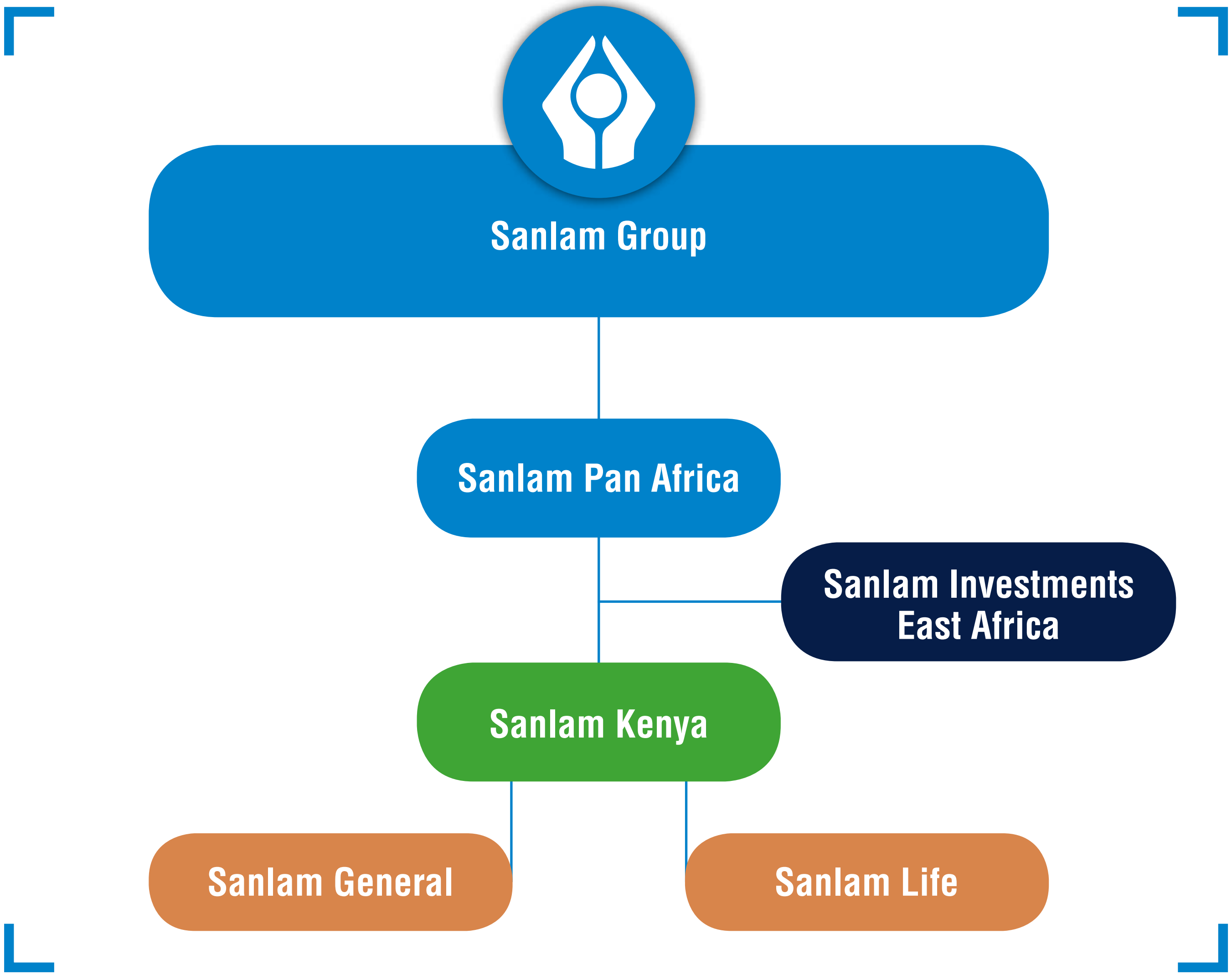
Our Global Presence

Sanlam is one of the 50 largest internationally active insurance groups in the world with a direct and indirect presence in 45 countries. Through SEM, Sanlam has the most extensive insurance footprint on the African continent.

Sanlam Group plc structure



Looking back

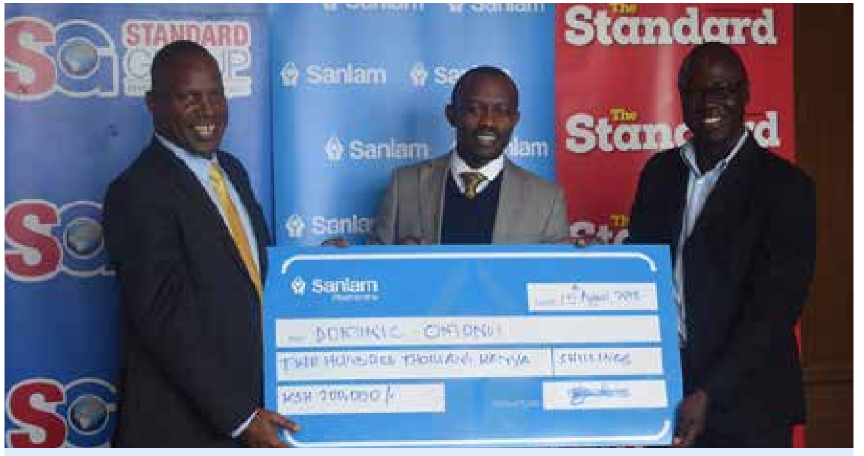
Sanlam Cape Town Marathon

In 2018, the Kenyan business was accorded a rare opportunity to lead the external positioning efforts for the Sanlam Cape Town Marathon held in late September in Cape Town, South Africa.

The positioning efforts involved our Sanlam Kenya Group CEO Mr. Patrick Tumbo presiding over the pre-event media conference on behalf of the Sanlam Group. During the event, our Group CEO presented the prizes to the winners.

The Sanlam Cape Town Marathon takes pride in being Africa's only IAAF Gold label status marathon. The Kenyan contingent to the popular marathon, included; former Hannover Marathon winner, Jacob Chesari Korir, Albert Korir, Kipsang Kipkemoi, Rotich Nicholas and Kacherian Philemon.

South Africa's Marathon Champion Stephen Mokoka emerged victorious in a course record shattering pace, finishing the 42KM race in a time of 2:08.31. He'd taken over the lead at the 33KM point providing stiff competition to the Kenyan contingent led by Albert Korir who finished second and compatriots Philemon Kacherian, Kipsang Kipkemoi and Nicholas Rotich finishing third, fourth and fifth respectively.



Kenyan journalist bags Sanlam Award for Excellence Award
Standard Group journalist, Dominic Omondi, picked the overall award and the African Growth Story category award which is open to journalists outside South Africa. The Award carries a prize money purse of R25 000, a trophy and certificate.

Sanlam-Kenya Defence Forces CSR:
In line with the company's Corporate Social Responsibility initiatives, Commanding officer, 77 Artillery Batallion Lt.Col Alfred Olenauwankas and Sanlam General Insurance Limited CEO, Geroge Kuria pose for a phot with Class 5 students from Mariakani Garisson Primary School after a donation of desks in helping upgrade the school facilities.

Nyali & Sigona Golf Sponsorship:
In line with Sanlam's commitment to engage customers more deliberately, 2018 was another chance to step up the company's participation in outdoor annual sporting events including the Sigona and Nyali Golf tournaments.

Looking back

Sanlam celebrates 100 years

Sanlam's 100th birthday was an epic milestone celebrated by staff members across the globe. In an event filled with a fireworks show and mesmerizing dance performance, Sanlam Kenya hosted its customers to a cocktail reception to mark the milestone.

Sanlam Kenya staffers plant trees at Westlands Primary School to mark the Sanlam Group 100 years celebrations.

Sanlam Kenya relocates to Sanlam Tower

Sanlam Kenya relocated to the state of the art, all-purpose built Sanlam Towers in Westlands. The KShs 2.7 billion, 18-storey architectural masterpiece along Nairobi's Waiyaki way will help advance our strategy to integrate and unify all our businesses under one roof to afford our clients convenience in solutions and services.

Sanlam Kenya Staff Innovation and Award Campaign – Big Idea Contest

Nicholas Njaci, Margaret Nyambura and Geoffrey Ngatia were announced as winners in the Staff Innovation and Award Campaign in a colourful event. The staff initiative, which was rolled out in the last quarter of 2018 by Group CEO Patrick Tumbo, was part of Sanlam Kenya's centennial celebrations.

Participants at the 2018 Sanlam Summer School for Financial Journalists.

16th Sanlam Summer School for Financial Journalism

Jeremiah Wakaya of Capital FM represented Kenya at the 16th annual Sanlam Summer School of Journalism in South Africa.

The annual Sanlam Summer School for Financial Journalists was established as Sanlam's response to the King II Report on Corporate Governance in 2003. The report called on the private sector to assist in the training of financial journalists to develop investigative journalism skills for the improvement of corporate governance in South Africa.

"The training enlightened me. There was quite a number of new concepts on investigative journalism particularly on news gathering and information sourcing. That was eye opening," said Wakaya.

This is the third year Kenya has had a representative at the School with Otiato Guguyu of the Standard Newspaper representing in 2016 and Blogger Eric Asuma of Kenyan Wall Street in 2017.

"I got the skills needed for financial journalism. I also learnt how to develop an understanding of how to obtain and use key economic and financial data. In addition to this, the program helped broaden my views on global issues," said Asuma.

For Guguyu the training provided valuable contacts of fellow journalists.

"The contacts have been a crucial resource when covering cross border companies. I also learnt of a different way to read balance sheets and ask the right questions when covering performance of companies" he added.

Sanlam opened the training to journalists from outside South Africa in 2013 to attend the programme through a sponsorship from its business partners in the countries where Sanlam currently has a footprint. As a result, journalists from Botswana, Namibia, Kenya, Ghana, Uganda, Malawi, Tanzania and Nigeria attended.

Sanlam believes corporate governance is critical in business across the world and any financial journalist equipped with some of the skills offered during the Summer School programme has the opportunity to enhance his/her career and present journalism of high quality and standard.

KShs 6,346 million
Gross Premium Income

KShs 2,184 million
Group Investment Income

KShs 5,545 million
Policyholder benefits settled

Five-year group review

	2014	2015	2016	2017	2018
	KShs.m	KShs.m	KShs.m	KShs.m	KShs.m
Statement of profit or loss:					
Profit/ (loss) before tax and share of profit of associate	1,150	51	317	251	(2,130)
Profit/(loss) attributed to shareholders	871	(62)	90	31	(2,017)
Insurance business:					
Gross premium income	5,247	5,182	5,225	6,370	6,346
Net premium income	4,991	4,797	4,832	5,416	5,372
Net benefits and claims paid	5,054	4,257	4,478	4,534	5,124
Statement of financial position:					
Total equity	3,778	3,802	3,932	4,052	1,587
Long term policy liabilities	19,030	19,589	20,432	20,124	20,042
General policy liabilities	-	1,513	1,415	1,438	1,222
Share capital	480	720	720	720	720
Total assets	24,599	27,109	28,443	29,811	29,102
Key indicators:					
	KShs.	KShs.	KShs.	KShs.	KShs.
Basic earnings per share	6.05	(0.43)	0.63	0.21	(14.01)
Dividends per share	-	-	-	-	-
Dividends (KShs. m)	-	-	-	-	-
Market capitalisation at year end (KShs. m)	11,520	8,640	3,996	3,996	3,168
Group share prices at the NSE:					
Annual High	145	141*	65	31	28
Annual Low	87	55	28	18	20
Share price at year end	120	60	28	28	22

* Price before bonus issue

Operational Efficiency

The consolidation of our subsidiaries' nerve centres provides a good foundation for Sanlam Kenya to enhance its operational efficiencies through a unified distribution and sales management model. This will ensure we are getting good returns on the capital we use to deliver our products and services.

Our Leadership

Board of Directors - Sanlam Kenya PLC

Dr. John P N Simba OGW, MBS, EGH (74) (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)

Susan Mudhune (69)
Appointed to the board on 18th August 2009
Occupation: Banker
Academic Qualifications: MBA (University of Nairobi), BA in Education (University of Nairobi)
Professional Qualification: Fellow of the Institute of Bankers (Kenya), Fellow of the Kenya Institute of Management.

Rohan Patel (43)
Appointed to the board on 16th May 2015.
Occupation: Director of Corporate Development
Academic Qualifications: MBA (IMD), MSC Management (LSE), BA Geography (LSE)
Professional Qualification: Advanced Management Program (Harvard), Certificate in Real Estate, Hotel Development and Investment.

Julius Nyakia Magabe (45)
Appointed to the board on 18th August 2016
Occupation: CEO Sanlam Life (T) ltd, Regional Executive, East Africa – Sanlam Pan Africa (SPA)
Academic Qualifications: MBA (ESIM)
Professional Qualification: Advanced Diploma Insurance and Risk management (Institute of Finance Management – Tanzania

Patrick Tumbo (55)
Appointed to the board on 2nd August 2018
Occupation: Group Chief Executive Officer, Sanlam Kenya Plc
Academic Qualifications: Bachelor of Commerce (Insurance) University of Nairobi, MBA Strategic Management University of Nairobi
Professional Qualification: Chartered Insurer (ACII)

Freda Britz (53)
Appointed to the board on 8th November 2018
Occupation: Qualified Chartered Accountant
Academic Qualifications: Bachelor of Commerce, Rand Afrikaans University; Post Graduate Diploma in Accountancy (Honours) & CTA: Rand Afrikaans University
Professional Qualification: Chartered Accountant (SA), registered Auditor IRBA, Chartered Management Accountant (ACMA)

Nelius Bezuidenhout (36)
Appointed to the board on 8th November 2018
Occupation: Group GM, Sanlam Pan Africa
Academic Qualifications: Bachelor of Commerce (Actuarial Science), University of Stellenbosch, South Africa
Professional Qualification: Fellow of Actuarial Society of India and South Africa.

Cornie Foord (61)
Appointed to the board on 8th November 2018
Occupation: Chief Operating Officer - Sanlam Pan Africa
Academic Qualifications: B Compt University of South Africa; B Compt (HONS) CTA –University of South Africa; M Comm (Business Management) ; University of Johannesburg

Senior management

Patrick Tumbo
Group Chief Executive Officer, Sanlam Kenya

Stella Njunge
Chief Executive Officer, Sanlam Life

Caroline Laichena
Acting Sanlam General Insurance CEO

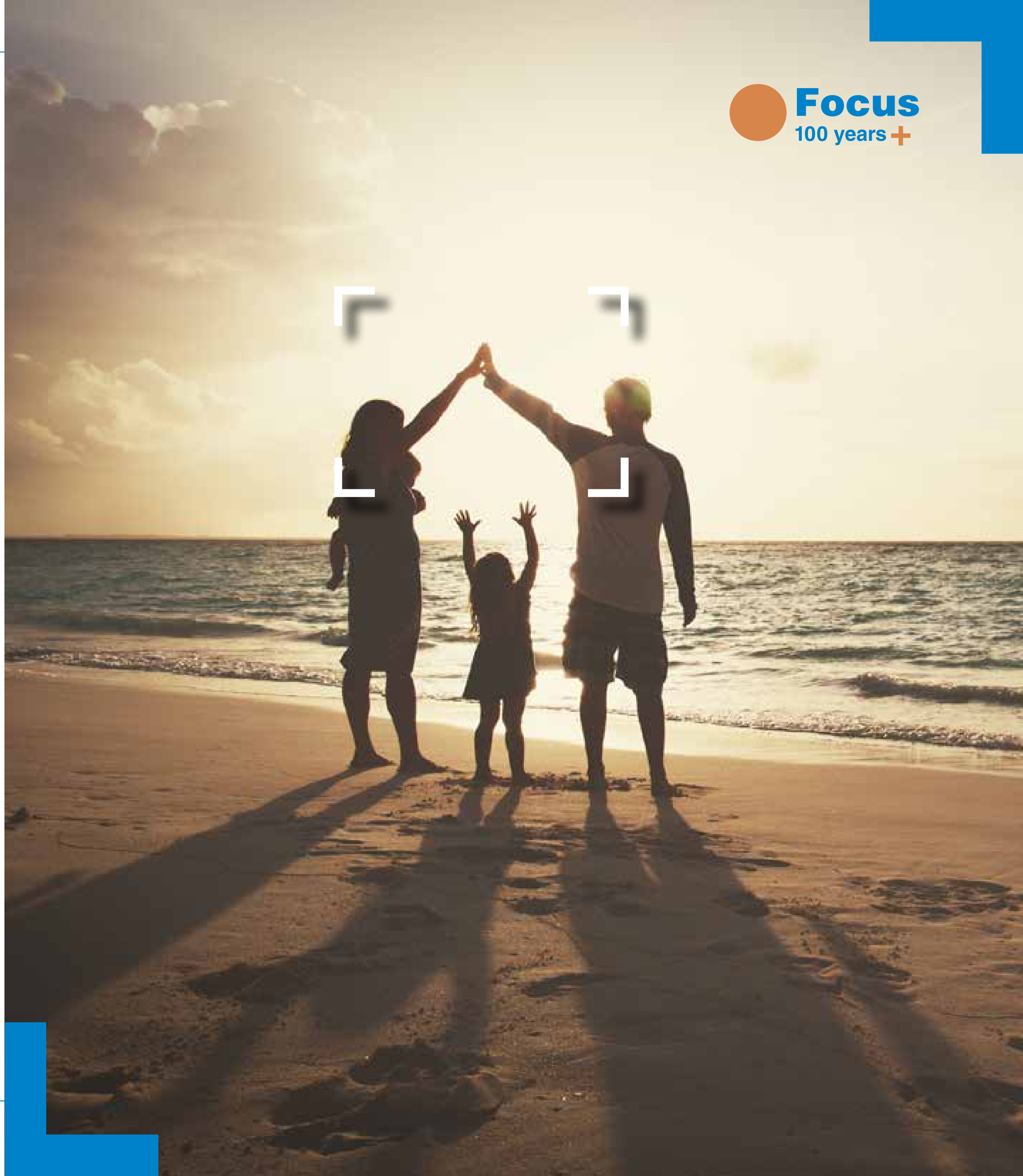
Kevin Mworia
Chief Finance Officer

Simon Ngura
Group Head of IT and Innovation

Miriam Wambui
Chief Human Resource Officer

Emma Wachira
Group Company Secretary/Chief Legal Officer

Lilian Onyach
Group Head of Marketing and Corporate Communications



In Kenya, insurance penetration, at about 3 percent, is still very low. We see this as latent potential for business growth when we offer a great customer experience and responsive product range.

Dr. John Simba, OGW, MBS, EGH (Chairman)

Chairman's statement

Global economy

The global economy showed signs of flattening during the year, with the World Bank reporting that growth declined by 0.2 percent to 3.7 percent in 2018 and sparked fears that some leading economies have reached their peak.

Signs of a slowdown were exacerbated by the trade tiffs that characterized relations between two of the world's leading economies: China and the United States of America. Although the tension eased somewhat following negotiations between them, fears that tit-for-tat tariff barriers may continue being effected remained.

At the same time, protracted negotiations surrounding the Brexit also contributed to uncertainty about growth prospects, not only in the UK and European Union but also among UK's key trading allies.

In sub-Saharan Africa, growth remained muted at 2.7 percent, nevertheless a slight improvement from the previous year's average of 2.3 percent. Although this pace was slower than expected, optimists concur that 2019 will augur well for the region as commodity prices recover progressively.

Operating environment

The year 2018 was fraught with myriad challenges that negatively affected businesses, leading to operational hiccups that affected their overall performance. Having emerged from a highly contested presidential election in 2017, Kenya's volatile macro-environment posed a big challenge to the business community and especially stifled the insurance sector's growth.

Despite these challenges, the country's GDP growth remained robust at 6 percent while inflation leveled in single digits, buoyed by sufficient food supplies across the country, mitigating the electioneering lag effects on national productivity.

The interest rate cap on commercial banks remained in effect, leading to a subdued business environment characterized by a strong credit squeeze, especially for small and medium firms. Clearly, the anticipated credit growth in these sectors did not materialize. The rate cap has not worked.

During the year, and despite the trading and operational difficulties businesses experienced, we saw a renewed commitment by the government to implement essential macro-economic policies designed to spur business recovery and rebuild confidence in the economy.

Business Operations

Our customer base missed the anticipated growth pace due to a general slowdown in insurance uptake across the board in the midst of an economy that struggled to perform optimally.

At the same time, the industry's growth was heavily affected by regulatory changes covering insurance companies' capital adequacy and risk-based supervision. Implementing these changes strained the industry and led to a generally depressed performance. The new rules also include a shift in the formula used to provision for liabilities using Gross Premiums Valuation 20 percent on Risk Margin led to a substantial book loss for us, and, indeed for the entire industry. If the laws are revised, we believe overall performance in the coming year will improve.

> **2018 was fraught with myriad challenges that negatively affected businesses, leading to operational hiccups that affected their overall performance.**

Though the changes are well meaning – and will result in a stronger, more vibrant insurance sector – the Insurance Regulatory Authority is still grappling with achieving a harmonious balance between implementing the capital adequacy ratios and risk-based supervision while mitigating potential industry instability.

Implementing these changes has posed some challenges. However, the industry has made recommendations to the Insurance Regulatory Authority and expects a positive resolution.

Fraud is an industrywide problem that continues to reduce operational profit and erode shareholder returns. We now vet claims more stringently to weed out unscrupulous ones. Vetting is necessary though it may slightly lengthen the period leading to settlement, but we believe this is the price that we must pay to deal with fraud instances. We remain committed to ensuring that our customers receive exceptional service.

Our focus is to strengthen internal processes and controls to plug gaps that may give rise to fraudulent claims or loss-making investments without stifling decision-making processes that are essential to our business. It is important that we find a balance between watertight processes and procedures and a clean claims settlement record as well as investment decisions.

During the year, we made prudent and substantial provisions for some investments we previously made in a number of distressed companies. We, however, continue to pursue recovery efforts on all these businesses.

Business Management

During the year, the Board of Directors recruited Mr. Patrick Tumbo to be the new Group Chief Executive Officer charged with steering this business forward and pump it with the growth impetus it needs for us to pursue our mission to build shareholder value.

Mr. Tumbo is a leading insurance executive who has held senior positions in the industry and understands our business very well. Given his extensive experience,

Our focus is to strengthen internal processes and controls to plug gaps that may give rise to fraudulent claims or loss-making investments without stifling decision-making processes that are essential to our business.

Chairman's statement

We may have gone through a difficult year in 2018 but I believe that the future is full of promise. We are now well-positioned to carve a niche for ourselves in the insurance sector, with the ultimate goal of enhancing shareholder value through a focus on excellent customer experience.

the Board is confident that he will provide the necessary leadership and implement policies and processes that will ensure our operations are geared towards building shareholder value. He is expected to motivate employees, bring out the best in them and give them leeway to make the right decisions while sealing gaps which may be encouraging unethical business practices.

Since we had a lean year in 2018, we need to recover lost ground by setting in place the building blocks that will get us back on track in our strategic plan and reposition us as a major provider of life and general insurance, and in the process grow shareholder value.

At the Board, we also expect Mr. Tumbo to take care of all stakeholders, from customers, employees, government and various partners within the supply chain.

Focus on business growth

We have reinvigorated our focus to grow the business, particularly emerging from challenges that led to a depressed performance in 2018 and are determined to instill efficiency and ethical practices as key operations hallmarks.

Having been in business for well over a century, we reassure our stakeholders that we are here for the long haul and that we are committed to growing the value they derive from their investments.

With this in mind, we are re-evaluating our entire investment processes and systems, reviewing the code of business practice and reinvigorating stakeholder engagement to embed excellence in our business DNA.

Opportunities

In Kenya, insurance penetration, at about 3 percent, is still very low. We see this as a latent potential for business growth when we offer a great customer experience and responsive product range.

Fortunately, as part of the Sanlam group, we have a global presence that serves as a fountain from which we learn about best practice as we strive for local customer excellence. There are also new opportunities that are emerging, including oil and gas extractives, in which we believe we are primed to play a leading role.

Kenya's demographics have changed dramatically; we are now a more youthful country where 75% percent of Kenyans are under the age of 30. This presents us with an opportunity to tap into this market, use new media and channels for our products, earn their trust and tailor products that are aligned with their aspirations.

Competition

While we welcome competition in the sector, an unhealthy, yet growing drive to undercut premium prices is fast becoming the bane of the general insurance sector. Although the law is very clear on the premiums chargeable and commissions payable, some players choose to gain an edge by ignoring the law.

The law is honoured more in its breach than observance. We urge the regulator to enforce these laws to bring order to the industry.

Having been in business for well over a century, we reassure our stakeholders that we are here for the long haul and that we are committed to growing the value they derive from their investments.

Corporate Governance

Sanlam embraces good corporate governance practice because it is a core part of our ethos. We present ourselves as a trusted partner to our stakeholders. This is what we are known for.

At the board, we have created structures to ensure our operations are transparent, that we adhere to all laws and regulations of the country and that our work is guided by a clear focus on the end goal: creating shareholder value, ethically. We shall always strive to be a model corporate citizen.

We also have an all rounded board that is diverse in experience, age, profession, and gender, providing the necessary guidance and support to the management of the company.

During the year, three new directors joined the board: Cornie Foord, Freda Britz, and Nelius Bezuidenhout. They collectively bring a wealth of experience and knowledge drawn from their various disciplines to highly enrich the team. We welcome them aboard.

In conclusion

We may have gone through a difficult year in 2018 but I believe that the future is full of promise. We are now well-positioned to carve a niche for ourselves in the insurance sector, with the ultimate goal of enhancing shareholder value through a focus on excellent customer experience.

I wish to once again thank the Group CEO for the enthusiasm he has shown in his new role; our customers for trusting us; shareholders for their continued faith; management and staff for keeping it 'The Sanlam Way' and to all stakeholders who have supported us. We appreciate you all. Let us all together walk to a promising future.

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

Chairman

Resilience

Sanlam is an insurance company with more than a 100 years in the business. Insurance makes policyholders get back on their feet after suffering from a calamity or misfortune. We are proud to be a company that is building resilient communities.

Nchini Kenya, ni asilimia 3 pekee ya watu waliojiwekea bima, kiwango ambacho ni cha chini sana. Tunatazama hii kama fursa kubwa ya kukuza biashara hii iwapo tutaweza kutoa huduma bora na bima zinazokidhi mahitaji mbalimbali ya wateja.

Dr. John Simba, OGW, MBS, EGH (Mwenyekiti)

Taarifa ya Mwenyekiti

Uchumi wa dunia

Uchumi wa dunia ulionesha dalili za kudumaa katika kipindi cha mwaka uliopita. Benki ya Dunia inasema kasi ya ukuaji wa uchumi ilipungua kwa asilimia 0.2 na kufikia asilimia 3.7 mwaka wa 2018. Hilo lilizua wasiwasi kwamba huenda baadhi ya mataifa yanayoongoza kiuchumi duniani yamefikia upeo wa ukuaji.

Dalili za kudorora kwa uchumi zilizidishwa na mzozo wa kibiashara kati ya mataifa mawili yenye nguvu zaidi kiuchumi duniani: Uchina na Marekani. Ingawa uhasama baina yao ulipungua kiasi baada ya kufanyika kwa mazungumzo, wasiwasi kwamba huenda mataifa hayo yakawekeana vikwazo vya kibiashara bado upo.

Vile vile, mazungumzo ambayo yamechukua muda mrefu sana kuhusu Uingereza kujiondoa kutoka kwenye Muungano wa Ulaya maarufu kama Brexit, yalichangia pia wasiwasi kuhusu ukuaji wa kiuchumi, na sio tu Uingereza na katika Umoja wa Ulaya, bali pia miongoni mwa washirika wakuu wa Uingereza kibiashara.

Katika mataifa ya Afrika kusini mwa jangwa la Sahara, kiwango cha ukuaji wa uchumi kilisalia chini katika asilimia 2.7, ongezeko kidogo sana kutoka kiwango cha mwaka uliotangulia cha asilimia 2.3. Ingawa kasi hii ya ukuaji wa uchumi ilikuwa ya chini kuliko ilivyotarajiwa, yapo matumaini kwamba mwaka 2019 mambo yatakuwa mazuri kwa kanda hii kutokana na kuimarika tena kwa bei za bidhaa.

Mazingira ya kibiashara

Mwaka 2018 ulijaa changamoto tele zilizoathiri biashara, na kuchangia misukosuko iliyoathiri matokeo yetu ya kifedha kwa jumla. Baada ya kupitia kipindi cha uchaguzi wa urais wenye ushindani mkubwa mwaka 2017, mazingira ya kibiashara Kenya bado yalikuwa ya wasiwasi na kuwa changamoto kubwa kwa biashara nyingi. Hali hiyo iliathiri ukuaji wa sekta ya utoaji bima.

Licha ya changamoto hizi, ukuaji wa uchumi Kenya ulisalia kuwa imara katika asilimia 6, nacho kiwango cha mfumko kikawa chini ya asilimia kumi. Hii ilitokana kwa kiasi fulani na kuwepo kwa chakula cha kutosha kote nchini, jambo ambalo lilipunguza athari za kipindi cha uchaguzi katika uzalishaji wa taifa.

Sheria ya kuweka kipimo cha riba kwa mikopo inayotolewa na benki iliendelea kutekelezwa, hivyo kuthiri mazingira ya kibiashara kutokana na kupunguza kwa mikopo iliyotolewa, hasa kwa kampuni ndogo ndogo na za kiwango cha wastani. Ni wazi kwamba matarajio ya kuongezeka kwa mikopo inayotolewa kwa biashara hizi ndogo hayakutimia. Sheria hii haijafanikiwa katika hilo.

Katika kipindi cha mwaka huo, na licha ya changamoto za kibiashara na uendeshaji shughuli, tulishuhudia kujitolea upya kwa serikali kutekeleza sera muhimu za kiuchumi zenye lengo la kusisimua kufufuka kwa biashara na kurejesha tena imani katika uchumi.

Biashara yetu

Idadi ya wateja wetu ilikosa kufikia ukuaji tulioutarajia kutokana na kushuka kwa jumla kwa idadi ya watu waliojiwekea bima. Hili kwa kiasi fulani lilichangiwa na kudorora kwa uchumi.

Katika kipindi hicho pia, ukuaji katika sekta ya bima uliathiriwa pakubwa na mabadiliko ya kisheria kuhusu kiwango cha mtaji wa kampuni za bima na usimamizi wa hatari za kibiashara zilizopo. Sekta hii ilikumbana na changamoto katika kutekeleza mabadiliko hayo na kuathiri shughuli kwa jumla. Sheria hii imebadilisha mfumo unaotumiwa kutenga pesa za kukidhi dhima, yaani kiasi ambacho kampuni inatarajia kudaiwa. Sasa inayotumiwa ni jumla ya Thamani Ghafi ya Malipo ya Bima. Kiwango cha usahihi katika kukadiria hatari ni asilimia 20. Hili lilisababisha kutokea kwa hasara kwenye hesabu za fedha za kampuni, na kwa sekta yote kwa jumla. Iwapo sheria hizi zitafanyiwa marekebisho, tunaamini kwamba matokeo ya jumla katika mwaka ujao yataimarika.

> **Mwaka 2018 ulijaa changamoto tele zilizoathiri biashara, na kuchangia misukosuko iliyoathiri matokeo yetu ya kifedha kwa jumla.**

Ingawa mabadiliko haya yana nia njema – na yatachangia kuwepo kwa sekta ya bima iliyo imara zaidi na inayofana – Mamlaka ya Usimamizi wa Bima (IRA) bado inatatizwa na changamoto la kudumisha usawa kati ya kutekeleza kipimo cha mtaji na usimamizi wa kuongozwa na hatari zilizopo huku ikikabiliana na uwezekano wa kutokea misukosuko katika sekta hii.

Kutekeleza mabadiliko haya kumesababisha changamoto kadha. Hata hivyo, sekta hii imewasilisha mapendekezo kwa IRA na inatarajia kwamba suluhu itapatikana.

Ulaghai ni tatizo linaloathiri sekta hii kwa jumla na limeendelea kupunguza faida na mapato ya wenyehisa. Siku hizi tunachunguza kwa makini zaidi madai ya malipo na kutupilia mbali yale ya uongo. Uchunguzi huu ni muhimu sana ingawa unaweza kuongeza muda wa kufanikishwa kwa malipo. Lakini tunaamini kwamba hii ni gharama ambayo lazima tulipe ndipo tukabiliane na visa hivi vya ulaghai. Tunaendelea kuhakikisha kwamba wateja wanapata huduma bora zaidi.

Kipaumbele chetu kwa sasa ni kuimarisha mifumo yetu ya ndani na kuziba mianya ambayo inaweza kutumiwa na wanaowasilisha madai ya malipo ya ulaghai au uwekezaji wa kusababisha hasara. Tunafanya hivi bila kuathiri mifumo ya kufanya maamuzi muhimu kwa biashara yetu. Ni muhimu sana kutafuta suluhu kati ya kuweka mifumo imara isiyoweza kutumiwa vibaya na walaghai na pia kufanikisha vyema malipo na kutekeleza maamuzi muhimu ya uwekezaji.

Katika kipindi hicho pia, ukuaji katika sekta ya bima uliathiriwa pakubwa na mabadiliko ya kisheria kuhusu kiwango cha mtaji wa kampuni za bima na usimamizi wa hatari za kibiashara zilizopo. Sekta hii ilikumbana na changamoto katika kutekeleza mabadiliko hayo na kuathiri shughuli kwa jumla.

Taarifa ya Mwenyekiti

Tumepitia wakati mgumu mwaka 2018 lakini tunaamini kwamba siku zijazo zimejaa matumaini. Sasa tupo katika nafasi nzuri ya kujitengea sehemu muhimu kwenye sekta ya bima. Lengo letu kuu linasalia kwa kuongeza thamani kwa uwekezaji wa wenyehisa wetu kupitia utoaji wa huduma bora kwa wateja.

Katika mwaka uliopita, tulifanya uamuzi wa busara na kutenga pesa za kuokoa uwekezaji tuliokuwa tumefanya katika baadhi ya kampuni zilizokuwa zimeathirika sana. Tunaendeleza juhudi za kuokoa uwekezaji huo katika biashara hizo zote.

Usimamizi wa kampuni

Katika mwaka huo uliomalizika, Bodi ya Wakurugenzi ilimwajiri Bw Patrick Tumbo kuwa Afisa Mkuu Mtendaji Mpya wa Kampuni ambaye amepewa jukumu la kuendeleza mbele biashara hii. Aidha, anatarajiwa kuongeza nguvu zinazohitajika kutusaidia kutimiza lengo la kuongeza thamani kwa uwekezaji wa wenyehisa.

Bw Tumbo ni mtaalamu wa masuala ya bima mwenye uzoefu ambaye ameshikilia nyadhifa za juu katika kampuni mbalimbali za bima. Anaifahamu vyema biashara hii. Kwa kuzingatia uzoefu na tajriba yake, Bodi ina imani kwamba atatoa uongozi bora unaohitajika na kutekeleza sera na taratibu zinazohitajika kuongeza thamani kwa wenyehisa. Anatarajiwa kuwapa motisha wafanyakazi, kuhakikisha wanafanya kazi vyema na kuwapa uhuru wa kufanya maamuzi yafaayo, huku akiziba mianya ambayo inaweza kushawishi watu kutofuata maadili ya kikazi.

Kwa kuwa mwaka 2018 mambo hayakuwa mazuri sana, tunahitaji kujikwamua kwa kujenga msingi utakaotuwezesha kurejea kwenye mkondo katika kutekeleza na kutimiza mpango wetu wa mikakati. Kadhalika, kuchukua tena nafasi yetu kama mtoaji mkuu wa huduma ya bima ya maisha na bima ya kawaida, na kwa kufanya hayo kuongeza thamani kwa wenyehisa.

Katika Bodi, tunatarajia pia Bw Tumbo ashughulikie maslahi ya wadau wote, kuanzia kwa wateja, wafanyakazi, serikali na washirika wengine katika kila sehemu ya biashara yetu.

Kuangazia ukuaji wa biashara

Tumeimarisha zaidi juhudi zetu za kukuza biashara yetu, hasa baada ya kupitia changamoto zilizoathiri matokeo ya mwaka 2018. Tumejitolea kuimarisha utenda kazi na maadili mema ya kikazi kama nguzo muhimu za uendeshaji shughuli zetu.

Baada ya kuwa kwenye biashara hii kwa zaidi ya karne moja, tunawahakikishia wadau wetu kwamba tutaendelea kuwepo. Tumejitolea kuendelea kuongeza thamani wanayoipata kutoka kwa uwekezaji wao.

Kwa kuzingatia hili, tunatathmini upya shughuli na mifumo yetu yote ya uwekezaji, kutathmini upya utaratibu wa uendeshaji biashara na kuimarisha kuhusishwa kwa wadau ili kuakikisha utendakazi bora umekuwa mtindo wetu.

Fursa

Nchini Kenya, ni asilimia 3 pekee ya watu waliojiwekea bima, kiwango ambacho ni cha chini sana. Tunatazama hii kama fursa kubwa ya kukuza biashara hii iwapo tutaweza kutoa huduma bora na bima zinazokidhi mahitaji mbalimbali ya wateja.

Kwa bahati nzuri, kama sehemu ya kampuni kubwa ya Sanlam, tupo maeneo mengi kimataifa na hilo ni kama chemchemi ambayo kila wakati tunaweza kuchota mambo ya kutufaa katika kuwahudumia wateja nchini. Zipo pia fursa mpya zinazoibuka, zikiwemo uchimbaji wa mafuta na gesi. Kama kampuni, tunaamini kwamba tuko katika nafasi nzuri kuongoza katika kutumia fursa hiyo.

Baada ya kuwa kwenye biashara hii kwa zaidi ya karne moja, tunawahakikishia wadau wetu kwamba tutaendelea kuwepo. Tumejitolea kuendelea kuongeza thamani wanayoipata kutoka kwa uwekezaji wao.

Hali ya idadi ya watu Kenya imekuwa ikibadilika pakubwa na sasa vijana ndio wengi. Takriban asilimia 60 ya Wakenya wote ni wa chini ya miaka 24. Hili linatoa fursa kwetu kuwavutia, kwa kutumia mitandao ya kijamii na teknolojia mpya kuwauzia huduma zetu, kujenga imani yao na hata kuandaa huduma za bima zinazoendana na mahitaji na matamanio yao.

Ushindani

Ingawa tunafurahia ushindani katika sekta hii, mtindo wa ushindani wa kupunguza malipo ya bima kwa kiwango kisicho cha busara umezua wasiwasi katika sekta ya bima ya kawaida. Sheria iko wazi kuhusu malipo ya bima yafaayo na kiwango anacholipwa muuzaji bima. Hata hivyo, baadhi ya wadau wamekuwa wakijifaidi kwa kupuuza sheria hiyo.

Sheria hutukuzwa zaidi kwa hatua kuchukuliwa inapovunjwa. Tunaihimiza serikali kutekeleza sheria hizi kikamilifu ili kurejesha nidhamu katika sekta hii.

Usimamizi wa kampuni

Sanlam hufuata maadili ya usimamizi bora wa kampuni kwa sababu ni moja ya mambo tunayoyathamini sana. Tunataka kuwa mshirika wa kuaminika kwa wadau wetu. Hii ndiyo sifa yetu.

Katika Bodi, tumeunda miundo ya kuhakikisha shughuli zetu zote ni za uwazi, na kwamba tunafuata sheria zote na kanuni nchini. Kadhalika, tunahakikisha kwamba kazi na shughuli zetu zinaongozwa na lengo letu kuu: kuongeza thamani kwa uwekezaji wa wenyehisa, kwa kufuata maadili. Daima tutajizatiti kuwa kampuni bora inayofaa kuigwa.

Bodi yetu pia ina watu wenye ujuzi mbalimbali, umri, taaluma na jinsia mbalimbali ambao hutoa ushauri na usaidizi unaohitajika kwa wasimamizi wa kampuni.

Katika mwaka uliopita, wakurugenzi watatu wapya walijiunga na bodi: Cornie Foord, Freda Britz na Nelius Bezuidenhout. Kwa pamoja, wanaleta tajriba, uzoefu na ujuzi kutoka fani mbalimbali na kuimarisha uwezo wa bodi. Tunawakaribisha sana.

Hitimisho

Tumepitia wakati mgumu mwaka 2018 lakini tunaamini kwamba siku zijazo zimejaa matumaini. Sasa tupo katika nafasi nzuri ya kujitengea sehemu muhimu kwenye sekta ya bima. Lengo letu kuu linasalia kwa kuongeza thamani kwa uwekezaji wa wenyehisa wetu kupitia utoaji wa huduma bora kwa wateja.

Ningependa kumshukuru Afisa Mkuu Mtendaji wa Kampuni kwa mara nyingine tena kwa bidii na kujitolea kwake katika kazi yake hii mpya; kwa wateja wetu kwa kuendelea kutuamini; wenyehisa kwa kuendelea kuwa na imani nasi; wasimamizi na wafanyakazi kwa kuendelea kufanya kazi kwa 'Mtindo wa Sanlam' na kwa wadau wote ambao wametuunga mkono. Tunawashukuru nyote. Tusonge pamoja kwenye siku za usoni zilizojaa matumaini.

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

Mwenyekiti

The general business also performed well, with notable performance across the board, but we still have room for improvement for better shareholder value.

Mr. Patrick Tumbo, Group CEO, Sanlam Kenya

Questions & Answers, Sanlam GCEO

Q: How was the business operating environment?
A: The results in 2018 were not very favorable as a result of impairments that impacted our operations. We posted a loss during the year as a result. The operations were also impacted by the change in the Insurance Act regarding valuation of Long Term Business liabilities using Gross Premium Valuation using 20 percent risk margin.

However, were it not for the impairments, the life business would have made a profit of over Kshs600 million, an indication that we have turned the corner in terms of business recovery.

The general business also performed well, with notable performance across the board, but we still have room for improvement for better shareholder value. The General Business actually recorded an underwriting profit during the year under review.

Q: What were the challenges that affected the business in 2018?
A: There were operational challenges that led to a huge decline in profitability in 2018. Some of these challenges affected the insurance industry though others were specific to Sanlam. As an industry, we still have a low insurance uptake, especially for the life business. In life assurance, for instance, there is an urgent need to educate the public on the benefits of policies that offer protection while at the same time act as an investment vehicle.

As a business, we made some investments prior to 2018 that did not turn out very well and therefore, we made the prudent decision to provision for them. That does not, however, mean that the investments have been written off; we are making concerted efforts to recover the funds and when we do, this will be reflected in the bottom line and will increase the value for shareholders.

For a country with a very low insurance penetration, we have an inordinate number of insurance companies, resulting in unhealthy competition. We are increasingly seeing a situation where businesses are no longer competing on product or customer service excellence but on price. Some insurance companies are therefore not charging sufficient premiums to effectively cover the risk they are carrying. When a risk materializes, a problem emerges because such companies have not built enough reserves to cover the risk they are carrying. This practice is not sustainable at all.

With the change to Risk Capital Supervision, some of the smaller companies are struggling to increase their capital to the required level. They are also finding it a challenge to meet their solvency requirements leading to a situation where they are trying to underwrite for cash flow instead of underwriting for the long term. This is an industry problem that the regulator is focusing on to avoid systemic challenges for the industry.

As an industry, we have also noted that the growth in the number of agents and brokers has kind of stagnated; these are the people who should be pushing insurance to the people – THE LAST MILE! To increase insurance uptake, we need to boost the number of agents and brokers so that a larger population is accessed and covered.

Q: How was the regulatory environment during the year?
A: We had changes in the regulatory environment which I believe will, in the long run, be good for the industry. On capital adequacy, we believe it is essential that insurance companies be adequately capitalized because it means the insurance business will be grounded on a solid foundation.

> **The general business also performed well, with notable performance across the board, but we still have room for improvement for better shareholder value.**

Increased capital adequacy regulation will lead to industry consolidations which we believe is good for the entire industry that is currently facing challenges of over-capacity leading to unhealthy competition. We will have fewer, very well capitalized players and the insuring public will only be dealing with solid companies.

In Kenya, we have over 50 insurance companies which is more than five times those in South Africa, the largest insurance market on the Africa continent. We need to address this anomaly. We have companies that do not have adequate capital to underwrite risks and therefore, we wholly embrace the change of regulation to risk-based capital.

Q: This year, we have 'Focus' as the theme. How are you operationalizing this in the coming year?
A: We are renewing our focus on consolidating and entrenching group synergies. We are laying special emphasis on our core businesses: General Business and the Life Business. Sanlam has been around for 100 years, and we have set our sight on the next 100 years and beyond. In this period, we aim at becoming the largest and best customer centric insurer in Kenya and in Africa. We aim to attract, recruit and maintain satisfied customers, agents, brokers and generally all our service partners and be the insurer of choice.

We also need to refocus on innovative products and work on efficient service delivery. We will deploy our resources optimally and ensure staff remain highly motivated. We must optimize the fact Sanlam has been in business for 100 years as well as riding on the Sanlam Pan Africa brand and experience. This allows us to provide insurance services to all customers: individuals, corporates and multinationals in the country, regionally and across the continent.

Sanlam now covers 33 countries in Africa and 45 globally, making us the largest and the biggest brand in Africa.

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In Kenya, we have over 50 insurance companies which is more than five times those in South Africa, the largest insurance market on the Africa continent. We need to address this anomaly.

Question & Answer, Sanlam GCEO

Q: Fraud remains a big challenge. How are you dealing with it?

A: Fraud is generally an industry issue. However, we have tried to manage instances of fraud within Sanlam and I believe we are winning the battle. We have deployed tight internal controls and processes to make sure we don't create fertile grounds for fraud and other unethical practices.

Q: How have you strengthened the internal process?

A: We have robust ICT systems backed by established structures of control functions of risk management, compliance, and internal audit. We also have tightened asset protection controls and streamlined the approval frame-work for all our financial and related transactions seal any likely weakness or loopholes that poses a risk exposure.

Q: What is the role of technology in growing the business to the next level?

A: We are tapping into innovative technologies to improve accessibility for our products. For instance, we were the first to market – in partnership with a leading bank – products that are accessible by phone. Technology in insurance has not been fully exploited though it holds immense potential. We have a burgeoning youth who are technologically savvy and who are heavily inclined towards tech-based products. There are still many hurdles and challenges that hamper the growth of technology-based insurance products but these are gaps that we are closing every day.

At Sanlam, we are developing three key portals. First is the intermediary portal, where the intermediary can go in, obtain the quotation and get the cover for the client. Second is the customer self-service portal, where clients can make inquiries and get the service they need. Third, is the provider portal (for such clients such as hospitals) where they lodge the claims online without necessarily filling forms and bulk paperwork

Q: What is your outlook for 2019 and what can we expect from Sanlam Kenya?

A: We expect to see a strong rebound in our operations as a company in 2019. We intend to be a company that is innovative; remains profitable and makes good returns to shareholders, and most importantly to be the company that meets and exceeds customers' expectations.

As a pan African insurance company, our brand health is tied very closely with our claims settlement record. In the coming year, this will be a key focus area, where we will aim at reducing the turnaround period in claims settlement and responses to all enquiries. We will also place special emphasis on motivating our staff to deliver the best service in the industry.

We will ensure that our customers are better served going forward than ever before. And in 2019 we see ourselves serving markets that we have not had a presence before, increase our numbers and be at the forefront of the insurance inclusion initiative.

Mr. Patrick Tumbo

Group Chief Executive Officer

At Sanlam, we are developing three key portals. First is the intermediary portal, where the intermediary can go in, obtain the quotation and get the cover for the client. Second is the customer self-service portal, where clients can make inquiries and get the service they need. Third, the provider portal (for such clients such as hospitals) where they lodge the can claims online without necessarily filling forms and bulk paperwork

We expect to see a strong rebound in our operations as a company in 2019. We intend to be a company that is innovative; remains profitable and makes good returns to shareholders.


Focus
100 years +

Kama sekta, tumegundua ni kama ongezeko la mawakala na maajenti wa bima limepungua, ilhali hawa ndio wanaofaa kuuza na kutangaza huduma za bima kwa wateja – HATUA YA MWISHO!

Mr. Patrick Tumbo, Mkurugenzi Mkuu, Sanlam Kenya

Taarifa ya Mkurugenzi Mkuu

Swali: Hali ya kibiashara ilikuwaje?
Jibu: Matokeo ya mwaka 2018 hayakuwa mazuri sana kutokana na changamoto zilizoathiri biashara zetu. Tulipata hasara mwaka huo. Shughuli zetu ziliathiriwa pia na mabadiliko kwenye Sheria ya Bima ambapo thamani ya dhima, yaani kiasi ambacho kampuni inatarajia kudaiwa, kwa kipindi kirefu sasa inakadiriwa kwa kutumia jumla ya Thamani Ghafi ya Malipo ya Bima. Kiwango cha usahihi katika kukadiria hatari ni asilimia 20.
Hata hivyo, isingelikuwa ni kutokana na changamoto hizo, biashara yetu ya bima ya maisha ingeandikisha faida ya zaidi ya KShs 600 milioni. Hii ni ishara kwamba tumefanikiwa kukwamua biashara hii.

Biashara ya bima ya kawaida pia ilifanya vyema, ambapo kulikuwa na matokeo mazuri kote. Hata hivyo, bado kuna nafasi ya kuimarika zaidi na kuhakikisha tunaendelea kuongeza thamani kwa wenyehisa. Katika uhalisia, kampuni ilipata faida mwaka huo.

Swali: Ni changamoto gani ziliathiri biashara mwaka 2018?
Jibu: Kulikuwa na changamoto za uendeshaji shughuli ambazo ziliathiri biashara na kuchangia kushuka pakubwa kwa faida mwaka 2018. Baadhi ya changamoto hizi ziliathiri sekta yote ya bima, lakini nyingine ziliathiri Sanlam pekee. Kama sekta, bado kiwango cha watu kujiwekea bima hasa ya maisha ni cha chini mno. Katika bima ya maisha kwa mfano, kuna haja ya dharura ya kuhamasisha umma kuhusu faida za huduma za bima zinazotoa kinga na pia kutumiwa kama uwekezaji.

Kama biashara, tulifanya uwekezaji mbalimbali kabla ya mwaka 2018 ambao haukufanikiwa na kutokana na hilo tulifanya uamuzi wa busara wa kutenga fedha za kufidia hatari inayotokana na uwekezaji huo. Hilo hata hivyo halina maana kwamba tumeupoteza au kuutupilia mbali uwekezaji huo. Badala yake, tunafanya kila juhudi kunusuru fedha tulizowekeza na tutakapofanikiwa kufanya hivyo, hilo litaonekana kwenye hesabu zetu za fedha na kuongeza thamani zaidi kwa wenyehisa.

Kwa taifa ambalo lina idadi ya chini mno ya watu waliojiwekea bima, tumeshuhudia kampuni kadha za bima zikijihusisha katika ushindani usiofuata maadili. Tunazidi kushuhudia kampuni ambazo hazishindani kupitia bidhaa zao au kwa huduma bora kwa wateja, bali zinatumia bei kama silaha ya ushindani. Baadhi ya kampuni hazitozi ada za bima zifaazo kufidia hatari ambazo zinakumbatia. Hatari hiyo inapojidhihirisha, basi tatizo linatokea kwani kampuni hizo hazijajiwekea hazina ya kutosha ya kutoa malipo kuambatana na hatari zinazokumbatia. Tabia hii si endelevu hata kidogo.

Kutokana na mabadiliko kwenye hitaji la kiwango cha mtaji na hatari, baadhi ya kampuni ndogo zinatatizika kuongeza mtaji hadi kiwango kinachohitajika. Aidha, zinatatizika kutimiza masharti yanayohitajika ndipo kukubaliwa kuwa salama kibiashara. Baadhi ya kampuni hizi zinalazimika kutoa huduma za bima ili kupata pesa kwa haraka badala ya kwa ajili ya kipindi kirefu. Hili ni tatizo kubwa kwa sekta hii na serikali inalishughulikia kwa haraka kuepusha matatizo zaidi kwenye sekta hii.

Kama sekta, tumegundua ni kama ongezeko la mawakala na maajenti wa bima limepungua, ilhali hawa ndio wanaofaa kuuza na kutangaza huduma za bima kwa wateja – HATUA YA MWISHO! Ili kuongeza idadi ya watu wanaojiwekea bima, tutahitaji kuongeza idadi ya mawakala na maajenti kufikia idadi kubwa ya watu na kuhakikisha wanajiwekea bima.

> **Biashara ya bima ya kawaida pia ilifanya vyema, ambapo kulikuwa na matokeo mazuri kote. Hata hivyo, bado kuna nafasi ya kuimarika zaidi na kuhakikisha tunaendelea kuongeza thamani kwa wenyehisa.**

Swali:Mazingira ya kisheria yalikuwaje mwaka huo?
Jibu: Kulitokea mabadiliko katika mazingira ya kisheria ambayo tunaamini yataifaa sekta hii katika kipindi kirefu. Kuhusu kipimo cha kutosheleza mtaji, tunaamini kwamba kampuni zinafaa kuwa na mtaji wa kutosha kuhakikisha zina msingi imara.
Kuongezwa kwa kiwango cha mtaji unaohitajika kutachochea kampuni kuungana na tunaamini hili litakuwa na faida kwa sekta yote kwa jumla, ambapo kwa sasa inaathiriwa na idadi kubwa ya wahudumu jambo linalochangia ushindani usio wa busara.

Tutakuwa na kampuni chache, lakini zenye mtaji wa kutosha. Hii ina maana kwamba wananchi wanaojiwekea bima watakuwa wanahudumiwa na kampuni zilizo imara.

Nchini Kenya, tuna zaidi ya kampuni 50 za bima, idadi ambayo ni zaidi ya mara tano ya idadi ya kampuni zilizo Afrika Kusini ambayo ina soko kubwa zaidi la bima barani Afrika. Tunahitaji kuangazia kasoro hii.

Tuna kampuni ambazo hazina mtaji wa kutosha wa kutoa bima bila kujiweka hatarini na kwa hivyo tunakumbatia kikamilifu mabadiliko haya kwenye sheria ya kiwango cha mtaji kinachohitajika.

Swali: Mwaka huu, mmechagua 'Mwelekeo' kama lengo kuu. Mtatekelezaje hili katika mwaka ujao?
Jibu: Tunaangazia upya mwelekeo wetu katika kuleta pamoja nguvu na rasilimali za kampuni. Tunatilia mkazo zaidi biashara zetu za msingi zaidi: Biashara ya Bima ya Kawaida na Biashara ya Bima ya Maisha. Sanlam imekuwepo kwa takriban miaka 100, na tunaangazia miaka mingine 100 na zaidi. Katika kipindi hiki, tunalenga kuwa kampuni kubwa zaidi ya bima Kenya. Tunalenga kuwa na mawakala na maajenti wengi zaidi wa bima na kuwa kampuni ya bima inayopata faida kubwa zaidi na kwa jumla, kuwa kampuni ya bima iliyo chaguo la wengi.
Tunahitaji pia kuangazia upya pia utoaji wa huduma na

Kuongezwa kwa kiwango cha mtaji unaohitajika kutachochea kampuni kuungana na tunaamini hili litakuwa na faida kwa sekta yote kwa jumla.

Nchini Kenya, tuna zaidi ya kampuni 56 za bima, idadi ambayo ni zaidi ya mara tano ya idadi ya kampuni zilizo Afrika Kusini ambayo ina soko kubwa zaidi la bima barani Afrika. Tunahitaji kuangazia kasoro hii.

Taarifa ya Mkurugenzi Mkuu

Tumepitia wakati mgumu mwaka 2018 lakini tunaamini kwamba siku zijazo zimejaa matumaini. Sasa tupo katika nafasi nzuri ya kujitengea sehemu muhimu kwenye sekta ya bima. Lengo letu kuu linasalia kwa kuongeza thamani kwa uwekezaji wa wenyehisa wetu kupitia utoaji wa huduma bora kwa wateja.

bidhaa zenye ubunifu wa hali ya juu na utoaji huduma bora. Tutaelekeza juhudi na rasilimali zetu kuhakikisha kwamba wafanyakazi wetu wana motisha kwa kiwango cha juu. Ni lazima tutumie vyema hali kwamba Sanlam imekuwepo katika biashara hii kwa miaka 100 na kutumia vyema sifa za nembo ya Sanlam barani Afrika na uzoefu wa miaka mingi. Hili litatuwezesha kutoa huduma za bima kwa kampuni za kimataifa zinazoendesha shughuli zake katika mataifa mbalimbali barani.

Sanlam kwa sasa inahudumu katika nchi 33 Afrika na kwingineko duniani. Hili linatufanya kuwa nembo kubwa zaidi Kenya.

Swali: Ulaghai bado ni changamoto. Mnakabiliana vipi nao?
Jibu: Ulaghai ni tatizo ambalo limekuwa likiathiri sekta hii kwa jumla. Hata hivyo, tumejaribu kukabiliana na visa vya madai ya malipo ya ulaghai katika Sanlam na tunaamini kwamba tunafanikiwa. Tumeboresha mifumo yetu ya ndani na taratibu zote kuhakikisha hatusababishi kuwepo kwa mazingira yanayotoa fursa ya kutokea kwa ulaghai na visa vingine haramu.

Swali: Mmeboresha vipi mifumo ya ndani?
Jibu: Tuna mifumo thabiti ya teknolojia inayotiwa nguvu zaidi na mifumo ya kusimamia hatari, kutimiza sheria na masharti na ukaguzi wa ndani wa hesabu. Tumekaza pia mifumo ya kinga ya mali na kulainisha utaratibu wa kuidhinisha malipo na shughuli nyingine za kibiashara. Hili litasaidia sio tu kuimarisha mifumo yetu ya ndani bali pia kuziba mianya ambayo huenda ingetuweka hatarini.

Swali: Teknolojia ina mchango gani katika kukuza biashara hii hadi ngazi nyingine?
Jibu: Tunatumia teknolojia kurahisisha upatikanaji wa bidhaa na huduma zetu. Kwa mfano, tulikuwa wa kwanza nchini – tukishirikiana na benki moja – kutoa huduma ambazo zilikuwa zinapatikana kwa njia ya simu. Teknolojia haijatumiwa kikamilifu ingawa ina matumaini makubwa. Tuna idadi kubwa ya vijana ambao wanatumia kwa wingi teknolojia na huvutiwa na huduma zinazotolewa kwa kutumia teknolojia mpya. Bado vipo vikwazo vingi na changamoto zinazoathiri ustawishaji wa huduma za bima za kutolewa kupitia teknolojia, lakini ni changamoto ambazo tunazidi kuzitatua siku zinavyosonga.

Katika Sanlam, tunaandaa tovuti tatu muhimu katika mtandao. Moja ni ya mawakala ambapo wanaweza kufungua, kupata makadirio ya huduma fulani ya bima na kukamilisha usajili wa mteja. Tovuti ya pili ni ya huduma kwa wateja, ambapo wanaweza kujihudumia wenyewe mtandaoni. Wateja wanaweza kupata habari, kuuliza maswali na pia kupata huduma mbalimbali. Tovuti ya tatu ni ya watoaji huduma (kwa wateja wakubwa kama vile hospitali), ambapo wanaweza kuwasilisha ombi la malipo kwa njia rahisi kupitia mtandao.

Swali: Je, upi mtazamo wako kuhusu 2019 na tutarajie nini kutoka kwa Sanlam Kenya?
Jibu: Tunatarajia kampuni yetu ijikwamue pakubwa mwaka 2019. Tunakusudia kuwa kampuni ambayo inaendelea kuvumbua na kutumia ubunifu; inayotengeneza faida na thamani kwa wenyehisa, na muhimu zaidi kuwa kampuni inayotimiza na hata kuzidisha matarajio ya wateja.

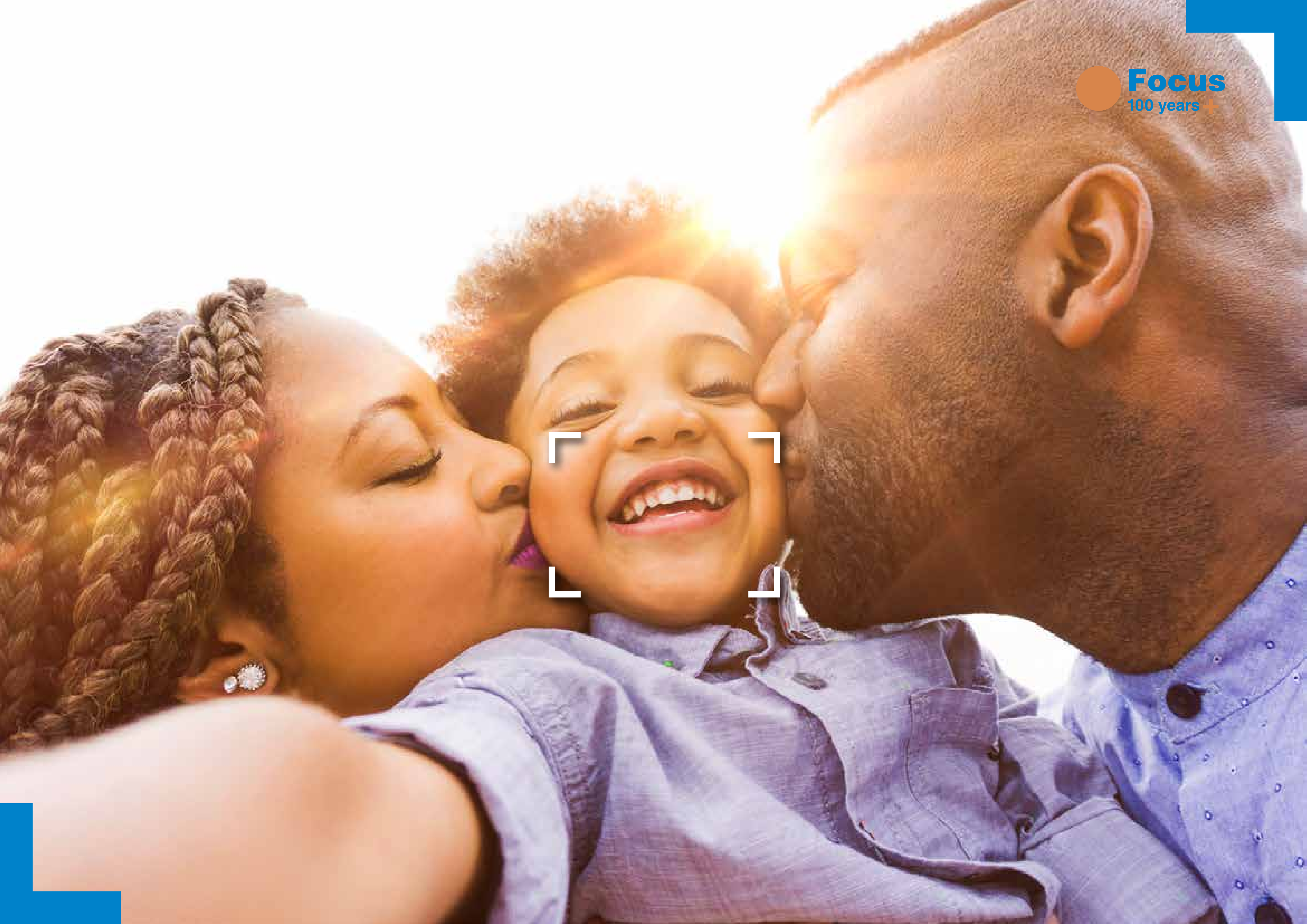
Tunatarajia kampuni yetu ijikwamue pakubwa mwaka 2019. Tunakusudia kuwa kampuni ambayo inaendelea kuvumbua na kutumia ubunifu; inayotengeneza faida na thamani kwa wenyehisa.

Kama kampuni ya bima inayohudumu barani Afrika, ufanisi wa nembo yetu una uhusiano wa karibu na historia yetu ya kutoa malipo ya fidia ya bima. Katika mwaka ujao, tutaangazia sana hili ambapo tutajizatiti kupunguza muda unaotumiwa kabla ya malipo kufanywa. Tutaangazia pia kwa njia ya kipekee kuwapa motisha wafanyakazi wetu kuhakikisha wanafanya kazi vyema zaidi.

Tutahakikisha kwamba wateja wetu wanahudumiwa vyema zaidi kuliko awali. Katika mwaka 2019, pia tunatarajia kuhudumu katika maeneo ambayo hatujakuwepo, kuongeza wateja wetu na mapato yetu na kuwa katika mstari wa mbele katika mkakati wa kuhakikisha watu wengi zaidi wanajiwekea bima.

Bw. Patrick Tumbo

Mkurugenzi Mkuu


Focus
100 years

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 73rd Annual General Meeting of the Company will be held at Sanlam Tower, 3rd Floor, Waiyaki Way, Westlands Nairobi on Friday 10th May 2019 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 10th May 2018.
4. To consider, and if approved, adopt the Balance Sheet and Accounts for the year ended 31 December 2018 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 2018.
6. To elect Directors:

    6.1 Mr Nelius Bezuidenhout who was appointed a director on 8th November 2018 retires and this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

    6.2 Mr Cornie Foord, who was appointed a director on 8th November 2018 retires and this being the first Annual General Meeting to be held since his appointment and being eligible, offers himself for re-election.

    6.3 Mrs. Freda Britz, who was appointed a director on 8th November 2018 retires and this being the first Annual General Meeting to be held since her appointment and being eligible, offers herself for re-election.

7. In accordance with the provisions of Section 769 of the Companies Act, 2015 the following Directors, being members of the Audit, Actuarial, Risk and Compliance Committee be elected to continue serving as members of the Committee:

    a) Freda Britz (Chairperson)
    b) Nelius Bezuidenhout
    c) Julius Magabe
    d) Cornie Foord

8. To approve the Directors' remuneration.
9. 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.
10. 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
15th April 2019

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 available from the Company's head office or the Share Registrar's offices, 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 8th May 2019.

Ilani ya Mkutano wa Mwaka

ILANI INATOLEWA HAPA kwamba Mkutano Mkuu wa Kila Mwaka wa 73 wa Kampuni utafanyika kwenye ofisi zetu, orofa ya tatu, Sanlam Towers, iliyoko barabara ya Waiyaki, siku ya Ijumaa tarehe 10 Mei 2019 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 10 Mei 2018.
4. Kuzingatia na iwapo itaidhinishwa, kupitisha mizania na taarifa za kifedha kwa mwaka uliomalizika tarehe 31 Desemba 2018 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 2018.
6. Kuchagua Wakurugenzi:

    6.1 Mr. Nelius Bezuidenhout aliyechaguliwa Mkurugenzi 8 Novemba 2018 anastaafu na hii ikiwa mara yake ya kwanza tangu Mkutano Mkuu kufanyika, anajiwasilisha kuchaguliwa tena

    6.2 Mr. Cornie Foord aliyechaguliwa Mkurugenzi 8 Novemba 2018 anastaafu, na hii ikiwa mara yake ya kwanza tangu Mkutano Mkuu kufanyika, anajiwasilisha kuchaguliwa tena.

    6.3 Mrs. Freda Britz aliyechaguliwa mkurugenzi 8 Novemba 2018, anastaafu, na hii ikiwa mara yake ya kwanza tangu Mkutano Mkuu kufanyika, anajiwasilisha kuchaguliwa tena.

7. Kwa kutumia Kifungu cha 769 cha Sheria ya Kampuni ya Mwaka 2015, Wakurugenzi wafuatao, ambao ni wanachama wa Kamati ya Ukaguzi wa Hesabu, Takwimu kuhusu Bima, Hatari na Utimizaji wa Masharti wateuliwe kuendelea kuhudumu kama wanachama wa Kamati hio.

    a) Freda Fritz (Mwenyeketi)
    b) Nelius Bezuidenhout
    c) Julius Magabe
    d) Cornie Foord

8. Kuidhinisha malipo ya Wakurugenzi.

9. 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.

10. 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
15 Aprili 2019

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 8 Mei 2019.

Our People

Sanlam is made up of exceptionally talented individuals who are integral to achieving our mission of creating a world worth living in. Since they are at the core of our growth and success, we are committed to getting the right expertise including identifying the right partners for various client needs, to deliver unique solutions.

Corporate Governance

The Board of Directors is responsible for providing strategic leadership to the Company. According to the Company's Corporate Governance Guidelines, the Board is responsible for formulating the Company's policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved.

Statement on corporate governance for the year ended 31 December 2018

Board leadership & responsibilities

Statement of Commitment and Compliance on Corporate Governance Practices

Corporate Governance refers to the practices and procedures that govern the leadership of Sanlam Kenya PLC (Sanlam or the Company) and through which the Company is held accountable by shareholders. In 2018, the Board of Directors of Sanlam Kenya PLC and its subsidiaries (the Group) continued to implement its strategic vision of being a leading Insurer in Kenya who remained focused on sound corporate governance practices that maximises shareholder value, increases profitability and guarantees a sustainable business in the long run. The corporate governance principles continue to be entrenched in the Company's strategic and operational objectives with a focus of revitalizing and accelerating growth in value for the benefit of all our stakeholders.

The Group ascribes to its governance framework that provides a solid structure for effective and responsible decision making within the organization in compliance with the Companies Act, 2015, the Capital Markets Act, Cap 485A, and the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code) and the stringent standards of corporate governance prescribed in the Group's Board Charter as well as the Company's Articles of Association.

Board Leadership

The Board of Directors is responsible for providing strategic leadership to the Company. According to the Company's Corporate Governance Guidelines, the Board is responsible for formulating the Company's policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. In doing so, the board takes cognisance of the impact of its decisions in the long term, the interests of its employees, the need to forge and foster good relationships with diverse stakeholder's including customers and suppliers and the impact of the Company's operations to the society.

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 Company and its subsidiaries. The Board also calls upon independent expert advisor's where necessary to carry out such work as deemed necessary.

Board Composition and Independence

In the year ended 2018 the Board composition was comprised of eight directors who are: the Chairman, the Group Chief Executive Officer (as the only executive director), five non- executive directors representing the interests of the two main shareholders and one independent non-executive director. During the year, the Board welcomed an additional female director thus balancing the board composition. The table below shows the current members of the Board of Directors:

Name	Industry & Professional Experience	Role
Dr. John P. N. Simba	Legal, Strategy, Leadership, Corporate Governance and ethics	Board Chairman & Non- Executive Director
Patrick Tumbo	Insurance, Strategy, Management	Group Chief Executive Officer & Executive Director
Julius Nyakia Magabe	Insurance and Risk Management	Non- Executive Director
Rohan Patel	Management, Real Estate, Hotel Development & Investment	Non- Executive Director
Susan Mudhune	Banking and Financial Services	Independent Non- Executive Director
Freda Britz	Accounting and Management	Non- Executive Director
Nelius Bezuidenhout	Actuarial, Financial Consulting and Management	Non- Executive Director
Cornie Foord	Operations, Accounting and Management	Non- Executive Director

Changes to the Board

The following changes to the Board of Directors have taken place from the date of the last Annual Report:

a. The Group Chief Executive Officer, Patrick Tumbo was appointed as an executive Director of Sanlam Kenya PLC on 2nd August 2018.

b. Freda Britz, Nelius Bezuidenhout and Cornie Foord were appointed as Non-Executive Directors of Sanlam Kenya PLC on 8th November 2018.

Re-election to the Board

In accordance with the provisions of the Company's Articles of Association, a third of the Board of Directors retires by rotation every three years and the directors 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.

The following members of the Board, this being the first Annual General Meeting since their appointment are eligible for re-election at the 2019 AGM:

a) Freda Britz
b) Nelius Bezuidenhout
c) Cornie Foord

Board Programme

The Company's annual Board programme is designed to enable the Board to drive the strategy forward across all elements of the company's business model. The Board thus meets quarterly or more often, in accordance with the requirements of the business. The

Board's work plan and calendar of meetings are prepared annually in advance. Adequate notice is given for meetings. The agenda and board papers are circulated at least seven days before the meeting.

Board Responsibilities

Sanlam Kenya Plc's Articles of Association and the Board Charter enumerate responsibilities of the Directors which include strategy, capital and liquidity management, review and approval of financial results, board administration and governance.

Firstly, the boards responsibility in strategy involves monitoring the Company's performance against clearly defined measures agreed between the board and management as well as the approval of major acquisitions and disposals and approvals of major capital projects. The Board also approves the Group's annual budget as recommended by the Audit Committee.

Secondly, the board is also responsible for monitoring the capital and liquidity requirements vis a vis the statutory requirements. The board is also charged with the review and approval of half yearly and yearly financial results prior to subsequent dissemination to the shareholders.

In addition, the board is also charged with the responsibility of administration and governance in the following respects: approving company policies; setting the terms of reference for board committees and determining the composition of board committees; conducting board evaluations; maintaining board succession; reviewing risk management and internal controls amongst others.

In dispensing its duties, the Board requires each Director to observe a code of conduct aligned to his/her duties and responsibilities to the Group and shareholders, and act within limitations as defined in the Board Charter while observing principles of good corporate governance. Each Director commits to uphold and promote effective and responsible use of resources and undertakes to act in good faith, with care and prudence in the best interest of the Group while exercising his/her power and executing his/her duties.

2018 Board Attendance Register

Name	Meetings Attended
Dr. John P. N. Simba	5/5
Patrick Tumbo*	3/3
Julius Nyakia Magabe	5/5
Rohan Patel	5/5
Susan Mudhune	5/5
Matthys Lodewikus Olivier **	1/1
John Burbidge***	1/1
Theuns Botha****	3/3
Freda Britz*****	1/1
Nelius Bezuidenhout*****	1/1
Cornie Foord*****	1/1

*Appointed to the Board on 2nd August 2018;
**Resigned from the Board on 20th February 2018;
***Transitioned on 1st August 2018;
****Resigned from the Board on 28th August 2018;
*****Appointed on 8th November 2018

Board effectiveness

Division of Responsibilities

The roles of the Board Chairman and the Group Chief Executive Officer are separate with each having distinct and clearly spelt out responsibilities and duties.

The Chairman is responsible for the overall leadership of the Board and ensuring its effectiveness. The Chairman is also responsible for ensuring that the interests of the Company's shareholders are safeguarded. The Chairman is also accountable to the Board for leading the direction of the Company's corporate and financial strategies and for the overall supervision of the policies governing the conduct of the business.

The Group Chief Executive Officer, an executive director, has together with the management team of the Company, the overall responsibility for the performance of the Group and provides leadership to facilitate successful planning and execution of the objectives and strategies agreed upon by the Board.

Balance and Diversity

The Non- executive directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of the business.

The Board appreciates the benefits of diversity and takes cognisance of gender inclusion and geographic representation to ensure board deliberations are balanced and rich as a result of multi-cultural and international influences. The Board has also promoted and supported gender diversity in the senior management roles.

The Directors' abridged profiles appear on page 24 and 25 of this Annual Report.

Director's Conflict of Interest

The Directors are obligated to disclose to the Board any potential conflict of interest, which comes to their attention, whether direct or indirect, real or perceived. The statutory duty to avoid situations in which they have or may have interests that conflict with those of the Group has been observed by the Board. All business transactions with all parties, directors or related parties are carried out at an arms' length. An acknowledgement that should it come to the attention of a Director that a matter concerning the Group may result in a conflict of interest, obligates him/her to declare it and exclude himself/herself from any discussion or decision on the matter.

At every meeting of the Board, an agenda item exists which requires members to make a declaration of any interest they may have in the business under discussion.

In dispensing its duties, the Board requires each Director to observe a code of conduct aligned to his/her duties and responsibilities to the Group and shareholders, and act within limitations as defined in the Board Charter while observing principles of good corporate governance.

The Board delights in opportunities to engage its shareholders. The annual general meeting (AGM) presents such opportunity to the Board. At the AGM, the Chairman and Group Chief executive explain the Company's performance and answer any questions from shareholders. All Directors attend the AGM.

We confirm there was no business transactions with the Directors or their related parties in the year ended 2018.

Board Information

The board receives high- quality up to date information for review in good time ahead of each meeting. The Company Secretary ensures timely information dissemination within the Board and its committees and between the Non-Executive Directors and senior management as appropriate.

Induction, Training and Professional Development

Every new Director receives a full induction on appointment. This induction includes a full programme of briefings on all areas of the Company's business. The induction is aimed at enabling the new directors to fully take up their roles and execute their responsibilities.

The Board and its committees also receive quarterly updates on legal and regulatory developments with particular emphasis on regulations that directly impact Sanlam and its subsidiaries.

In pursuit of continuous professional development during 2018, the Directors received training in the following areas:

- Professionally linked continuous professional development programmes;
- Treating Customers Fairly

Group Company Secretary

The Group Company Secretary, a member of the Institute of Certified Secretaries of Kenya (ICPSK), plays the critical role of coordinating the activities of the Board and Board Committees and is the primary liaison in the flow of information between Management and the Board. Each Director has direct access to the Group Company Secretary. The Group Company Secretary in liaison with the Board Chairman are responsible for the development and implementation of the Corporate Governance Code and regularly update the Board members of their obligations under the referenced code.

Sustainability

The Board places considerable emphasis on the need for the business to be sustainable for the long term, to meet the expectation of stakeholders and inform the Group's commitment to the society. In 2018 the Board engaged in the following activities in an effort to promote sustainability:

- Monitoring compliance to the Company's standards of business conduct and internal controls;
- Reviewing the Company's regulatory strategy in the context of the current regulatory landscape.

Board Evaluation

Board evaluation of both the board and its committees was conducted in the year 2018 for the period January 1, 2017 to December 31, 2017 as prescribed in the Code. All executive and non-executive directors participated in the evaluation process. The findings of the evaluation exercise are made to the Board.

In summary the findings of the evaluation showed that the board functions effectively and its committees execute their mandates efficiently.

Shareholder Engagement

The Board delights in opportunities to engage its shareholders. The annual general meeting (AGM) presents such opportunity to the Board. At the AGM, the Chairman and Group Chief Executive explain the Company's performance and answer any questions from shareholders. All Directors attend the AGM. The Board also informs its shareholders of the performance of the Group through the issuance of 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.

The advance issuance of the AGM Notice as provided for in the Kenyan Companies Act, 2015 also gives shareholders an opportunity to place items on the Agenda by submitting questions and appoint proxies to represent them where they are unable to attend.

The Group also holds investor briefings regularly to promote engagement with key stakeholders such as the Capital Markets Authority, the Nairobi Securities Exchange amongst others. The purpose of such briefings is to inform the investor of relevant events- market influenced events and internal company events.

Governance policies

Board Charter

The Board activities are regulated by the provisions of the Board Charter which is reviewed annually with the latest review being conducted on 22nd February 2019. The Charter sets out the responsibilities of the Board, which include, amongst others:

i. Sets out the frequency of board meetings to at least one meeting every three months. The Board is however mandated to hold meetings of the board as frequently as the board considers appropriate;

ii. Conduct of board meetings and procedures, and the nomination, appointment, induction, training, remuneration and evaluation of members of Board;

iii. Powers delegated to the Board committees;

iv. Policies and practices of the Board on matters of corporate governance, directors' declarations and conflict of interest;

v. Distinguishes the responsibilities of the board from management;

vi. Distinguishes the roles of the Chairman and Chief Executive Officer as separate roles;

The Board Charter also comprises a Work Plan setting out the schedule of Board meetings and the main business to be dealt with at those meetings.

Board Policies in Place

In the year 2018 the Group continued to adhere to the following policies as set up by the board:

i. **Conflict of Interest Policy:** This policy outlines the conduct of directors and management and bars their engagement directly or indirectly to any business activity that competes or conflicts with the Company's interest or those of its clients unless fully disclosed. All Directors are required to disclose to the Company Secretary any real or perceived conflicts on appointment, annually and on an ongoing basis of any circumstance which may give rise to any actual or potential conflict of interest with their roles as Directors.

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

iii. **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 Bribery Act No. 47 of 2016, as well as the Anti-Corruption and Economic Crimes Act, 2003.

iv. **Financial Crime Combating Policy:** This outlines the guidelines of combating financial crime and unlawful conduct. This policy is in line with the provisions of the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) and the Capital Markets Authority Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets. In addition, the Company upholds a Zero Tolerance Approach which stipulates zero tolerance to financial crimes and unlawful conduct. It further outlines consequences of committing a financial crime and/or unlawful act.

v. **Procurement Policy:** Sanlam maintains a procurement policy that governs the procurement of goods and services. This policy and related procedures are necessary to ensure that procurement is able to generate value in the acquisition of goods and services while satisfying the needs of the business. The policy ensures that the most appropriate and effective controls are applied in the purchase of goods and services for the company's needs.

vi. **Whistle Blowing Policy:** Sanlam maintains a whistle blowing policy (enshrined in the staff handbook) that provides a platform for employees to raise concerns regarding any wrong doing, and the policy details how such concerns are addressed.

vii. **Schedule of Offenses:** This defines the different instances of unlawful conduct and the respective sanctions

The Group also continues to inculcate and cascade the corporate culture of "The Sanlam Way" in line with the Mission and Vision and 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; and
iv. We do it for good.

Code of Conduct

At Sanlam, good corporate governance is ingrained as a valuable contributor to long-term success of the Company through the creation of the right culture in organisation. The Sanlam Code of Conduct continues to be in place and is geared towards inculcating a culture of Professionalism, Integrity, and Customer centric wealth creation in line with the Group's Vision and Mission Statements.

The Group conducts its business in compliance with legal principles and high ethical standards of business practice. The Board, Management and employees are required to observe the code of ethics and high standards of integrity. Further, these standards are applied in all dealings with customers, suppliers and other stakeholders.

Insider Trading

As a listed entity, Directors and Employees of Sanlam are required under the Capital Markets Act, Cap 485 A not to abuse or place themselves under suspicion of abusing insider information that they have or ought to have, particularly in periods leading up to release of material non-public information. In compliance with the above mentioned Act and the Nairobi Securities Exchange's regulations on prevention of insider trading, the Group's policy is that directors, management, staff members, or any of their relatives and associates, or any of the companies / businesses / organisations that exercise significant influence over the Group are not allowed to deal in the Group's shares during the closed season. The closed season is the period preceding the release of any material, non-public information to the market, and includes, but is not limited to, the end of the Group's reporting period and the publication of financial results.

To ensure compliance with prevention of insider dealing requirements, the Company communicates "Open" and "Closed" periods for trading in its shares to its employees and directors on case-by-case basis. To the best of the Company's knowledge, there was no insider dealing at Sanlam Kenya for the financial year 2018. The Group Company Secretary always advises the directors, management and staff of the closed season to avert any incidences of insider trading.

At Sanlam, good corporate governance is ingrained as a valuable contributor to long-term success of the Company through the creation of the right culture in organisation. The Sanlam Code of Conduct continues to be in place and is geared towards inculcating a culture of Professionalism, Integrity, and Customer centric wealth creation in line with the Group's Vision and Mission Statements.

Each Board Committee is governed by a Charter which contains provisions relating to the powers delegated by the Board to each Committee, membership of the Committee and the Committee's mandate, authorities and duties as well as working processes.

Board committees

To assist the Board better discharge its responsibilities, the Board has constituted several Board Committees comprising a balanced mix of independent and 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 is governed by a Charter which contains provisions relating to the powers delegated by the Board to each Committee, membership of the Committee and the Committee's mandate, authorities and duties as well as working processes. 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.

The Board has three committees which are:

Audit, Actuarial, Risk and Compliance Committee

Current Members (2019)

Freda Britz (Chairman)
Julius Magabe
Cornie Foord
Nelius Bezuidenhout

Attendance at Meetings in 2018

The members of the Committee, and their attendance to the four meetings held in the year 2018 were as follows:

Table 1: Audit, Actuarial, Risk and Compliance Committee Membership and Attendance 2018

	Member	Directorship Status	Number of Meetings scheduled in 2018
1	John Burbidge (Chairman)	Non-Executive Director	2/2
2.	Olivier Wikus	Non-Executive Director	1/1
3.	Susan Mudhune	Non-Executive Director	4/4
4	Julius Magabe	Non-Executive Director	4/4

Mandate and Role of the Audit, Actuarial, Risk and Compliance Committee

The Audit, Risk & Compliance Committee's duties are based on six broad functions namely the Internal Control, Risk Management & Compliance, Financial Reporting, Internal Audit, External Audit, Compliance with laws and regulations; and Compliance with the Company's Code of Conduct and ethical guidelines functions.

The Committee is responsible for the internal audit & risk management function by ensuring the Group's management acts on audit and risk management reports; reviews the performance and considers the independence of the external auditors; confirms that all regulatory compliance is considered in the preparation of financial statements; and invites a representative of the external auditors when reviewing the audited results.

The Committee assesses effectiveness of the Group's internal control and risk management & compliance framework. It reviews the impact of significant accounting and reporting issues such as professional and regulatory pronouncements; meets the management and both external & internal auditors to review the financial statements and results of the audit process; and assesses if generally accepted accounting principles have been consistently applied within preparation of preliminary announcements & interim financial statements.

Investment Committee

Current Members (2019)

Rohan Patel (Chairman)
Dr John Simba
Freda Britz
Nelius Bezuidenhout

Attendance at Meetings in 2018

Table 2: Investment Committee Membership and Attendance 2018

	Member	Directorship Status	Number of Meetings scheduled in 2018
1	Rohan Patel (Chairman)	Non-Executive Director	4/4
2.	Theuns Botha	Non-Executive Director	4/4
3	Julius Magabe	Non-Executive Director	4/4
4.	Dr John PN Simba	Chairman of the Board	4/4

Mandate and Role of the Investment Committee

The primary mandates of the Investment Committee are:

- To establish appropriate investment guidelines for the Life & General Businesses;
- To set investment benchmarks;
- 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 review the performance of the property investments

The Investment Committee has established an Investment Sub-Committee whose mandate is to review the performance of the property portfolio on a monthly basis and to report to the Investment Committee.

Nomination and Remuneration Committee

Current Members (2019)

Susan Mudhune (Chairperson)
John Simba
Patrick Tumbo
Julius Magabe
Rohan Patel

Table 3: Nomination and Remuneration Committee Membership and Attendance 2018

	Member	Directorship Status	Number of Meetings scheduled in 2018
1	Susan Mudhune (Chairperson)	Non-Executive Director	4/4
2	Julius Magabe	Non-Executive Director	4/4
3	Dr John PN Simba	Non-Executive Director	4/4
4	Rohan Patel	Non-Executive Director	4/4

Mandate and Role of the Nomination and Remuneration Committee

The Committee monitors the policies and practices of the Group in relation to the Human Resources. The Committee's duties are based on three broad functions namely the Human Resources, Nomination and Remuneration functions.

- Human Resource Function

  The Committee continually reviews the organizational structure, core functions and optimum establishment; policies and procedures on staff recruitment and selection, staff training and development policy for operational efficiency, of performance and reward system and capacity enhancement & reviews, the terms and conditions of service in line with the organisation's strategy. Further it reviews the Group's Human Resource policies and recommends amendments to the Board for approval.

- Nomination Function

  The Committee supports and advises the Board on the appropriate size and composition to enable it to discharge its responsibilities; transparent procedure for selecting new directors for appointment and re-selection to the Board; evaluation of the performance of the Board, the various committees and individual Directors.

- Remuneration Function

  The Committee reviews the Group's remuneration, recruitment, retention, incentive and termination policies and procedures for executive directors and senior managers; their salaries & the criteria for payment of bonuses to all staff and monitors its operation, considers any recommendations of the GCEO of the regarding payment of performance related remuneration.

Board remuneration

The Boards Remuneration policy outlines the principles that govern the remuneration procedures and policies. In general the remuneration policy ensures that directors remuneration are competitive, incentivises performance and reflects regulatory requirement while considering the demands and requirements made on the directors in relation to the business of the Group, the availability of the directors for ad hoc consultation, professional and business counsel as and when the need arises, industry and related companies benchmarks, international experiences and the calibre of directors needed to run this Group. The directors are continuously expected to add -value to the business.

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.In compliance with the disclosure requirements under the CMA Code and the Companies (General) (Amendment) (No. 2) Regulations,2017 which were gazetted in September 2017, the Directors' Remuneration report is provided.

Shareholding

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

Details of the directors' shareholding in the Group as at December 31, 2018 are summarised in Table below:

	Name	No. of Shares
1.	Baloobhai Chhotabhai Patel (Alternate to Rohan Patel)	29,369,977
2.	Dr John PN Simba	76,950

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 and the year-end results in at least two (2) daily newspapers of national circulation. The financial position of the Group together with relevant information such as the share price are made available for viewing on the Group's website, www.sanlam.com/kenya

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

The Registers of Directors are kept at the head office of the Group and are available for the perusal by shareholders on any working day 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 share register is kept at the offices of the Group and a computer database stores this information. The Share Registrar, Image Registrar, is responsible for the share register and responds to correspondence directly from shareholders. The official registers of shareholders are maintained by Image Registrars.

The Registers of Directors are kept at the head office of the Group and are available for the perusal by shareholders on any working day 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 Kenya Shillings Two Billion (KShs 2b) divided into 400 Million shares of Kenya Shillings Five (KShs 5) each. 144 Million shares are currently issued.

Top Shareholders in the Group

The top 10 shareholders, based on the Group's Register of Members, as at 31 December 2018 are shown in Tables here follows:

Top Ten Local Individual Shareholders as at 31st December 2018

	Names	Shares	Percentages
1	Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	29,369,867	56.23%
2	Peter Kingori Mwangi	1,287,880	2.47%
3	Anjay Vithalbhai Patel	847,800	1.62%
4	Anilkumar Virpar Malde	452,550	0.87%
5	Sherali Gulamhussein Habib Parpia	399,000	0.76%
6	Adan Abdulla Mohamed	389,250	0.75%
7	Patel Dahilaxmi Mangalbhai	360,003	0.69%
8	Jitendra Chandubhai Patel & Kirankumar Chandubhai Patel	360,000	0.69%
9	John Richard Githere	300,000	0.57%
10	Urvi Harakhchand Virpar Malde	268,800	0.51%
11	Others - 3,304	18,193,347	34.83%
	TOTAL	**52,228,497**	**100.00%**

Top 10 Local Institution' Shareholders as at December 31, 2018

	Names	Shares	Percentages
1	Hubris Holdings Limited	82,278,000	91.95%
2	Mayfair Insurance Company Ltd	1,132,050	1.27%
3	Standard Chartered Nominees A/C 9595	852,600	0.95%
4	Leverton Ltd	600,000	0.67%
5	Kenya Reinsurance Corporation Limited	511,200	0.57%
6	Thammo Holdings Limited	457,949	0.51%
7	Apa Insurance Limited	443,057	0.50%
8	Carbacid Investments Limited	390,000	0.44%
9	Best Investment Decisions Ltd	370,530	0.41%
10	First Ten Limited	369,300	0.41%
11	Others - 148	2,080,982	2.33%
		89,485,668	**100.00%**

Distribution of Shareholders

The Capital Markets Act 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 the Tables here follows:

a) Shareholders based on Number of Shares held:

	Range	Records	Range Total	Percentage
1	1 to 500	811	138,271	0.10 %
2	501 to 1000	271	210,067	0.15 %
3	1001 to 5000	1,988	5,209,162	3.62 %
4	5001 to 10000	233	1,708,878	1.19 %
5	10001 to 50000	286	6,058,355	4.21 %
6	50001 to 100000	44	3,052,020	2.12 %
7	100001 to 500000	49	10,743,850	7.46 %
8	500001 to 1000000	4	2,811,600	1.95 %
9	1000001 to 2000000000	4	114,067,797	79.21 %
		3,690	**144,000,000**	**100.00%**

b) Shareholders based on Nationality

Investor Pool	Records	Shares	Percentage
Local Institutions	158	89,485,668	62.14%
Local Individuals	3,314	52,228,497	36.27%
Foreign Investors	218	2,285,835	1.59%
	3,690	**144,000,000**	**100.00%**

Noting items

Executive Committee (ExCo)

The Group Chief Executive and Senior Management make up the Executive Committee (EXCO). This Committee serves as a link between the Board and Management.

ExCo's mandate and responsibility is implementing the Board's decisions, compliance with the statutory and regulatory framework, and guidelines and adherence to Group policies and procedures. Its meetings are convened on a monthly basis.

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 Group, the external auditors examine and give their opinion on the reasonableness of the financial statements.

The auditor's 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 2018.

Internal Auditors

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

Tax Advisors

PricewaterhouseCoopers 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 Zamara 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.

Llyod Masika

A significant component of the investments within the Group comprises 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. Monthly reports from Llyod Masika are tabled before the Investment sub-committee for discussion.

Going concern

The Board submits this annual report and audited financial statements for the year ending 31 December 2018. 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.

Dr John PN Simba
Chairman

Patrick Tumbo
Group Chief Executive Officer

The Board submits this annual report and audited financial statements for the year ending 31 December 2018. 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.

Sanlam General Business Review

35%

Overall, shareholders' funds grew by 35% from KShs 763.5m in December 2017 to KShs 1,040.1m in December 2018 following a capital injection of KShs 238 million and profit after tax of KShs 115.6 million.

11%

Total assets have grown by 11% from KShs 3.17b in 2017 to KShs 3.52b

Sanlam General Insurance achieved production of KShs 2.2b, a growth of 2% from the previous year's production of KShs 2.15b. The company posted a profit before tax of KShs 193.6m in 2018 compared to a profit before tax of KShs 102.3m the previous year.

Claims incurred dropped from KShs 769.8m in 2017 to KShs 733.1m in 2018 driven by improved operational efficiencies and cost management. Management expenses closed at KShs 577.8m a reduction of 6% from prior year level of KShs 616.3m. The company returned an underwriting profit of KShs 40.9m similar to the previous year. Investment income realized KShs 161.9 million, a growth of 163% from previous year performance of KShs 61.5 million.

Overall, shareholder's funds grew by 35% from KShs 763.5m in December 2017 to KShs 1,040.1m in December 2018 following a capital injection of KShs 238 million and profit after tax of KShs 115.6 million. An IFRS 9 adjustment of 77 million has been passed to retained earnings

Total assets have grown by 11% from KShs 3.17 billion in 2017 to KShs 3.52 billion.

KShs 2.2 billion

Sanlam General Insurance achieved production of KShs 2.2b, a growth of 2% from previous year production of KShs 2.15b.

163%

Investment income realized KShs 161.9m, a growth of 163% from previous year performance of KShs 61.5m.

KShs 40.9 million

The company returned an underwriting profit of KShs 40.9m similar to the previous year.

Looking ahead

The Company's focus is to continue strengthening engagements with business partners and diversifying insurance solutions to our customers. We have now obtained the licence to write aviation risks in addition to our other product offering. The general business is well on track to become a major player in the general insurance market in Kenya.

Sanlam Life insurance

Business performance highlights for year 2018

Gross written premium remained flat at KShs 4.3b in 2018 compared to 2017, an indication that management efforts to arrest the downward trend in premium growth are beginning to bear fruits. On the corporate front, the company's stance to halt the payment of additional commissions in form of administration fees led to a reduction in our new business, while retail business agent numbers declined as the business focused on better performance management

KShs 2.2 billion

Sanlam Life profitability declined by 179% to KShs (853m) from KShs 477m in 2017 because of low investment income in 2018 impacted by impairment of non-performing financial assets in the investment portfolio.

2%

Gross policyholder benefits paid increased from KShs 4.2b to KShs 4.3b, a growth of 2%. This reflects the value Sanlam life creates for customers.

KShs 2.1 billion

Shareholders' funds decreased to KShs 2.1b from KShs 2.4b due to the loss while expenses grew marginally by 8% from KShs 855m in 2017 to KShs 924m in 2018 because of cost management.

Key focus areas in 2019

- Roll out of a hybrid remuneration model for retail agency workforce to boost productivity
- Focus on automation to reduce the overall transaction cost and boost service delivery
- Focus on cost containment by aggressively pursuing austerity measures in the short term.
- Rigorous performance management of asset manager activity to stem any risk of asset loss and optimize portfolio returns.
- Review business model to explore synergy points within the Sanlam Group Plc
- Continued focus on profitable growth for corporate business through the right business mix, pricing and relationship management.
- Development of innovative products that meet evolving customers' needs.
- Explore new partnerships while also optimizing on existing ones

KShs 4.3b

Gross written premium remained flat at KShs 4.3b in 2018 compared to 2017 an indication that management efforts to arrest the downwards trend in premium growth are beginning to bear fruits.

Shareholder Value

We are committed to creating long-term value for our shareholders. To this end, we are committed to increasing revenue by offering differentiated products and services, creating synergies through partnerships and ensuring superior customer experience.

Our Financial Results

Report of the directors

The principal activity of the Group, through its subsidiaries Sanlam Life Insurance Limited and Sanlam General Insurance Limited, is the underwriting of all 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 directors are pleased to present the annual report and audited financial statements for the year ended 31 December 2018 that discloses the state of affairs of Sanlam Kenya Plc (the "Company") and its subsidiaries (together the "Subsidiaries" and each one a "Subsidiary") (together the "Group").

The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Kenyan Companies Act, 2015.

BUSINESS REVIEW

Principal activity

The principal activity of the Group, through its subsidiaries Sanlam Life Insurance Limited and Sanlam General Insurance Limited, is the underwriting of all 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 former investment management company (Sanlam Investments Limited), Mae Properties Limited (dormant) and Chem Chemi Mineral Water Limited (dormant).

The Group's Performance

The Group recorded a loss before tax of KShs 2,129,186,000 (2017: profit before tax of KShs 246,958,000).

The key performance indicators of the Group over a five-year period have been highlighted on page 21.

Principal risks and mitigation strategies

The Group's principal risks are set out below. These risks have been assessed considering their potential impact and likelihood of occurrence, and the resultant residual risk based on management controls and actions put in place to mitigate the residual risk.

1. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments, may exceed the carrying amount of the insurance liabilities.

This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance loss events are unpredictable, and the actual number and value of claims and benefits will vary from year on year from the level established using statistical techniques.

The companies within the Group have developed insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

2. Market risk

This is the risk that market movements (including in interest or exchange rates, equity or real estate prices) cause fluctuations in asset values, liabilities, or income from assets. The key components of market risk that impact the Group are explained below:

i) ***Price risk***

The Group is exposed to equity securities price risk because of investments in quoted shares classified either at fair value through profit or loss or fair value through other comprehensive income. To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits approved by the Board.

ii) ***Interest rate risk***

The Group is exposed to interest rate risk because of holding interest bearing assets which comprise quoted corporate bonds, mortgages, investment in liquid funds, government securities, fixed deposits with financial institutions and policy loans. The Group manages interest rate risk by investing in financial assets at fixed interest rates as opposed to floating rates.

iii) ***Currency risk***

Currency risk is the risk of loss or adverse change in the value of assets and liabilities owing to unanticipated changes in the level or volatility of currency exchange rates. The Group is exposed to currency risk arising from a loan denominated in US Dollars.

The Group manages currency risk arising from future commercial transactions and recognised assets and liabilities using spot contracts, but has not designated any derivative instruments as hedging instruments.

The Group has subcontracted part of its investment management to a professional fund manager to manage the investments of funds based on mandates approved by the Board and their best professional assessment of investment opportunities within these mandates.

3. Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Group by failing to pay amounts in full when due. Appropriate management of credit risk is critical to the Group and therefore management carefully manages the exposure to credit risk. Credit exposures arise from;

Report of the directors (continued)

Principal risks and mitigation strategies (continued)

3. Credit risk (continued)

- Investment balances;
- Reinsurers' share of insurance liabilities;
- Mortgage loans and receivables;
- Loans and receivables to policy holders;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders; and
- Amounts due from insurance intermediaries.

The Company manages its credit risk by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers/counterparty. The exposure to any one borrower is further restricted by sub-limits. Such risks are monitored on a continuing basis and subject to frequent reviews, but at a minimum once every financial year while actual exposures against limits are monitored regularly.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, corporate and personal guarantees.

4. Liquidity risk

Liquidity risk may be defined as the risk that occurs when a company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can only secure those resources at excessive cost. Liquidity risk losses might arise from interest payments on borrowings to meet a shortfall, or from 'fire sale losses' incurred from the sale of 'illiquid assets'.

The Group is exposed to daily calls on its available cash resources from maturing policies, claims and calls on cash settled contingencies. The finance department monitors liquidity on a daily basis, and has put in place an asset and liability matching programme that ensures liquidity requirements are met. Cash flow forecasting is performed in the operating entities of the Group and in the Company and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs. Such forecasting takes into consideration the debt financing plans, covenant compliance and compliance with internal liquidity appetite limits and targets.

The Group's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

5. Cyber risk

'Cyber risk' refers to any risk of financial loss, disruption or damage to the reputation of the Group from some sort of failure of its information technology systems. Cybersecurity has become a critical issue for the Group. Cyber threats have evolved from being primarily focused on theft of customer personal information to broader threats against intellectual property such as trade secrets, product information and negotiating strategies.

The Group has established and operationalised a Cyber Risk strategy, which is shaped by a cyber-risk appetite. This strategy is benchmarked to ISO 27001 and represents an effective governance anchor to help the Group address the Group's plan to manage risks effectively. The strategy enables the Board and senior management to understand more deeply the exposure to specific cyber risks, establish clarity on the cyber imperatives for the Group, work out trade-offs, and determine priorities.

6. Legal and regulatory risk

Legal risk is the potential loss from legal disputes or settlements, instituted by customers, counter parties, employees, shareholders, the authorities or third parties against the Group.

7. Compliance risk

Compliance risk is the risk of non-compliance with laws, regulations and standards, which relate to markets, pricing, taxes and regulations, and new laws or regulations that require changes in business practices that may lead to financial loss.

Changes in government policy and legislation (including in relation to tax and capital controls), regulation or regulatory interpretation applying to companies in the insurance industry, and decisions taken by regulators in connection with their supervision of the Group, which in some circumstances may be applied retrospectively, may adversely affect the Group's product range, distribution channels, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements.

The Group is exposed to and subject to extensive laws and regulations including those that impact and regulate the capital markets, insurance industry, financial markets regulation, capital adequacy, those relating to financial crimes (money laundering, bribery and corruption, insider trading), taxation, anti-trust, employment and labour laws and contractual obligations. Significant changes to these laws and regulations or their more stringent enforcement or restrictive interpretation could significantly impact the operations of the Group.

The Group considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Chief Legal Officer as the Head of Legal, together with the compliance functions facilitate the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

Cyber risk means any risk of financial loss, disruption or damage to the reputation of the Group from some sort of failure of its information technology systems. Cybersecurity has become a critical issue for the Group.

Report of the directors (continued)

Directors

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

Director	Directorship		Nationality
Dr John PN Simba	Non-executive and Chairman		Kenyan
Mugo Kibati	Executive	Resigned 28 February 2018	Kenyan
George Kuria	Executive	Appointed 1 March 2018 and resigned 2 August 2018	Kenyan
Patrick Tumbo	Executive	Appointed 2 August 2018	Kenyan
John Burbidge	Non–executive	Transitioned 1 August 2018	British
Julius Nyakia Magabe	Non–executive		Tanzanian
Matthys Lodewikus Olivier	Non–executive	Resigned 20 February 2018	South African
Rohan Baloobhai Patel	Non–executive		Kenyan
Susan Mudhune	Non–executive		Kenyan
Theuns Botha	Non–executive	Resigned 28 August 2018	South African
Nelius Bezuidenhout	Non–executive	Appointed 8 November 2018	South African
Cornie Foord	Non–executive	Appointed 8 November 2018	South African
Freda Britz	Non–executive	Appointed 8 November 2018	Kenyan

Authorisation

The consolidated financial statements of Sanlam Kenya Plc for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 4th March 2019.

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 Group and Company to be misleading.

Report of the directors (continued)

Disclosures to auditors

The directors confirm that with respect to each director at the time of approval of this report:

a. there was, as far as each director is aware, no relevant audit information of which the Group's auditor is unaware; and

b. each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Terms of appointment of auditors

PricewaterhouseCoopers continues in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the Auditor. This responsibility includes the approval of the audit engagement contract which sets out the terms of the Auditor's appointment and the associated fees on behalf of the shareholders.

By Order of the Board

Emma Wachira

Company Secretary
4th March 2019

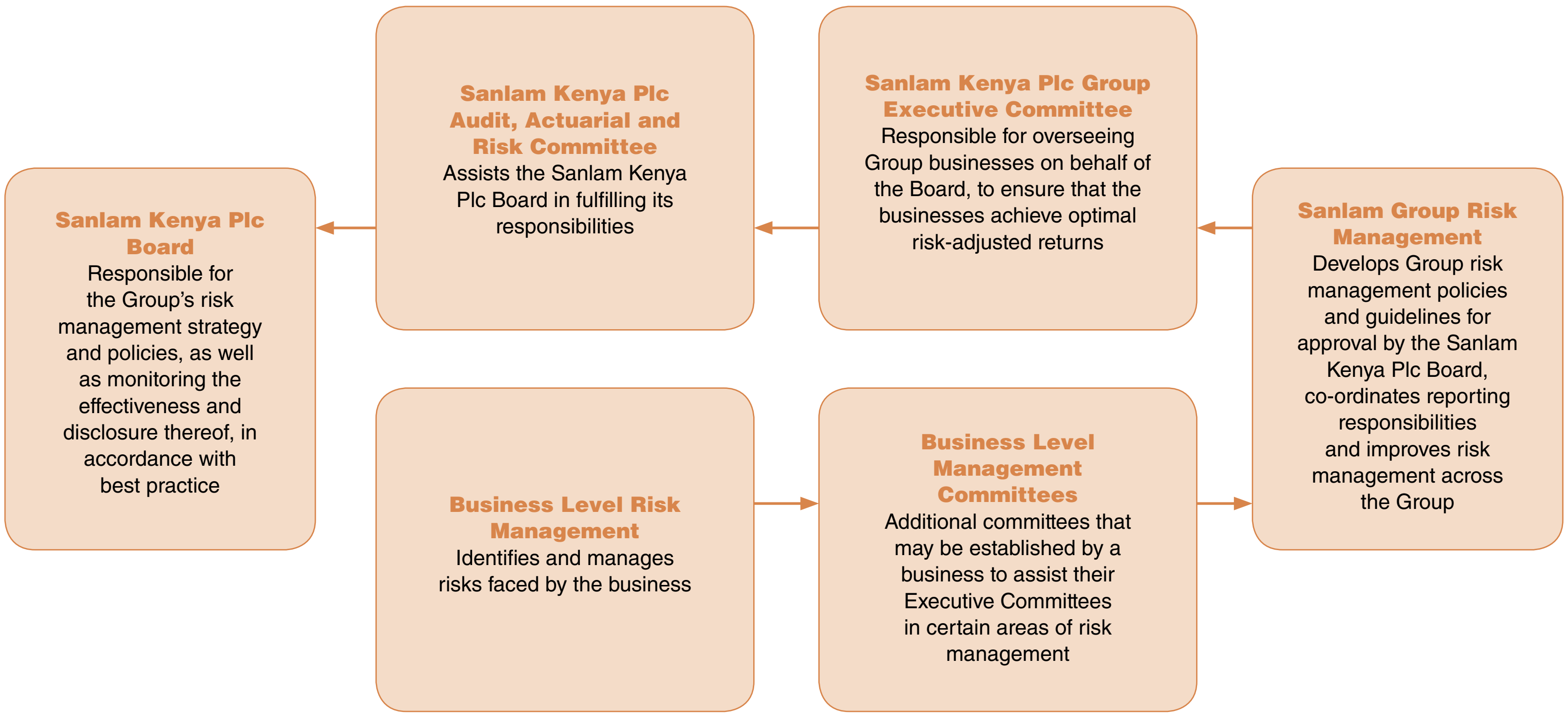
Risk management

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.

a) Governance structure

The Board meetings of Group are held according to a Board calendar that is planned at the beginning of each year. The Board meetings are scheduled in a manner that increases the efficiency of the Board. Meetings of the Boards and Board Sub-committees of the subsidiaries are held first and in Sanlam Kenya Plc's Board and Board Sub-committees meet after the subsidiaries Boards conclude their meetings and prepared their reports for submission to the Board of Sanlam Kenya Plc. The agenda of the Board focuses on Group strategy, capital management, accounting policies, financial results, dividend policy, human resource development, corporate governance and requirements of the Capital Markets Authority (CMA) and Nairobi Securities Exchange (NSE). The Board of each group company is responsible for statutory matters 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 at 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.



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 table below.

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

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

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

Chief Financial Officer
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

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

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

Investment Committee
Determines and monitors appropriate investment strategies for policyholder solutions

IT Risk Management
Manages and reports Group-wide IT risks

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

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

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 Enterprise Risk Management (ERM) Framework
ii. The Group Strategic Risk Management (SRM);
iii. Group Risk Escalation Policy (REP);
iv. Group Business Continuity Policy (BCP);
v. Group Information and Communication Technology (ICT) Risk Management Policy;
vi. Assets and Liabilities Matching (ALM) Policy; and
vii. Group Investment Policy.

The above policies SRM, REP, BCP and ITRMP policies were developed by Sanlam Group Enterprise 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 Policies.

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 extreme), likelihood of risk (on a scale of rare to almost certain), and accordingly to determine the role players to whom the risk should be reported (from the Enterprise Risk Manager of the business to the chairman of the Audit, Actuarial, Risk and Compliance 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. The Group's strategic risk management process is aimed at managing three elements of risk:

i. <u>Opportunity</u>: 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. <u>Hazard</u>: managing risk on the downside as a "defensive" function; focusing on the prevention or mitigation of actions that can generate losses; and

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

Risk management (continued)

b) Group risk policies and guidelines (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 strengths, weaknesses, opportunities and threats relative to the business 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

Risk management (continued)

c) Risk types (Continued)

	Risk type	Description	Potential significant impact
Financial and Business (specific risks)	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 General 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.	All Group businesses
	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 General insurance

Risk management (continued)

d) Risk management

Operational risk

The Group mitigates this risk through the strategic planning process, selection of experienced and technically competent staff with high ethical 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 based on 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 functions 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, and 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 external auditors consider internal control relevant to the Group's preparation and fair 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.

Enterprise Risk Management

The Enterprise Risk Management function 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 and the changing risk profile of the Group or any business units. The function also supports business units within the Group to incorporate risk considerations into their agenda and all decision-making processes.

e) Information and technology risk

The Group Information and Communication Technology risk management policies are authorised and ratified by the Group Executive Committee. These policies stipulate the role of the Information Security manager and other persons with IT risk management roles. Furthermore, it provides a framework of IT risk management, the methods of reporting, assessment and action, appropriate documentation and management of all risk-related IT incidents that have occurred, timing of communication and liaison with other functions in the Group.

f) 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.

Risk management (continued)

g) 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.

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.

h) 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, 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.

Risk management (continued)

i) 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. Quarterly reports on the client complaints and adverse media mentions are submitted to the Executive Committee.

j) 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 breaches.

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 Group's 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 Executive Committee of the Group, which ensures that the businesses' strategies are aligned with the overall Group strategy; and
- The Group's Executive Committee, which includes the Group Chief and the Chief Executives 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.

Statement of Directors' responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and Company at the end of the financial year and their profit or loss for that year. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. Selecting suitable accounting policies and then applying them consistently; and

iii. Making judgements and accounting estimates that are reasonable in the circumstances.

Having made an assessment of the Group's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of directors on 4th March 2019 and signed on its behalf by:

John P N Simba	**Patrick Tumbo**
Chairman	**Group Chief Executive Officer**

Directors’ remuneration report

Information not subject to audit

The Company’s Directors Remuneration Policy and Strategy

The Board establishes and approves formal and transparent remuneration policies to attract and retain both executive and non-executive Board members. These policies clearly stipulate remuneration elements such as Directors’ fees, honorarium and attendance allowances that are competitive and in line with those of other players in the industry.

In accordance with the guidelines provided in the Companies (General) (Amendment) Regulations, Code of Corporate Governance as well as shareholder approval granted at the Annual General Meeting; the Directors and the Chairman are paid a taxable sitting allowance of KShs 96,850 and KShs 111,455 respectively, for every meeting attended.

It is proposed that each Director and the Chairman receives a fee of KShs 1,160,666 and KShs 1,608,021 respectively per annum for the financial year ended 31 December 2018 subject to approval by shareholders during the Annual General Meeting.

Contract of service

In accordance with the Capital Markets Authority (CMA) regulations on non-executive Directors, a third of the Board retires by rotation and is elected at every Annual General Meeting by the shareholders on rotation basis.

The Group Chief Executive Officer has a permanent and pensionable contract with Sanlam Kenya Plc commencing 2 August 2018.

Changes to directors’ remuneration

During the period, there were no changes in Directors Remuneration which is set as per the guidelines provided in Companies (General) (Amendment) Regulations and the Code of Corporate Governance.

Statement of voting on the directors’ remuneration report at the previous Annual General Meeting

During the Annual General Meeting held on 10 May 2018, the shareholders unanimously approved the payments of Directors fees for the year ended 31 December 2017 by a show of hands.

At the Annual General Meeting to be held on 10 May 2019, approval will be sought from shareholders to pay Director Fees for the financial year ended 31 December 2018.

Directors’ remuneration report (continued)

Information subject to audit

The following table shows a single figure remuneration for the Executive Directors, Chairman and Non-Executive directors in respect of qualifying services for the year ended 31 December 2018 together with the comparative figures for 2017. The aggregate Directors’ emoluments are shown on Note 34 (d). The fees paid to Sanlam Emerging Markets directors do not accrue to them personally.

For the year ended 31 December 2018	Salary and terminal benefits	Fees	Bonuses	Expense allowances	Total
	KShs ‘000	KShs ‘000	KShs’ 000	KShs ‘000	KShs ‘000
Patrick Tumbo – Executive	20,830	-	-	-	20,830
Mugo Kibati – Executive	18,883	-	-	-	18,883
John P N Simba – Chairman	-	4,000	-	-	4,000
Julius Nyakia Magabe	-	3,166	-	-	3,166
Matthys Lodewikus Olivier	-	552	-	-	552
John Burbidge	-	1,341	-	-	1,341
Rohan Baloobhai Patel	-	3,360	-	-	3,360
Susan Mudhune	-	3,316	-	-	3,316
Theuns Botha	-	1,747	-	-	1,747
Nelius Bezuidenhout	-	597	-	-	597
Cornie Foord	-	523	-	-	523
Freda Britz	-	707	-	-	707
	39,713	19,309	-	-	59,022
For the year ended 31 December 2017					
Mugo Kibati – Executive	44,633	-	3,433	-	48,066
John P N Simba – Chairman	-	3,175	-	-	3,175
Julius Nyakia Magabe	-	2,323	-	-	2,323
Matthys Lodewikus Olivier	-	1,825	-	-	1,825
John Burbidge	-	2,089	-	-	2,089
Rohan Baloobhai Patel	-	2,973	-	-	2,973
Susan Mudhune	-	2,391	-	-	2,391
Theuns Botha	-	2,046	-	-	2,046
	44,633	16,822	3,433	-	64,888

Directors' remuneration report (continued)

Pension related benefits - audited

	2018 KShs '000	2017 KShs '000
Mugo Kibati – Executive	2,360	5,579
	2,360	5,579

On behalf of the Board

Susan Mudhune

Chairman, Remuneration Committee
4th March 2019

Report of the Statutory Actuary - Sanlam Life Insurance Limited

I have conducted a statutory actuarial valuation of the long-term business of Sanlam Life Insurance Limited as at 31 December 2018.

This valuation has been conducted in accordance with generally accepted actuarial principles and in compliance with the requirements of the Insurance Act CAP 487 of the Laws of Kenya. Those principles require that 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 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 long term insurance business did not exceed the amount of funds of the long-term insurance business at 31 December 2018.

Giles T Waugh

GTWaugh

Statutory Actuary
Fellow of the Actuarial Society of South Africa
4th March 2019

Report of the Statutory Actuary – Sanlam General Insurance Limited

I have conducted an actuarial valuation of Sanlam General Insurance Limited as at 31 December 2018.

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 general business of the Company was financially sound and the actuarial value of the liabilities in respect of all the classes of general business did not exceed the amount of outstanding claims liabilities of the general business at 31 December 2018.

James Olubayi

Zamara Actuaries, Administrators & Consultants Limited
4th March 2019

Embedded value report

This report sets out the embedded value and the value of new business of Sanlam Kenya Plc.

1. Embedded value

a) Definition of Embedded Value

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

		2018	2017
		KShs '000	KShs '000
a)	**Group embedded value**		
	Shareholders' adjusted net assets	313,239	2,878,175
	Net value of in force business	1,832,062	1,564,567
	Gross value of in-force business	3,316,110	2,931,951
	Tax provision	(994,832)	(879,585)
	Cost of Capital Adequacy Requirement (CAR)	(489,216)	(487,799)
	Embedded value	2,145,301	4,442,742
b)	**Embedded Value Earnings**		
	The embedded value earnings are derived as follows:		
	Embedded value at end of year	2,145,301	4,442,742
	Embedded value at beginning of year	(4,442,742)	(4,690,271)
	Change in embedded value	(2,297,441)	(247,529)
	Dividends paid in the year	-	-
	Embedded value earnings	(2,297,441)	(247,529)

	2018	2017
	KShs '000	KShs '000
These earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	(84,178)	(273,825)
Roll forward	(513,460)	559,012
Investment return on free assets	(861,587)	190,302
Expected return on life business in-force	348,127	368,710
Change over the period	(1,699,803)	(532,715)
Value of new business	(90,202)	45,099
Changes in assumptions and methodology	39,126	(147,165)
Experience variations	(100,905)	(157,669)
Decrease in NAV for other subsidiaries	(1,547,822)	(272,980)
Total earnings	(2,297,441)	(247,529)

3. Value of New Business

Gross value of new business at point of sale (gross of tax)	(78,285)	101,829
Tax on value at point of sale	23,486	(30,549)
Cost of CAR at point of sale	(35,403)	(26,181)
Value of new business	(90,202)	45,099

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	15.30%	16.30% (base)	17.30%
	KShs '000	KShs '000	KShs '000
Shareholders' net assets	313,239	313,239	313,239
Value of in-force business	1,974,576	1,832,062	1,703,141
Embedded value	2,287,815	2,145,301	2,016,380
Value of one year's new business	(78,351)	(90,202)	(100,800)

Embedded value report (continued)

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:

	2018	2017
	%p.a	%p.a
Risk discount rate	16.30	17.50
Overall investment returns (pre-tax)	11.19	13.41
Expense inflation rate	8.30	9.50

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

	2018	2017
	KShs '000	KShs '000
Risk discount rate	69,135	17,119
Overall investment returns (pre-tax)	(124,045)	(150,081)
Total	(54,910)	(132,962)

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 2018.

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

Embedded value report (continued)

6. Sensitivities

This section illustrates the effect of different assumptions on the value of in-force business net of cost of capital. The effect of assumption changes in the Gross Premium Valuation has been included in the value of in-force business. For each sensitivity illustrated, all other assumptions have been left unchanged.

	Value of in force	%change over base
	KShs '000	KShs '000
Values as at 31 December 2018	**1,832,063**	
Investment Returns		
Investment return (and inflation) decreased by 10% and with bonus rates and discount rates changing commensurately	1,835,072	0.16%
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	1,830,244	-0.10%
Increase expected return on equities/property assets by 1% p.a. due to a change in the equity/property risk premium with no consequential changes to discount rates	1,850,766	1.02%
'Shock scenario *	1,854,025	1.20%
Expenses and persistency		
Non-commission maintenance unit expenses (excluding investment expenses) decrease by 10%	1,863,296	1.70%
Discontinuance rates decrease by 10%	1,863,967	1.74%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	1,875,140	2.35%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	1,839,568	0.41%

The sensitivity of the value of new business is as follows;

	Value of in force	%change over base
	KShs '000	KShs '000
Value of one year's new business as at 31 December 2018	**(90,202)**	
Investment returns		
Investment return (and inflation) decreased by 1% and with bonus rates and discount rates changing commensurately	(85,134)	-5.62%
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	(87,539)	-2.95%
Shock scenario *	(73,851)	-18.13%
'New business volumes decrease by 10%	(58,352)	-35.31%
Expenses and persistency		
Maintenance unit expenses (excluding investment expenses) decrease by 10%	(74,465)	-17.45%
Non-commission acquisition expenses decrease by 10%	(68,629)	-23.92%
Discontinuance rates decrease by 10%	(75,085)	-16.76%
Insurance risk		
Base mortality and morbidity rates decreased by 5% for life assurance business	(78,212)	-13.29%
Base mortality and morbidity rates decreased by 5% for life assurance annuity business	(90,705)	0.56%

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 rate 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

GTWaugh

Statutory Actuary
Fellow of the Actuarial Society of South Africa.
4th March 2019

Independent auditor's report to the shareholders 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 86 to 182, which comprise the consolidated statement of financial position at 31 December 2018 and the consolidated statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the Company statement of profit or loss, Company statement of other comprehensive income, Company statement of financial position at 31 December 2018, the statement of changes in equity and statement of cash flows for the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Sanlam Kenya Plc give a true and fair view of the financial position of the Group and the Company at 31 December 2018 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 Group 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 judgement, 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 opinion on these matters.

Independent auditor's report to the shareholders of Sanlam Kenya PLC (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the matter
Valuation of insurance contract liabilities Insurance contract liabilities as disclosed under Note 24 comprise outstanding claims, policyholder liabilities and incurred but not reported claims (IBNR). The valuation of insurance contract liabilities involves significant judgement in estimating the expected future outflows. Specifically, the actuarial assumptions and methodologies involve judgement about future events. The valuation results are also dependent on the quality, integrity and accuracy of the data used. Assumptions are made for both economic and non-economic inputs into the valuation. Economic assumptions such as discount rates, investment returns and inflation rates are benchmarked to available market information. Non-economic assumptions such as mortality rates, future expenses, investment returns, discount rates and lapse rates, are projected based on past experience. Additional qualitative judgement is applied in assessing the extent to which past trends may or may not recur in the future. A margin for adverse deviation is included in the liability valuation. However, changes in the assumptions and methodology can result in a material impact to the valuation.	Our procedures included the following: • Comparing the data used in the valuation to the existing policyholder data; • Agreeing a sample of the claims paid and outstanding as at year end to supporting documentation; • Assessing the appropriateness of the methodology and assumptions used by the appointed actuary and management in the estimation of reserves as at 31 December 2018; • Assessing the reasonableness of the economic assumptions used in comparison to market observable data and non-economic assumptions to the Group's past experience; • Checking the consistency of the reserving methods and assumptions bases year on year; and • Back testing general reserving process by performing an actual vs expected analysis on prior years' reserves to assess any surpluses or shortfalls.

Independent auditor's report to the shareholders of Sanlam Kenya PLC (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the matter
Valuation of financial assets Financial assets comprise 65% of the total assets of the Group. The Group's financial assets are measured at both fair value and amortized cost. The Group holds unquoted financial assets, consisting of both corporate bonds and equities measured at fair value. A variety of methods and inputs are used in determining the fair value. The main inputs into the valuation models are: price to book multiples and discounted cash flows. The determination of the fair value of the unquoted financial assets is highly subjective due to the lack of observable market prices and can be subject to management bias. A variation in the underlying assumptions could result to material differences in the financial performance and financial position of the Group. The Group's assets at amortised cost are assessed for impairment. The impairment assessment entails the estimation of expected credit losses (ECLs). The estimation of ECLs is complex and judgmental due to the inherent subjectivity in staging the assets, determining the probabilities of default and losses given default.	Our procedures included the following: • Assessing the valuation models used by management to value the different financial assets for consistency with those used in prior years; • Ascertaining the reasonableness of the valuation of the financial assets using readily available market prices and comparable financial assets information; and • Reviewing the judgements made by management and comparing the principal assumptions made in computing the expected credit losses to our own knowledge of their business and other market practices.

Other information

The other information comprises Company Information, Five Year Group Review, Report of the Directors, Risk management, Profile of the Directors, Statement of Directors' Responsibilities, Director's Remuneration Report, Report of the Statutory Actuary – Sanlam Life Insurance Limited, Report of the Statutory Actuary – Sanlam General Insurance Limited and Embedded Value Report which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will 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 have received prior to the date of this auditor's report, 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.

When we read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view 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.

Auditor's responsibilities for the audit of the financial 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

Independent auditor's report to the shareholders of Sanlam Kenya PLC (continued)

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

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 the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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 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.

Independent auditor's report to the shareholders of Sanlam Kenya PLC (continued)

Report on other matters prescribed by the Kenyan Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors' on pages 60 to 63 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 73 and 75 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Certified Public Accountants
Nairobi

PricewaterhouseCoopers

5th March 2019

CPA Kang'e Saiti - Practising certificate No. 1652
Signing partner responsible for the independent audit

Consolidated and company statement of profit or loss

		Group		Company	
		2018	2017	2018	2017
	Note	KShs '000	KShs '000	KShs '000	KShs '000
Gross premium income	4(a)	6,345,825	6,369,847	-	-
Premium ceded to reinsurers	4(b)	(974,017)	(953,632)	-	-
Net premium income		**5,371,808**	**5,416,215**	**-**	**-**
Fees and commission income	5	268,010	300,092	-	-
Investment income	6(a)	2,183,767	2,285,310	332,500	-
Fair value losses	6(b)	(1,983,581)	(709,952)	(533,547)	-
Impairment of financial assets	6(c)	(12,795)	(46,340)	-	-
Other operating revenue	6(d)	86,214	129,436	18,937	150,921
Total other revenue		541,615	1,958,546	(182,110)	150,921
Total revenue		**5,913,423**	**7,374,761**	**(182,110)**	**150,921**
Gross benefits and claims paid	7(a)	(5,544,822)	(5,408,384)	-	-
Claims ceded to reinsurers	7(a)	660,314	583,321	-	-
Gross change in insurance contract liabilities	7(a)	(1,471,504)	(809,065)	-	-
Gross change in investment contract liabilities	7(a)	1,227,696	1,085,819	-	-
Change in contract liabilities ceded to reinsurers	7(a)	4,134	13,827	-	-
Net benefits and claims		**(5,124,182)**	**(4,534,482)**	**-**	**-**
Fees and commission expense	7(b)	(715,134)	(735,150)	-	-
Cost of sales - plots	7(c)	(11,697)	(10,463)	(11,697)	(10,463)
Other operating and administrative expenses	8	(2,000,047)	(1,843,601)	(297,967)	(235,083)
Impairment of investment in subsidiaries		-	-	(59,514)	-
Finance costs	23	(191,863)	-	(118,263)	-
Total benefits, claims and other expenses		**(8,042,923)**	**(7,123,696)**	**(487,441)**	**(245,546)**
(Loss)/profit before share of profit of associate		(2,129,500)	251,065	(669,551)	(94,625)
Share of profit/(loss) of associate	14(b)	314	(4,107)	-	-
(Loss)profit before tax		**(2,129,186)**	**246,958**	**(669,551)**	**(94,625)**
Income tax credit/(expense)	10	149,760	(193,913)	33,517	23,985
(Loss)/profit for the year		**(1,979,426)**	**53,045**	**(636,034)**	**(70,640)**
(Loss)/profit attributable to:					
Owners of the parent		(2,017,061)	30,814	(636,034)	(70,640)
Non-controlling interests		37,635	22,231	-	-
Earnings per share:					
Basic	30	(14.01)	0.21	(4.42)	(0.49)
Diluted	30	(14.01)	0.21	(4.42)	(0.49)

Consolidated and company statement of other comprehensive income

	Group		Company	
	2018	**2017**	**2018**	**2017**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
(Loss)/profit for the year:	(1,979,426)	53,045	(636,034)	(70,640)
Other comprehensive income				
Items that may be reclassified to profit or loss				
Changes in fair value of financial assets previously classified as available for-sale-financial under IAS 39	-	140	-	-
Other comprehensive income for the year net of tax	-	140	-	-
Total comprehensive (loss)/income for the year	**(1,979,426)**	**53,185**	**(636,034)**	**(70,640)**
Attributable to:				
Owners of the parent	(2,017,061)	30,814	(636,034)	(70,640)
Non-controlling interests	37,635	22,231	-	-

Consolidated and company statement of financial position

		Group		Company	
		2018	2017	2018	2017
	Note	KShs '000	KShs '000	KShs '000	KShs. '000
Assets					
Property and equipment	12	232,514	157,361	22,008	7,575
Investment properties	13(a)	3,440,700	3,180,700	-	-
Intangible assets	11(a)	98,721	109,035	-	-
Goodwill	11(b)	-	-	-	-
Investments in subsidiaries	14(a)	-	-	2,287,020	1,465,396
Investment in associate	14(b)	17,779	17,465	4,861	4,861
Deferred income tax	27	236,551	192,843	82,384	48,868
Financial assets					
Equity securities	16	2,579,271	4,305,766	-	-
Government securities					
- At amortized cost	16	-	9,443,228	-	-
- At fair value through P&L	16	15,167,215	3,136,554	-	-
Corporate bonds					
- At fair value through P&L	16	1,254,774	2,596,999	-	-
- At amortized cost	16	14,746	20,000	-	-
Loans	15	504,851	758,234	-	-
Deferred acquisition costs	20(c)	151,292	153,049	-	-
Reinsurance share of insurance contract liabilities	18	819,376	633,226	-	-
Land and development	19	109,189	118,734	109,189	118,734
Current income tax	10	52,341	20,094	15,423	15,423
Insurance receivables	20(a)	843,841	830,044	-	-
Receivables and other financial assets	20(b)	449,362	451,941	182,231	173,287
Deposits with financial institutions	21	2,275,478	2,239,644	354,000	-
Cash and bank balances	21	403,629	301,567	2,969	26,362
Non-current assets held for sale	13(b)	450,000	1,145,000	-	-
Total assets		**29,101,630**	**29,811,484**	**3,060,085**	**1,860,506**

Consolidated and company statement of financial position (continued)

		2018	2017	2018	2017
		KShs '000	KShs '000	KShs '000	KShs '000
Equity and liabilities					
Capital and reserves					
Issued share capital	22	720,000	720,000	720,000	720,000
Revaluation reserves		-	15,904	-	-
Statutory fund	22	676,720	1,609,658	-	-
Retained earnings		(68,620)	1,459,314	(837,716)	(201,682)
Shareholder's funds		1,328,100	3,804,876	(117,716)	518,318
Non-controlling interests		258,938	247,074	-	-
Total capital and reserves		**1,587,038**	**4,051,950**	**(117,716)**	**518,318**
Liabilities					
Borrowings	23	3,497,432	1,030,741	2,777,380	1,030,741
Insurance contract liabilities	24	14,816,647	13,561,183	-	-
Investment contract liabilities	24	5,340,462	6,568,158	-	-
Payables under deposit administration contracts	24	1,107,372	1,433,027	-	-
Unearned premium	25	899,653	655,110	-	-
Deferred income tax	27	360,397	747,449	-	-
Provisions	26	51,925	51,925	-	-
Current income tax	10	47,322	230,684	-	-
Insurance payables	28	688,646	759,006	-	-
Payables and other charges	29	704,736	722,251	400,421	311,447
Total liabilities		**27,514,592**	**25,759,534**	**3,177,801**	**1,342,188**
Total equity and liabilities		**29,101,630**	**29,811,484**	**3,060,085**	**1,860,506**

The financial statements were approved by the Board of Directors on 4th March 2019 and signed on its behalf by:

John P N Simba

Chairman
4th March 2019

Patrick Tumbo

Group Chief Executive Officer
4th March 2019

Consolidated statement of changes in equity

	Note	Share capital	Revaluation surplus	Statutory fund	Retained earnings	Total	Non-controlling interests	Total
		KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Year end 31 December 2018:								
At 1 January 2018 as previously reported		**720,000**	**15,904**	**1,609,658**	**1,459,314**	**3,804,876**	**247,074**	**4,051,950**
Changes on initial application of IFRS 9		-	-	(306,278)	(154,338)	**(460,616)**	(24,870)	**(485,486)**
Profit or loss:								
Total comprehensive (loss)/ income		-	-	-	(2,017,061)	**(2,017,061)**	37,635	(1,979,426)
Transfer to the statutory fund	22	-	-	(626,660)	626,660	**-**	-	**-**
Transfer to retained earnings		-	(15,904)	-	15,904	**-**	-	**-**
Transactions with minorities		-	-	-	901	**901**	(901)	**-**
At 31 December 2018		720,000	-	676,720	(68,620)	**1,328,100**	258,938	**1,587,038**
Year end 31 December 2017:								
At 1 January		720,000	15,809	1,862,245	1,172,154	**3,770,208**	162,036	**3,932,244**
Profit or loss:								
Total comprehensive income		-	95	-	30,814	**30,909**	22,276	**53,185**
Transfer to statutory fund	22	-	-	307,666	(307,666)	**-**	-	**-**
Transfer to retained earnings		-	-	(560,253)	560,253	**-**	-	**-**
Transactions with minorities		-	-	-	3,759	**3,759**	62,762	**66,521**
At 31 December 2017		720,000	15,904	1,609,658	1,459,314	**3,804,876**	247,074	**4,051,950**

Company statement of changes in equity

	Share capital	Retained earnings	Total
	KShs '000	KShs '000	KShs '000
Year ended 31 December 2018:			
At 1 January	720,000	(201,682)	518,318
Total comprehensive income	-	(636,034)	(636,034)
At 31 December	720,000	(837,716)	(117,716)
Year ended 31 December 2017:			
At 1 January	720,000	(131,042)	588,958
Total comprehensive income	-	(70,640)	(70,640)
At 31 December	720,000	(201,682)	518,318

Consolidated statement of cash flows

	Note	2018	2017
		KShs '000	KShs '000
Cash flows from operating activities			
Net cash used in operations	33(a)	(3,041,101)	(1,903,215)
Cash flows from investing activities			
Purchase of intangible assets	11(a)	(13,160)	(16,248)
Purchase of property and equipment	12	(124,578)	(25,037)
Purchase of investment property	13(a)	(303,371)	(847,751)
Net purchase of financial assets through profit and loss	16	(1,894,429)	(848,606)
Purchase of government securities		-	(759,901)
Disposal or maturities of government securities		-	149,225
Proceeds from disposal of investment property	13(b)	695,000	-
Loans advanced	15	(312,659)	(829,770)
Loans repaid	15	503,327	1,123,646
Rental income	6	13,618	40,070
Dividend income received	6	92,769	118,463
Interest received		2,247,652	2,746,578
Net cash generated from investing activities		904,169	850,669
Cash flows from financing activities			
Proceeds from borrowings	23	2,466,691	1,029,800
Interest paid on borrowings	23	(191,863)	-
Proceeds from issue of share capital to non-controlling interests		-	66,521
Net cash generated from financing activities		2,274,828	1,096,321
Increase in cash and cash equivalents		137,896	43,775
Cash and cash equivalents at start of year		2,541,211	2,497,436
Cash and cash equivalents at end of year	21	2,679,107	2,541,211

Company statement of cash flows

	Note	2018	2017
		KShs '000	KShs '000
Cash flow from operating activities			
Net cash used in operations	33(b)	(768,793)	(915,646)
Cash flows from investing activities			
Investment income		-	30
Dividends received		368,500	36,000
Purchase of property and equipment	12	(16,338)	(206)
Investment in subsidiaries	14	(881,138)	(121,792)
Net cash used in investing activities		(528,976)	(85,968)
Cash flow from financing activities			
Interest paid	23	(118,263)	(13,483)
Proceeds from borrowings	23	1,746,639	1,029,800
Net cash generated from financing activities		1,628,376	1,016,317
Increase in cash and cash equivalents		330,607	14,703
Cash and cash equivalents at start of year		26,362	11,659
Cash and cash equivalents at end of year	21	356,969	26,362

Notes

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, previously also provided 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. Summary of significant accounting policies

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

a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS) IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and the Kenyan Companies Act, 2015. The measurement basis used is the historical cost basis, except for the following items which are carried at fair value or valued using another measurement basis:

- Investment properties;
- Financial assets measured at fair value through profit or loss and at fair value through other comprehensive income; 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 statements 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 other 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 2 (cc).

b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following standards and amendments have been applied by the company for the first time for the financial year beginning 1 January 2018:

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. Prior to this the Group was using IAS 39. The Group did not early adopt any of the IFRS 9 provisions in previous periods.

Notes (continued)

2. Summary of significant accounting policies (continued)
b) Changes in accounting policy and disclosures (continued)
(i) New and amended standards adopted by the Group (continued)
IFRS 9 - Financial Instruments (continued)

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as *IFRS 7 'Financial Instruments: Disclosures'*

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and the new measurement categories under IFRS 9 are compared as follows:

Group:	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets			**KShs '000**	**KShs '000**
Equity investments – quoted	Fair value through profit or loss	Fair value through profit or loss	4,200,973	4,200,973
Equity investments – quoted	Available-for-sale	Fair value through profit or loss	691	691
Equity investments – unquoted	Available-for-sale	Fair value through other comprehensive income	104,102	104,102
Loans receivable	Loans and receivables	Amortised cost	758,234	627,086
Receivables arising out of direct insurance arrangements	Loans and receivables	Amortised cost	830,044	753,377
Rent and other receivables	Loans and receivables	Amortised cost	31,833	31,833
Government securities	Held to maturity	Fair value through profit or loss	9,443,228	9,074,266
Government securities	Fair value through profit or loss	Fair value through profit or loss	3,136,554	3,136,554
Corporate bonds and commercial paper	Fair value through profit or loss	Fair value through profit or loss	2,596,999	2,596,999
Corporate bonds	Held to maturity	Amortised cost	20,000	19,844
Deposits with financial institutions	Held to maturity	Fair value through profit or loss	2,161,434	2,103,566
Deposits with financial institutions	Held to maturity	Amortised cost	78,210	77,682
Cash and bank balances	Held to maturity	Amortised cost	301,567	297,143
Total financial assets			**23,663,869**	**23,024,116**

Notes (continued)

2. Summary of significant accounting policies (continued)
b) Changes in accounting policy and disclosures (continued)
(i) New and amended standards adopted by the Group (continued)
IFRS 9 - Financial Instruments (continued)

Company:	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets			**KShs '000**	**KShs '000**
Receivables and other financial assets	Loans and receivables	Amortised cost	173,287	173,287
Cash and bank balances	Held to maturity	Amortised cost	26,362	26,362
Total financial assets			**199,649**	**199,649**

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 as at 31 December 2017 to the new measurement categories under IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Re-classifications	Re-measurements	IFRS 9 carrying amount 1 January 2018
Financial assets at amortised cost	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Cash and balances				
Opening balances as per IAS 39	301,567	-	-	-
Remeasurement: ECL allowance	-	-	(4,424)	-
Closing balances as per IFRS 9	-	-	-	297,143
Deposits with financial institutions				
Opening balances as per IAS 39	2,239,644	-	-	-
Transfer to fair value through profit or loss	-	(2,161,434)		
Remeasurement: ECL allowance	-	-	(528)	-
Closing balances as per IFRS 9	-	-	-	77,682
Government securities				
Opening balances as per IAS 39	9,443,228	-	-	-
Transfer to fair value through profit or loss	-	(9,443,228)	-	-
Closing balances as per IFRS 9	-	-	-	-
Receivables arising out of direct insurance arrangements				
Opening balances as per IAS 39	830,044	-	-	-
Remeasurement: ECL allowance	-	-	(76,667)	-
Closing balances as per IFRS 9	-	-	-	753,377

Notes (continued)

2. Summary of significant accounting policies (continued)
b) Changes in accounting policy and disclosures (continued)
(i) New and amended standards adopted by the Group (continued)
IFRS 9 - Financial Instruments (continued)
(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount 31 December 2017	Re-classifications	Re-measurements	IFRS 9 carrying amount 1 January 2018
Corporate bonds	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Opening balances as per IAS 39	20,000	-	-	-
Remeasurement: ECL allowance	-	-	(156)	-
Closing balances as per IFRS 9	-	-	-	19,844
Loans receivable				
Opening balances as per IAS 39	758,234	-	-	-
Remeasurement: ECL allowance	-	-	(131,148)	-
Closing balances as per IFRS 9	-	-	-	627,086
Rent and other receivables				
Opening balances as per IAS 39 and closing balances as per IFRS 9	31,833	-	-	31,833
Total financial assets measured at amortised cost	**13,624,550**	**(11,604,622)**	**(212,923)**	**1,806,965**

Financial assets at fair value through profit or loss (FVTPL):				
Equity investments				
Opening balances as per IAS 39	4,200,973	-	-	-
Add: From Available for sale (IAS 39)	-	691	-	
Closing balances as per IFRS 9	-	-	-	4,201,664
Government securities				
Opening balances as per IAS 39	3,136,554	-	-	-
Transfer from financial assets at amortised cost	-	9,443,228		
Remeasurement from amortised cost to FV	-	-	(368,962)	-
Closing balances as per IFRS 9	-	-	-	12,210,820
Corporate bonds				
Opening balances as per IAS 39 and closing balances as per IFRS 9	2,596,999	-	-	2,596,999
Deposits with financial institutions				
Opening balances as per IAS 39	-	-	-	-
Transfer from amortised cost	-	2,161,434	-	-
Remeasurement: From amortised cost to FV	-	-	(57,868)	2,103,566
Total financial assets at FVTPL	**9,934,526**	**11,605,353**	**(426,830)**	**21,113,049**

Notes (continued)

2. Summary of significant accounting policies (continued)
b) Changes in accounting policy and disclosures (continued)
(i) New and amended standards adopted by the Group (continued)
IFRS 9 - Financial Instruments (continued)
(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount 31 December 2017	Re-classifications	Re-measurements	IFRS 9 carrying amount 1 January 2018
	KShs '000	KShs '000	KShs '000	KShs '000
Financial assets at fair value through other comprehensive income (FVOCI):				
Equity investments				
Opening balances as per IAS 39	-	-	-	-
Add: From Available-for sale (IAS 39)	-	104,102	-	-
Closing balances as per IFRS 9	-	-	-	-
Total financial assets at FVTOCI	**-**	**104,102**	**-**	**104,102**
Available for sale financial assets				
Equity investments				
Opening balances as per IAS 39	104,793	-	-	-
Subtract: To fair value through other comprehensive income	-	(104,102)	-	-
Subtract: To fair value through profit or loss	-	(691)	-	-
Closing balances as per IFRS 9	-	-	-	-
Total financial assets at AFS	**104,793**	**(104,793)**	**-**	**-**
Total financial assets	**23,663,869**	**-**	**(639,753)**	**23,024,116**

Company:

Financial assets at amortised cost				
Cash and balances				
Opening balances as per IAS 39 and	26,362	-	-	-
Closing balances as per IFRS 9	-	-	-	26,362
Receivables and other financial assets				
Opening balances as per IAS 39 and closing balances as per IFRS 9	173,287	-	-	173,287
Total financial assets measured at amortised cost	**13,624,550**	**(11,604,622)**	**(212,923)**	**1,806,965**

Notes (continued)

2. Summary of significant accounting policies (continued)
b) Changes in accounting policy and disclosures (continued)
(i) New and amended standards adopted by the Group (continued)
IFRS 9 - Financial Instruments (continued)
(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Financial asset	Impairment under IAS 39	Re-classifications	Re-measurements	Expected Credit Loss under IFRS 9
	KShs '000	KShs '000	KShs '000	KShs '000
Cash and bank balances	-	-	4,424	4,424
Deposits with financial institutions	-	-	528	528
Receivables arising from direct insurance arrangements	-	-	76,667	76,667
Loans receivable	-	-	131,148	131,148
Corporate bonds	-	-	156	156
Total	**-**	**-**	**212,923**	**212,923**

c) Summary of reclassification adjustment from between IAS 39 and IFRS 9

Below is a summary of the reclassification adjustment (from amortised cost to fair value through profit or loss) adjustment made on transition to IFRS 9

Financial asset	Re-measurements
	KShs '000
Deposits with financial institutions	57,868
Government securities at amortised cost	368,962
Total	**426,830**

Reclassification from retired categories with no change in measurement

In addition to the above, the following instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis:

- Mortgage and policy loans previously classified as loans and receivables and now classified as measured at amortised cost;
- Intercompany receivables and rent receivables previously classified as loans and receivables and now classified as measured at amortised cost; and
- Cash and bank balances previously classified as loans and receivables and now classified as measured at amortised cost.

The impact of the reclassifications and remeasurement following adoption of IFRS 9 on Group's retained earnings as at 1 January 2018 was KShs 639,753,000 (gross of tax) and nil for the and Company's retained earnings.

Notes (continued)

2. Summary of significant accounting policies (continued)
b) Changes in accounting policy and disclosures (continued)
(i) New and amended standards adopted by the Group (continued)

In addition to IFRS 9, the Group has also adopted the following standards and interpretations applicable for the first time to their annual reporting commencing 1 January 2018:

IFRS 15 Revenue from contracts with customers

The Group's revenue streams are: premium income, deposits administration contributions, commission income, investment income, rental income and other income.

The impact of IFRS 15 on the Group is insignificant as several of the Group's revenue streams are out of scope of IFRS 15. Premium income makes up the biggest portion of the Group's revenue income and falls under the scope of IFRS 4 Insurance Contracts. The portion of the Group's revenue that falls under IFRS 15 is on policy loan processing fees and refunds processing fee. These fees are charged as administrative charges for processing either a refund or a policy loan application in the life insurance business. They make up an insignificant amount of revenues for the Group per annum. This core principle of IFRS 15 is delivered in a five-step model framework:

- Identify the contract(s) with a customer: The fee is included in the policy document and the loan application form.
- Identify the performance obligations in the contract. This is included in the loan application form and policy document.
- Determine the transaction price – KShs 500 per transaction.
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized when the Group satisfies the performance obligation and transfers control of the services to the customer at the amount to which the company expects to be entitled and that is allocated to that specific performance obligation.

The Group applied the following standards and interpretations for the first time for their annual reporting period commencing 1 January 2018 and they did not have a significant impact on the financial statements:

Amendments to IAS 40 titled *Transfers of Investment Property*

These amendments, applicable to annual periods beginning on or after 1 January 2018 clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

IFRIC 22 titled Foreign Currency Transactions and Advance Consideration

The Interpretation, applicable to annual periods beginning on or after 1 January 2018 addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/ receipts are made. The guidance aims to reduce diversity in practice.

Annual improvements 2014-2016 cycle

These amendments impact IFRS 1,' First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10.

(ii) New and amended standards not yet adopted by the Group

The following standards and interpretations have been issued but were not mandatory for annual reporting periods ending 31 December 2018

IFRS 16 Leases

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. IFRS 16 effective date is 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period.

Notes (continued)

2. Summary of significant accounting policies (continued)
b) Changes in accounting policy and disclosures (continued)
(ii) New and amended standards not yet adopted by the Group (continued)
IFRS 17 Insurance Contracts (continued)

Contracts are measured using the building blocks of (i) discounted probability-weighted cash flows (ii) an explicit risk adjustment; and (iii) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IFRS 17 is effective from 1 January 2022. The Group has started preparing for the standard by reviewing the software systems capability in providing the necessary data requirement as will be needed to fulfil the accounting standard requirements. Detailed data review and enhancement has also started. The quantitative impact of adopting IFRS 17 is expected to be material, however, this is yet to be determined.

Interpretation 23 Uncertainty over Income Tax Treatments – effective 1 January 2022

The interpretation explains how to recognise, and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a Company, depending on which approach better predicts the resolution of the uncertainty;
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities.

The narrow-scope amendment covers two issues:

- The amendments allow companies to measure particular pre-payable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss.
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This have had insignificant impact on the company. It is effective 1 January 2019.

Annual Improvements to IFRS Standards 2015-2017 Cycle - effective 1 January 2019

The following improvements were finalised in December 2017:

- IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

Notes (continued)

2. Summary of significant accounting policies (continued)
b) Changes in accounting policy and disclosures (continued)
(i) New and amended standards adopted by the Group (continued)
Annual Improvements to IFRS Standards 2015-2017 Cycle - effective 1 January 2019 (continued)

The Directors do not plan to apply the above standards, until they become effective. Based on their assessment of the potential impact of application of the above, only IFRS 16 and 17 are expected to have a significant impact on the Group's financial statements.

There are no other standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on near future transactions.

c) Consolidation

The consolidation of financial statements comprises the financial statements of the Group and its subsidiaries as at 31 December 2018.

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

- The contractual arrangement with the other vote holders of the entity;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets and liabilities are included from the date of acquisition to the date of sale in the statement of financial position while income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and the non-controlling interests, even if these results in the non-controlling interest have a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. This is by adjusting the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary.

If the group loses control over the subsidiary it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Any losses within a subsidiary which are attributed to the non-controlling interest are recognised as such even if this results in a deficit balance.

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

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

Notes (continued)

2. Summary of significant accounting policies (continued)
c) Consolidation (continued)

ii) Associates

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence, and which is neither a subsidiary nor a joint arrangement.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity, either directly or through other comprehensive income. Profits or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of the associate is shown on the face of the statement of profit or loss. This is profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates after factoring in other comprehensive profit/(loss).

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring its accounting policies in line with the Group's. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associates. The Group determines at each reporting date, whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. Any interest in the equity of the associate that was recorded directly in other comprehensive income of the investor is recycled to the profit or loss and is included in the calculation of the gain or loss on disposal.

Subsidiaries and associates are stated at cost in the separate financial statements of the Company.

d) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured on acquisition date at fair value and the amount of any non-controlling interests in the acquiree. The Group's identifiable assets and liabilities are measured at their acquisition-date fair value.

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's net identifiable assets. Non-controlling interests that are not present ownership interests are measured at fair value. This accounting policy choice can be made on an individual business combination basis.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the amount recognised for non-controlling interests, and any previous interest held, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Notes (continued)

2. Summary of significant accounting policies (continued)
d) Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the of the acquiree are assigned to those units.

e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

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.

An operating segment may engage in business activities for which it is 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 is 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 reinsurance 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 to be provided in future periods, then they are deferred and recognised over those future periods.

iv) Investment income

Investment income comprise of interest income, rental income and dividends.

- 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

Notes (continued)

2. Summary of significant accounting policies (continued)
f) Revenue recognition (continued)
iv) Investment income (continued)

of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

- 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.

- 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 include 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.

Claims incurred for general business comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of setting all claims arising from incidents occurring prior to the reporting date, but not settled at that date.

Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

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 are 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) 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

j) 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.

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.

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.

When 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.

k) Investment properties

Investment property is property held to earn rentals and/or for capital appreciation or both. Investment property, including interest in leasehold land, is initially recognised at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the reporting date determined by annual valuations carried out by external valuers. Gains or losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

When the Group can reliably determine the fair value of a self-constructed investment property under construction or development, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

The difference between the carrying value and the fair value of the properties at the date of reclassification to investment properties is recognised in the statement of profit or loss.

When the Group can reliably determine the fair value of a self-constructed investment property under construction or development, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

The difference between the carrying value and the fair value of the properties at the date of reclassification to investment properties is recognised in the statement of profit or loss.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to profit or loss.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

l) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated

Notes (continued)

2. Summary of significant accounting policies (continued)

l) Intangible assets (continued)

amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight-line method to write down the cost of each licence or item of software over its estimated useful life (three to five years).

Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, even when idle. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of profit or loss in the year in which the expenditure is incurred.

Software under implementation is recognised as work in progress at historical costs less any accumulated impairment loss. The cost of such software includes professional fees and costs directly attributable to the software. The software is not amortised until it is ready for the intended use.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

m) 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.

n) Financial assets

i) Classification

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depends on:

(i) the Group's business model for managing the financial assets; and

(ii) the cash flow characteristics of the asset.

Notes (continued)

2. Summary of significant accounting policies (continued)
n) Financial assets (continued)
iii) Measurement (continued)
Debt instruments (continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/ (losses) in the period in which it arises.

Business model: the business model reflected how the Group manages the assets in order to generate cash flows i.e. whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flow represent solely payments of principal and interest ('SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings. Dividends earned are recognised in the profit or loss statement and are included in the 'investment income' line item.

Changes in the fair value of financial assets at FVPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

iv) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchanges (NSE, USE). The quoted market price used for financial assets held by the Group is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

Notes (continued)

2. Summary of significant accounting policies (continued)
n) Financial assets (continued)
iv) Determination of fair value (continued)

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from 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).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Group at the end of the reporting period during which the change occurred.

v) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- Government securities measured at amortised cost
- Receivables arising from direct insurance arrangements
- Rent and other receivables;
- Mortgage and policy loans;
- Corporate bonds at amortised cost;
- Deposits with financial institutions at amortised cost; and
- Cash and bank balances.

No impairment loss is recognised on equity investments and financial assets measured at FVPL.

The Group recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Group will consider a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in government securities; and

- Other financial instruments (other than trade and lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for premium and rent receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

- incorporating forward-looking information into the measurement of ECLs.

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;

- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset.

Notes (continued)

2. Summary of significant accounting policies (continued)
n) Financial assets (continued)
V) Impairment (continued)

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, the Group follows one of the approaches below:

- The general approach
- The simplified approach

The Group will apply the approaches below to each of its assets subject to impairment under IFRS 9:

Financial Asset	Impairment approach
Loans (mortgage and policy loans)	General approach
Receivables arising out of direct insurance arrangements	Simplified approach
Rent and inter-company receivables	General approach
Corporate bonds at amortised cost	General approach
Deposits with financial institutions at amortised cost	General approach
Cash and bank balances	General approach

The General Approach

Under the general approach, at each reporting date, the Group determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Group will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Group will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Group will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

The Simplified approach

Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

Definition of default

The Group will consider a financial asset to be in default when:

- the counterparty or borrower is unlikely to pay their credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

- the counterparty or borrower is more than 90 days past due on any material credit obligation to the Group. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Group; or

In assessing whether the counterparty or borrower is in default, the Group considers indicators that are:

- Qualitative: e.g. Breach of covenant and other indicators of financial distress;

- Quantitative: e.g. Overdue status and non-payment of another obligation of the same issuer to the Group; and

- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

Notes (continued)

2. Summary of significant accounting policies (continued)
n) Financial assets (continued)
V) Impairment (continued)
Significant increase in credit risk (SIICR) (continued)

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and monetary authorities.

The base case represents a best estimate and is aligned with information used by the Group for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Group also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

<u>Measurement of ECL</u>

The key inputs into the measurement of ECL are the term structures of the following variables (i)Probability of Default; (ii) Loss given default (LGD); and (iii) Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Group uses internally developed PD tables based on the default history of obligors with the same credit rating. The Group adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings (see (i)).The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information as described above. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-¬value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include: instrument type; credit risk grading; collateral type; date of initial recognition; remaining term to maturity; industry; and geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Notes (continued)

2. Summary of significant accounting policies (continued)
n) Financial assets (continued)
V) Impairment (continued)

Measurement of ECL (continued)

When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Group uses to derive the default rates of its portfolios. This includes the PDs provided by rating agencies.

Insurance receivables

The ECL of operating insurance receivables are determined at using a provision matrix. Loss rates are calculated with reference to days past due and actual credit loss experience over the past few years.

vi) Modification of contracts

The Group rarely renegotiates or otherwise modifies the contractual cash flows of securities. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the counterparty is in financial difficulty;
- Whether any substantial new terms are introduced that affect the risk profile of the instrument;
- Significant extension of the contract term when the borrower is not in financial difficulty;
- Significant change in interest rate;
- Change in the currency the security is denominated in;or
- Inclusion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered the date of initial recognition for impairment calculation purposes, including the purpose of determining whether a SICR has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

vii) Write off policy

The Group writes off financial assets, in whole or in part when it has exhausted all practical recovery effort and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity; and (ii) the Group is foreclosing on collateral and the value of the collateral is such as there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was KShs Nil (2017: Nil). The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery

viii) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 31 December 2017, the Group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and

Notes (continued)

2. Summary of significant accounting policies (continued)
n) Financial assets (continued)
Viii) Accounting policies applied until 31 December 2017 (continued)
Reclassification (continued)

receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9. Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- for financial assets at FVPL – in profit or loss within other gains/(losses).
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income.
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and losses from investment securities.

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

o) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Group operates), which is Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the reporting date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the statement of profit or loss in the year in which they arise, except for differences arising on translation of non-monetary financial assets (previously classified as available-for-sale under IAS 39), which are recognised in other comprehensive income.

p) Accounting for leases

Finance leases as the lessee

Leases of property and equipment including hire purchase contracts where the Group assumes substantially all the risks and rewards incident to ownership and are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease.

The finance cost is charged to the statement of profit or loss in the year in which it is incurred. Property and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Operating leases

Leases where the Group (as lessor) does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Leases of assets (Group as lessee) where a significant proportion of the risks and rewards of ownership are retained by the lessor are also classified as operating leases.

Notes (continued)

2. Summary of significant accounting policies (continued)
p) Accounting for leases (continued)
Operating leases (continued)

Payments made/received under operating leases are charged/credited to the statement of profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals paid are recognised as assets and are subsequently amortised over the lease period. If a prepayment is received, it is recognised as a liability and subsequently amortised over the lease period. 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 took place.

q) 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.

r) 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, with the impairment loss determined using the expected credit loss model, recorded in the statement of profit or loss. Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in (n) (ii) have been met.

s) Insurance liabilities

Insurance contract liabilities (including investment contracts with discretionary participation features) are reported gross of reinsurance assets. Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the Gross Premium Valuation method in accordance with the Insurance Act and related guidelines. 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.

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 uses the 1/365 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, Bornhuetter Ferguson and Standard development methods. 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(present value insurance in force) and DAC (deferred acquisition cost – refer to accounting policy x), by using an existing liability adequacy test as laid out under the Kenyan Insurance Act.

t) 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

Notes (continued)

2. Summary of significant accounting policies (continued)
t) Employee entitlements (continued)
ii) Cash settled non-share entitlements (continued)

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 incurred.

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.

u) Other financial liabilities and insurance payables

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, 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.

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.

v) Income tax expense

Income tax expense is the aggregate amount charged/ (credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the statement of profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred income tax

Deferred income tax is provided on temporary differences except those arising on the initial recognition of goodwill, the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is determined using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the reporting date and expected to apply when the related deferred income tax asset is realised, or the deferred tax liability is settled.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The accounting of deferred tax movements is driven by the accounting treatment of the underlying transaction that lead to the temporary differences. Deferred tax relating to items recorded in profit or loss is recognised in profit or loss, while deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss in other comprehensive

Notes (continued)

2. Summary of significant accounting policies (continued)
v) Income tax expense (continued)
Deferred income tax (continued)

income or equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

Value added taxes and premium taxes

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

- when the value added taxes or premium tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added 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 value added taxes or premium tax included.

Outstanding net amounts of value added taxes 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.

w) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Dividends for the year that are approved after the reporting date are dealt with as a non-adjusting event after the reporting date.

x) 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.

y) Expenses

Expenses are recognised in the statement of profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably and is independent from transactions with equity participants. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

i) When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognised in the statement of profit or loss on the basis of systematic and rational allocation procedures. This is often necessary in recognising the equipment associated with the using up of assets such as property, plant and equipment in such cases the expense is referred to as a depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

ii) An expense is recognised immediately in the statement of profit or loss when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

z) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If

Notes (continued)

2. Summary of significant accounting policies (continued)
z) Impairment of non-financial assets (continued)

such indication exists, the Group makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

The recoverable amount for the life insurance business has been determined based on a fair value less costs to sell calculation. The calculation requires the Group to make an estimate of the total of the adjusted net worth of the life insurance business plus the value of in-force covered business. New business contribution represents the present value of projected future distributable profits generated from business written in a period. Growth and discount rates used are suitable rates which reflect the risks of the underlying cash flows.

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired

Associates

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investments in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate less costs to sell and the carrying value and recognises this amount in the statement of profit or loss.

a) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounting using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

b) Cash and cash equivalents

Cash and cash equivalents include cash in hand and on demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, 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 and cash equivalent as defined above, net of outstanding bank overdrafts.

c) Significant judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the Group, the directors make certain judgements and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

i) **Significant judgements made in applying the Group's accounting policies:**

The judgements made by the directors in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

Notes (continued)

2. Summary of significant accounting policies (continued)
cc) Significant judgements and key sources of estimation uncertainty (continued)
i) Significant judgements made in applying the Group's accounting policies: (continued)

a. Whether it is probable that that future taxable profits will be available against which temporary differences can be utilised; and

b. Whether the Group has control over investee in view of the criteria set out under IFRS 10.

These are;
- power over 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 the amount of the investor's returns

In the process of applying the Group's accounting policies, management has made judgements in determining:

(a) The classification of financial assets and leases
(b) Classification of contracts as insurance or investments contracts
(c) Whether assets are impaired.
(d) Whether land and buildings meet the criteria to be classified as investment property.

ii) Key sources of estimation uncertainty

a) Valuation of insurance contract liabilities

Critical assumptions are made by the actuary in determining the present value of actuarial liabilities. These assumptions are set out in accounting policy (s) above and in 5(a) of the embedded value report. The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group base mortality and morbidity on standard industry and Kenya's mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

b) Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in accounting policy (j) above.

c) Impairment losses

Estimates made in determining the impairment losses on amortised cost financial assets. Such estimates include the determination the recoverable amount of the asset.

d) Income taxes

The Group is subject to income taxes under the Kenya Income Tax Act. Estimates are required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and the deferred tax provisions in the period in which such determination is made.

dd) Events after the reporting date.

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

ee) Share capital and share premium.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Incremental costs attributable to the issue or cancellation of equity instruments are recognised directly in equity, net of tax if applicable.

Notes (continued)

2. Summary of significant accounting policies (continued)

ff) Statutory fund - Life business

The Group matches the assets to liabilities, after which there is a surplus/deficit that is transferred to the statutory fund. The Insurance Act regulations stipulate that only a maximum 30% of this can be transferred to the shareholders. The statutory actuary advices on the amount to be transferred to the shareholders. When a transfer is made to the shareholders, tax at the prevailing corporation rate 2018: 30% (2017:30%) is incurred.

gg) Contingent consideration on

In 2018 the Group completed the transfer of AUM from Sanlam Investments Limited to Sanlam Investments East Africa Limited for which a consideration of KShs 54,000,000 was received (out of which KShs 12,000,000 is a deferred contingent consideration to be paid on the 16th April 2019. The receipt of the income will only be certain after the lapse of the 12 month warranty period and the Group has therefore not recognised this income in the current reporting period.

3. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee that makes strategic decisions. Executive Committee is appointed by the Board of Directors. It consists of the Group Chief operating decision maker (Chief Executive Officer (CEO)) and all the positions that directly report to the CEO.

An operating segment is a component of an entity:

- 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),
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assets its performance, and;
- for which discrete financial information is available.

An operating segment may engage in business activities for which it is yet to earn revenues.

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

  (ii) 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
  (ii) 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 and has 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.

Notes (continued)

3. Segment information (continued)

Segment statement of comprehensive income for the year ended 31 December 2018

	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	2,521,027	1,789,901	2,034,897	-	-	6,345,825
Premiums ceded to reinsurers	(30,582)	(343,845)	(599,590)	-	-	(974,017)
Net premium Income	2,490,445	1,446,056	1,435,307	-	-	5,371,808
Fee and commission income	9,065	113,481	145,464	-	-	268,010
Investment income	887,398	1,195,662	116,620	8,926	(24,838)	2,183,768
Fair value (losses)/gains	(1,515,000)	398,098	45,535	(912,214)	-	(1,983,581)
Impairment of financial assets	-	(3,333)	(9,462)	-	-	(12,795)
Other operating revenue	1,192	-	-	96,184	(11,162)	86,214
Total other revenue	(617,345)	1,703,908	298,157	(807,104)	(36,000)	541,616
Total revenue	1,873,100	3,149,964	1,733,464	(807,104)	(36,000)	5,913,424
Gross benefits and claims paid	(2,476,047)	(1,834,721)	(1,234,054)	-	-	(5,544,822)
Claims ceded to reinsurers	14,860	144,539	500,915	-	-	660,314
Gross change in insurance contract liabilities	(552,034)	(919,470)	-	-	-	(1,471,504)
Gross change in investment contract liabilities	1,227,696	-	-	-	-	1,227,696
Change in contract liabilities ceded to reinsurers	-	4,134	-	-	-	4,134
Net benefits and claims	(1,785,525)	(2,605,518)	(733,139)	-	-	(5,124,182)
Depreciation and amortization	(51,244)	-	(13,338)	(1,905)	-	(66,487)
Interest expense	(73,600)	-	-	(118,263)	-	(191,863)
Other operating and administrative expenses	(993,306)	(366,500)	(793,365)	(514,876)	7,655	(2,660,392)
Total benefits, claims and other expenses	(2,903,675)	(2,972,018)	(1,539,842)	(635,044)	7,655	(8,042,924)
(Loss)/profit before share of profit of associate	(1,030,575)	177,946	193,622	(1,442,148)	(28,345)	(2,129,500)
Share of profit of associate	-	-	-	-	314	314
(Loss)/profit before tax	(1,030,575)	177,946	193,403	(1,442,148)	(28,031)	(2,129,186)
Income tax credit/(expense)	273,129	(47,160)	(77,320)	1,111	-	149,760
(Loss)/profit for the year	(757,446)	130,786	116,302	(1,441,037)	(28,031)	(1,979,426)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive (loss)/ income	(757,446)	130,786	116,302	(1,441,037)	(28.031)	(1,979,426)

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 368,500,000 relates to the elimination of dividend income from Sanlam Securities Limited to Sanlam Kenya Plc.

Notes (continued)

3. Segment information (continued)

Segment statement of comprehensive income for the year ended 31 December 2017

	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	2,553,922	1,773,010	2,042,915	-	-	6,369,847
Premiums ceded to reinsurers	(27,287)	(372,037)	(554,308)	-	-	(953,632)
Net premium Income	2,526,635	1,400,973	1,488,607	-	-	5,416,215
Fee and commission income	26,081	91,078	133,096	113,366	(63,529)	300,092
Investment income	1,037,829	1,123,694	57,396	2,862	63,529	2,285,310
Fair value gains/(losses)	553,661	-	4,723	(189,433)	-	368,951
Impairment of financial assets	(1,125,243)	-	-	-	-	(1,125,243)
Other operating revenue	2,714	-	(646)	163,368	(36,000)	129,436
Total other revenue	495,042	1,214,772	194,569	90,163	(36,000)	1,958,546
Total revenue	3,021,677	2,615,745	1,683,176	90,163	(36,000)	7,374,761
Gross benefits and claims paid	(2,310,938)	(1,854,815)	(1,242,631)	-	-	(5,408,384)
Claims ceded to reinsurers	12,544	117,493	453,284	-	-	583,321
Gross change in insurance contract liabilities	654,164	(1,488,150)	24,921	-	-	(809,065)
Gross change in investment contract liabilities	1,085,819	-	-	-	-	1,085,819
Change in contract liabilities ceded to reinsurers	-	19,276	(5,449)	-	-	13,827
Net benefits and claims	(558,411)	(3,206,196)	(769,875)	-	-	(4,534,482)
Depreciation and amortization	(49,326)	-	(14,191)	(2,968)		(66,485)
Interest expense	-	-	-	(941)	-	(941)
Other operating and administrative expenses	(943,957)	(402,325)	(796,741)	(437,365)	58,600	(2,521,788)
Total benefits, claims and other expenses	(1,551,694)	(3,608,521)	(1,580,807)	(441,274)	58,600	(7,123,696)
Profit before share of profit of associate	1,469,983	(992,776)	102,369	(351,111)	22,600	251,065
Share of loss of associate	-	-	-	-	(4,107)	(4,107)
Profit before tax	1,469,983	(992,776)	102,369	(351,111)	18,493	246,958
Income tax expense	(522,250)	352,709	(33,669)	9,297	-	(193,913)
Profit for the year	947,733	(640,067)	68,700	(341,814)	18,493	53,045
Other comprehensive income	-	-	140	-	-	140
Total comprehensive income	947,733	(640,067)	68,840	(341,814)	18,493	53,185

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 36,000,000 relates to the elimination of dividend income from Sanlam Investments Limited to Sanlam Kenya Plc while the KShs 58,600,000 adjustment relates to reversal of impairment in investments in subsidiaries recorded in Sanlam Securities.

Notes (continued)

3. Segment information (continued)

Segment statement of financial position

At 31 December 2018:	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	83,670	-	15,051	-	-	98,721
Property and equipment	150,510	-	59,996	22,008	-	232,514
Investment properties	2,924,000	-	516,700	-	-	3,440,700
Equity accounted investments	-	-	-	4,863	12,916	17,779
Investments in subsidiaries	-	-	-	2,287,020	(2,287,020)	-
Financial instruments	9,521,464	9,858,204	1,136,483	775,333	-	21,291,484
Long term reinsurance assets	-	157,706	661,670	-	-	819,376
Land and development	-	-	-	109,189	-	109,189
Insurance receivables	123,463	111,825	608,553	-	-	843,841
Other assets	614,385	778,948	530,253	815,865	(491,425)	2,248,026
Total assets	13,417,492	10,906,683	3,528,706	4,014,278	(2,765,529)	29,101,630
Liabilities						
borrowings	720,052	-	-	2,777,380	-	3,497,432
Insurance contracts liabilities	2,698,186	10,896,410	1,222,051	-	-	14,816,647
Investment contract liabilities	5,340,462	-	-	-	-	5,340,462
Deposit administration contracts	1,107,372	-	-	-	-	1,107,372
Other non-current liabilities	360,397	-	-	-	-	360,397
Other liabilities	1,085,286	5,639	1,265,907	523,627	(488,177)	2,392,282
Total liabilities	11,311,755	10,902,049	2,487,958	3,301,007	(488,177)	27,514,592
Net assets	2,105,737	4,634	1,040,748	713,271	(2,277,352)	1,587,038

Other segment reporting disclosures

For the year ended 31 December 2018	Ordinary life	Super annuation	General Business	Investments	Consolidation adjustment	Group
	KShs.'000	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Additions to non-current assets	376,093	-	48,678	16,338	-	441,109
Interest and dividend income	887,428	1,195,662	116,620	8,926	(24,838)	2,183,767
Interest expense	70,014	-	-	118,263	-	188,277
Depreciation and amortisation	51,244	-	13,338	1,903	-	66,485

Notes (continued)

3. Segment information (continued)

Segment statement of financial position

At 31 December 2017:	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	86,179	-	20,279	2,577	-	109,035
Property and equipment	126,521	-	19,123	11,716	-	157,360
Investment properties	2,664,000	-	516,700	-	-	3,180,700
Equity accounted investments	-	-	-	4,861	12,602	17,463
Investments in subsidiaries	-	-	-	1,465,396	(1,465,396)	-
Financial instruments	8,989,544	9,199,300	513,704	800,000	-	19,502,548
Long term reinsurance assets	-	153,572	479,654	-	-	633,226
Land and development	-	-	-	118,734	-	118,734
Insurance receivables	139,219	69,845	620,980	-	-	830,044
Other assets	3,159,807	323,586	998,585	1,375,938	(595,542)	5,262,374
Total assets	15,165,270	9,746,303	3,169,025	3,779,222	(2,048,336)	29,811,484
Liabilities						
borrowings	-	-	-	1,030,741	-	1,030,741
Insurance contracts liabilities	8,122,471	4,000,620	1,438,092	-	-	13,561,183
Investment contract liabilities	3,113,077	3,455,081	-	-	-	6,568,158
Deposit administration contracts	1,433,027	-	-	-	-	1,433,027
Other non-current liabilities	747,449	-	-	-	-	747,449
Other liabilities	2,485,847	(846,174)	964,053	410,792	(595,542)	2,195,239
Total liabilities	15,901,871	6,609,527	2,402,145	1,441,533	(595,542)	25,759,534
Net assets	(736,601)	3,136,776	766,880	2,337,689	(1,452,794)	4,051,950

Other segment reporting disclosures

For the year ended 31 December 2017	Ordinary life	Super annuation	General Business	Investments	Consolidation adjustment	Group
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Additions to non-current assets	864,110	-	18,318	-	-	882,428
Interest and dividend income	999,389	1,123,694	61,472	60,685	-	2,245,240
Interest expense	-	-	-	-	-	-
Depreciation and amortisation	49,326	-	10,283	2,457	-	62,066

Notes (continued)

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	2018	2017
	KShs '000	KShs '000
New business: Recurring		
Individual life	376,458	394,931
Group business	173,180	493,182
New business: Single premiums		
Group business	1,101,048	892,506
Total new business	**1,650,686**	**1,780,619**
Renewal recurring		
Individual life	2,144,569	2,158,991
Group business	515,673	387,322
Total renewal premium income	**2,660,242**	**2,546,313**
Total long-term business gross premium income	**4,310,928**	**4,326,932**

ii) General insurance business		
Class of business		
Engineering	33,446	18,718
Fire domestic	40,471	12,169
Fire industrial	135,486	103,738
Liability	77,754	61,907
Marine	23,109	38,576
Motor private	430,096	425,522
Motor commercial	353,016	283,460
Motor PSV	95,125	131,069
Personal accident	15,796	21,568
Medical	622,509	808,469
Theft	78,582	60,501
Workmen compensation	76,030	50,963
Miscellaneous	53,477	26,255
Total general business gross premium income	**2,034,897**	**2,042,915**
Total group gross premium income	**6,345,825**	**6,369,847**

Notes (continued)

4. 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;

	2018	2017
	KShs '000	KShs '000
Long term insurance business		
Ordinary life	30,582	27,287
Super-annuation	343,845	372,037
General insurance business	599,590	554,308
Total premiums ceded to reinsurers	**974,017**	**953,632**

5. Fee and commission income

Fees	-	49,837
Commission income	268,010	250,255
	268,010	**300,092**

6. a) Investment income

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
Rental income:				
Gross rental income	91,113	82,289	-	-
Net rental expenses	(77,495)	(42,219)	-	-
	13,618	40,070	-	-
Interest income on:				
- Financial assets designated at fair value through profit or loss	1,888,975	780,707	-	-
- Financial assets at amortised cost	93,830	1,142,676	-	-
- Loans to related parties	-	13,483	-	-
- Loans and receivables	70,770	153,667	-	-
- Cash and cash equivalents	23,805	36,244	-	-
Dividend income	92,769	118,463	332,500	-
Total investment income	2,183,767	2,285,310	332,500	-

Notes (continued)

6. b) Fair value (losses)/gains

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
Fair value (losses)/gains on investment properties (Note 13)	(43,371)	176,749	-	-
Fair value losses on financial assets at fair value through profit or loss	(1,940,210)	(886,701)	(533,547)	-
Total fair value losses	(1,983,581)	(709,952)	(533,547)	-

6. c) Impairment of financial assets

Impairment is reported as a deduction from the carrying value of the investments measured at amortised cost and recognized in the statement of profit or loss as 'Impairment of financial assets'.

The impaired amount recognized below relates to corporate bonds of KShs. 543,009,000 and KShs. 3,333,000 on mortgage loans. The 2017 impairment relates to both corporate bonds and deposits with financial institutions (measured at amortised cost until 31 December 2017).

	Group	
	2018	2017
	KShs.'000	KShs.'000
Net impairment losses on:		
- Mortgage loans measured at amortised cost	3,333	46,340
- Corporate bonds measured at amortised cost	9,462	-
	12,795	46,340

6. d) Other operating revenue and expenses

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
Plot sales	33,000	31,700	33,000	31,700
Other income	53,214	97,736	(14,063)	119,221
Total other income	86,214	129,436	18,937	150,921

Notes (continued)

7. Details of expenses

a) Benefits and claims	Group	
	2018	2017
Gross benefits and claims paid	**KShs '000**	**KShs '000**
Long term insurance contracts with fixed and guaranteed terms		
- Death and disability claims	961,593	1,033,970
- Maturity and survival benefits	1,797,905	1,687,397
- Policy surrenders	600,721	531,710
- Annuities	950,549	912,676
General insurance business claims	1,234,054	1,242,631
Gross benefits and claims paid	5,544,822	5,408,384
Claims ceded to reinsurers	(660,314)	(583,321)
Gross change in actuarial value of insurance contract liabilities	1,471,504	809,065
Gross change in actuarial value of investment contract liabilities	(1,227,696)	(1,085,819)
Change in contract liabilities ceded to reinsurers	(4,134)	(13,827)
Net benefits and claims	5,124,182	4,534,482

b) Fee and commission expense	Group	
	2018	2017
	KShs.'000	KShs.'000
Payable to agents	320,541	343,709
Payable to brokers and other intermediaries	394,593	391,441
Fee and commission expense	715,134	735,150

c) Cost of sales - land	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
Construction	9,194	7,018	9,194	7,018
Land	351	2,132	351	2,132
Legal costs	2,152	1,313	2,152	1,313
	11,697	10,463	11,697	10,463

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

Notes (continued)

8. Operating expenses

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
Other operating charges include:				
Staff costs (Note 9)	942,808	746,366	217,979	193,026
Amortisation (Note 11(a))	20,897	22,388	-	-
Depreciation (Note 12)	45,588	44,747	1,905	2,457
Fees for managerial and administrative services:			-	
Auditors remuneration	13,865	11,712	4,042	2,095
Tax audit fees	8,977	8,883	800	1,780
Legal fees	40,461	27,081	14,034	2,807
Actuarial fees	6,301	4,919	-	-
Premium tax and stamp duty	52,268	49,943	-	-
Premium collection charges	39,179	68,623	-	-
Advertising	98,295	57,645	10,077	-
Office rent	92,857	93,952	5,022	3,846
Repairs and maintenance	8,666	11,241	1,586	1,173
Other expenses	629,885	696,101	42,522	27,899
Total operating expenses	2,000,047	1,843,601	297,967	235,083

9. Staff costs

	Group		Company	
	2018	2017	2018	2017
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Staff costs include the following:			11,086	
Defined contribution pension costs	63,159	56,133	31	16,134
Social security benefit costs	435	747	206,862	116
Salaries and other short-term benefits	879,214	675,486	-	165,776
Long term incentive costs	-	14,000	11,086	11,000
	942,808	746,366	217,979	193,026

Notes (continued)

10. Income tax expense

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
Statement of profit or loss				
Current year tax charge	97,605	60,874	-	-
Deferred income tax (credit)/ charge (Note 27)	(276,509)	133,039	(33,517)	(23,985)
Capital gains tax	29,144	-	-	-
Current year tax (credit)/charge	(149,760)	193,913	(33,517)	(23,985)
Reconciliation of income tax expense to tax based on accounting profit: -				
Profit before income tax	(2,129,186)	246,958	(669,551)	(94,625)
Tax calculated at a statutory rate of 30%	(638,756)	74,087	(200,865)	(28,388)
Tax effect of:				
Income not subject to tax	297,106	(43,599)	99,750	(6,397)
Expenses not deductible for tax	191,890	163,325	67,598	10,800
Income tax (credit)/expense	(149,760)	193,913	(33,517)	(23,985)
Statement of financial position:				
At start of the year:	(210,590)	56,916	15,423	15,423
Instalment tax paid	313,214	33,477	-	-
Over-provision from prior years	-	-	-	-
Current income tax charge	(97,605)	(60,874)	-	-
Transfer from deferred tax on life fund surplus	-	(240,109)	-	-
	5,019	(210,590)	15,423	15,423
At the end of the year:				
Assets				
Current income tax	52,341	20,094	15,423	15,423
Deferred income tax (Note 27)	236,551	192,843	82,385	48,868
	288,892	212,937	97,808	64,291
Liabilities				
Current income tax	(47,322)	(230,684)	-	-
Deferred income tax (Note 27)	(360,397)	(747,449)	-	-
	(407,719)	(978,133)	-	-

Notes (continued)

11. (a) Group intangible assets - software

Year ended 31 December 2018	Software
	KShs '000
Cost:	
At 1 January	206,091
Additions	13,160
Disposal	(5,141)
At 31 December	214,110
Amortisation	
At start of year	(97,056)
Disposal	2,564
Charge for the year	(20,897)
At 31 December	(115,389)
Carrying amount	
At 31 December	98,721

Year ended 31 December 2017	Software
	KShs.'000
Cost:	
At 1 January	189,843
Additions	16,248
At 31 December	206,091
Amortisation	
At start of year	(73,182)
Charge for the year	(23,874)
At 31 December	(97,056)
Carrying amount	
At 31 December	109,035

Notes (continued)

11. (b) Goodwill on business combinations

	2018	2017
	KShs '000	KShs '000
Goodwill on acquisition of Sanlam General Insurance	564,080	564,080
Provision for impairment	(564,080)	(564,080)
	-	-

On 1 March 2015, the Group completed a part acquisition of Sanlam General Insurance Limited ("formerly Gateway Insurance Limited" or "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

The Group tests whether intangible assets (being goodwill and acquisition-related intangible assets) have suffered any impairment. The recoverable amounts of cash-generating units are 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.

The annual impairment tests carried out by the Group in 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).

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.

Notes (continued)

12. (a) Group property and equipment

Year ended 31 December 2018	Motor vehicles	Computer equipment	Furniture and equipment	Work in progress	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Cost					
At 1 January	24,284	204,306	350,627	-	579,217
Additions	1,194	49,369	16,325	57,690	124,578
Disposals	(12,385)	(6,845)	(9,211)	-	(28,441)
At 31 December	13,093	246,830	357,741	57,690	675,354
Depreciation					
At 1 January	(15,159)	(189,225)	(217,472)	-	(421,856)
Disposals	12,120	(10,883)	23,367	-	24,604
Charge for the year	(2,608)	(14,648)	(28,332)	-	(45,588)
At 31 December	(5,647)	(214,756)	(222,437)	-	(442,840)
Carrying amount					
At 1 January	9,125	15,081	133,155	-	157,361
At 31 December	7,446	32,074	135,304	57,690	232,514

Year ended 31 December 2017	Motor vehicles	Computer equipment	Furniture and equipment	Work in progress	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Cost					
At 1 January	15,596	195,445	344,980	-	556,021
Additions	10,430	8,861	5,746	-	25,037
Disposals	(1,742)	-	(99)	-	(1,841)
At 31 December	24,284	204,306	350,627	-	579,217
	24,284				
Depreciation					
At 1 January	(15,596)	(177,919)	(185,435)	-	(378,950)
Disposals	1,742	-	99	-	1,841
Charge for the year	(1,305)	(11,306)	(32,136)	-	(44,747)
At 31 December	(15,159)	(189,225)	(217,472)	-	(421,856)
Carrying amount					
At 1 January	-	17,526	159,545	-	177,071
At 31 December	9,125	15,081	133,155	-	157,361

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.

Notes (continued)

12. (b) Company property and equipment

Year ended 31 December 2018	Computer equipment	Furniture and equipment	Work in progress	Total
	KShs '000	KShs '000	KShs '000	KShs '000
Cost				
At 1 January	3,018	18,846	-	21,864
Additions	283	-	16,055	16,338
At 31 December	3,301	18,846	16,055	38,202
Depreciation				
At 1 January	(1,775)	(12,514)	-	(14,289)
Charge for the year	(322)	(1,583)	-	(1,905)
At 31 December	(2,097)	(14,097)	-	(16,194)
Carrying amount				
At 31 December	1,204	4,749	16,055	22,008

Year ended 31 December 2017	Computer equipment	Furniture and equipment	Work in progress	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Cost				
At 1 January	2,812	18,846	-	21,658
Additions	206	-	-	206
At 31 December	3,018	18,846	-	21,864
Depreciation				
At 1 January	(1,429)	(10,403)	-	(11,832)
Charge for the year	(346)	(2,111)	-	(2,457)
At 31 December	(1,775)	(12,514)	-	(14,289)
Carrying amount				
At 31 December	1,243	6,332	-	7,575

Notes (continued)

13. a) Investment properties

	Work in Progress	Other	Total	Total
	2018	2018	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	2,100,000	1,080,700	3,180,700	2,761,200
Additions	303,371	-	303,371	847,751
Fair value (losses)/gains	(43,371)	-	(43,371)	176,749
Transfer from work in progress to investment properties	(2,360,000)	2,360,000	-	-
Transfer to non-current assets held for sale (Note 13 (b))	-	-	-	(605,000)
At 31 December	-	3,440,700	3,440,700	3,180,700

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 2018 and 31 December 2017. 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. 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 leases some of its investment properties. The rental income arising during the year and expenses arising in respect of those properties are disclosed in Note 6(a)

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows

	Level 1	Level 2	Level 3	Total
	KShs '000	KShs '000	KShs '000	KShs '000
As at 31 December 2018				
Investment properties	-	-	3,440,700	3,440,700
As at 31 December 2017				
Investment properties	-	-	3,180,700	3,180,700

Valuation technique used to derive level 3 fair values

Level 3 fair values of land and buildings have been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size and location.

Notes (continued)

13. b) Assets held for sale

	2018	2017
	KShs '000	KShs '000
At 1 January	1,145,000	-
Additions	-	-
Disposals	(695,000)	-
Transfer from investment properties (Note 13(a))	-	605,000
Transfer from other receivables	-	540,000
Total	450,000	1,145,000

Assets held for sale comprise land and buildings which the Group intends to sell before the end of 2018.

The Board of Directors of approved the sale of Sanlam House in 2017. Sanlam House is actively being marketed and the directors believe the sale of the property will be completed by the end of 2019. There are several interested parties and the fair value approximates the market quotes by the interested parties. The Loresho and Grevilia properties previously classified as assets held for sale at 31 December 2017 were disposed during 2018.

At 31 December 2018, Sanlam House was classified as an asset held for sale as required by IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations and is measured as per the guidelines of IAS 40 "Investment Properties". The fair value of the asset held for sale was determined based on valuations performed by Knight Frank Limited as at 31 December 2018. Knight Frank Limited are industry specialists in valuing these types of investment properties.

14. (a) Investments in subsidiaries

Company	Shareholding in 2018	At 1 January 2018	Movement	At 31 December 2018
		KShs '000	KShs '000	KShs '000
Sanlam Life Insurance Limited	100%	230,261	643,138	873,399
Sanlam Securities Limited	100%	679,009	-	679,009
Sanlam Investments Limited	100%	59,514	(59,514)	-
Sanlam General Insurance Limited	75.12%	496,612	238,000	734,612
		1,465,396	**821,624**	**2,287,020**

Company	Shareholding in 2017	At 1 January 2017	Movement	At 31 December 2017
		KShs '000	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	67.54%	374,820	121,792	496,612
		1,343,604	**121,792**	**1,465,396**

Notes (continued)

14. (a) Investments in subsidiaries (continued)

In 2018 Sanlam Kenya made additional investments of KShs 643,138,000 (2017: Nil) in Sanlam Life Insurance Limited and KShs 238,000,000 (2017: KShs. 121,792,000) in Sanlam General Insurance Limited (with no additional investments from minorities). The additional investment in Sanlam General Insurance Limited led to an increase in Sanlam Kenya Plc's shareholding from 67.54% to 75.12%.

As a result of the negative net asset value of Sanlam Investments Limited as at 31 December 2018 and given that the subsidiary is no longer operational, the recoverable amount of the subsidiary was assessed to be lower than the cost of investment. Based on this assessment, an impairment charge of KShs 59,514,000 was recognised in the Sanlam Kenya Plc Company Statement of profit or loss for the year ended 31 December 2018 and the investment is subsequently carried at nil value.

Set out below is the summarised financial information of Sanlam General Limited, the only subsidiary whose non-controlling interest is material to the group. The amounts disclosed are before intercompany eliminations.

	2018	2017
Summarised statement of financial position	**KShs '000**	**KShs '000**
Total assets	3,528,706	3,169,019
Total liabilities	(2,487,958)	(2,405,501)
Net assets	1,040,748	763,518
Summarised statement of comprehensive income		
Gross earned premiums	2,034,897	2,042,914
Underwriting profit	40,982	40,928
Profit before income tax	193,622	102,369
Income tax expense	(77,320)	(33,669)
Other comprehensive income	-	140
Total comprehensive income for the year	116,302	68,840
Total comprehensive income allocated to non-controlling interests	37,635	22,276
Summarised cash flows		
Net cash used in operating activities	(32,572)	(87,780)
Net cash generated from/(used in) investing activities	73,571	(187,013)
Net cash generated from financing activities	238,000	188,316
Net increase/(decrease) in cash and cash equivalents	278,999	(86,477)
Cash and cash equivalents at start of year	139,558	226,035
Cash and cash equivalents at end of year	418,557	139,558

Notes (continued)

14. (b) Investment in associate

		2018	2017
Investments comprise:	**Principal activity**	**Shareholding**	**Shareholding**
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. The principal place of business of the associate is Delta Riverside, Riverside Drive. The share capital in the entity is solely made up of ordinary shares. The reporting date of Runda Water Limited is the same as the Group's and both use uniform accounting policies. There are no contingent liabilities relating to the group's interest in the associates.

Set out below is the summarised financial information of Runda Water.

	2018	2017
Summarised statement of financial position	**KShs '000**	**KShs '000**
Total assets	125,615	121,774
Total liabilities	(54,213)	(51,631)
Net assets	71,402	70,143
Summarised statement of comprehensive income		
Gross revenues	60,697	54,061
Administration and other expenses	(59,438)	(70,555)
Profit (loss) for the year	**1,259**	**(16,494)**

Shown below is the reconciliation to the carrying amounts in the financial statements as at 31 December 2018

	Group		Company	
	2018	**2017**	**2018**	**2017**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
At 1 January	17,465	21,572	4,861	4,861
Share of results before tax	314	(4,107)	-	-
Share of tax	-	-	-	-
At 31 December	17,779	17,465	4,861	4,861
Share of associates' statement of financial position:				
Total assets	31,278	30,322	-	-
Total liabilities	(13,499)	(12,857)	-	-
Net assets	17,779	17,465	-	-
Share of associates' revenue and loss:				
Revenue	15,174	13,461	-	-
Profit/(Loss) in associate	314	(4,107)	-	-

Notes (continued)

15. Loans

	Group	
	2018	2017
	KShs '000	KShs '000
Mortgage loans (Note 15 a)	119,306	215,681
Policy loans (Note 15 b)	309,745	510,689
IPF Loans (Note 15 c)	75,800	31,864
Total Loans	504,851	758,234

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 the cash surrender value of the underlying policies.

a) Mortgage loans	Group	
	2018	2017
	KShs. '000	KShs. '000
Gross mortgage loans		
At 1 January	221,755	372,574
Accrued interest	13,988	30,201
Additional loans advanced	-	-
Loan repayments	(87,433)	(181,020)
At 31 December	148,310	221,755
Impairment:		
At 1 January	(6,074)	(6,074)
ECL on 1 January 2018	(28,793)	-
Movement in the year	6,186	-
At 31 December	(28,681)	(6,074)
Net mortgages at 31 December	**119,629**	**215,681**

Maturity profile of mortgage loans

Loans maturing:

Within 1 year	7,259	1,397
In 1 - 5 years	27,881	8,390
After 5 years	84,166	205,894
	119,306	**215,681**

Notes (continued)

15. Loans (continued)

b) Policy loans	Group	
	2018	2017
	KShs '000	KShs '000
At 1 January 2018	510,986	564,064
Additions	119,343	811,872
Repayments	(257,754)	(935,821)
Interest accrued	39,822	70,871
At 31 December	412,397	510,986
Provision for impairment:		
At 1 January 2018	(297)	(297)
ECL on 1 January 2018	(102,355)	-
At 31 December	(102,652)	(297)
Net policy loans	309,745	510,689

Maturity profile of mortgage loans

	Group	
	2018	2017
	KShs '000	KShs '000
Loans maturing:		
Within 1 year	106,712	175,940
In 1 - 5 years	86,160	142,055
After 5 years	116,873	192,694
	309,745	510,689

Notes (continued)

15. Loans (continued)

c) Insurance premium finance loans (IPF)

	Group	
	2018	2017
	KShs '000	KShs '000
At start of year	31,864	-
Additions	193,316	105,529
Repayments	(158,140)	(77,676)
Interest accrued	8,760	4,011
At end of year	75,800	31,864
Provision for impairment:		
At start of the year	-	-
Increase during the year	-	-
At end of the year	-	-
Net insurance premium finance loans	75,800	31,864

Maturity profile

All insurance premium finance loans are provided to policyholders of Sanlam General over a period not exceeding 10 months and are therefore due within one year.

Notes (continued)

16. Financial assets

Classification

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss and
- those to be measured at amortised cost.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

At 31 December 2018:	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	Total
	KShs '000	KShs '000	KShs '000	Kshs. '000
Equity securities	-	2,579,271	-	2,579,271
Government securities	-	15,167,215	-	15,167,215
Corporate bonds	14,746	1,254,774	-	1,269,520
Deposits with financial institutions	273,892	2,001,586	-	2,275,478
Total	**288,638**	**21,002,846**		**21,291,484**

At 31 December 2017:	Amortised cost	Fair value through profit or loss	Available for Sale	Total
	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000
Equity securities	-	4,200,973	104,793	4,305,766
Government securities	9,443,228	3,136,554	-	12,579,782
Corporate bonds	20,000	2,596,999	-	2,616,999
Deposits with financial institutions	2,239,644	-	-	2,239,644
Total	11,702,872	9,934,526	104,793	21,742,191

The fair value of government securities held at amortized cost as at 31 December 2017 was KShs 9,074,265,000. The fair value of deposits with financial institutions held at amortized cost as at 31 December 2017 was KShs 2,181,776,000. In 2018, all the government securities and some of the deposits with financial institutions are valued at fair value through profit or loss.

Notes (continued)

16. Financial assets (continued)

Financial assets movement

The movement in financial assets is as shown below:

Year ended 31 December 2018:	Opening balance	IFRS 9 adjustment	Purchases	Disposals	Fair value adjustment	Accrued interest	Closing balance
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Equity securities	4,305,766	-	362,630	(1,275,925)	(813,200)	-	2,579,271
Government securities	12,579,782	(368,963)	3,197,610	(862,517)	573,144	48,159	15,167,215
Corporate bonds	2,616,999	-	422,501	(158,924)	(1,611,056)	-	1,269,520
Deposits with financial institutions	2,239,644	(57,868)	8,691,432	(8,482,378)	(156,806)	41,454	2,275,478
Total	**21,742,191**	**(426,831)**	**12,674,173**	**(10,779,744)**	**(2,007,918)**	**89,613**	**21,291,484**

Year ended 31 December 2017:	Opening balance	IFRS 9 adjustment	Purchases	Disposals	Fair value adjustment	Accrued interest	Closing balance
	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000
Equity securities	3,750,115	-	1,296,311	(500,437)	(240,223)	-	4,305,766
Government securities	11,732,893	-	1,877,734	(2,598,273)	1,678	1,565,750	12,579,782
Corporate bonds	2,485,348	-	82,730	(288,949)	337,870	-	2,616,999
Deposits with financial institutions	2,994,161	-	35,402	(998,819)	-	208,900	2,239,644
Total	20,962,517	-	3,292,177	(4,386,478)	99,325	1,774,650	21,742,191

Notes (continued)

16. Financial assets (continued)

Maturity analysis:

As at 31 December 2018:	< 1 year KShs '000	1 - 5 years KShs '000	> 5 years KShs.'000	Open ended KShs '000	Total KShs '000
Equity securities	-	-	-	2,579,271	2,579,271
Government securities	308,028	1,374,140	13,485,047	-	15,167,215
Corporate bonds	529,438	740,082	-	-	1,269,520
Deposits with financial institutions	2,275,478	-	-	-	2,275,478
Total	**3,112,944**	**2,114,222**	**13,485,047**	**2,579,271**	**21,291,484**

As at 31 December 2017:	< 1 year KShs '000	1 - 5 years KShs '000	> 5 years KShs '000	Open ended KShs '000	Total KShs '000
Equity securities	-	-	-	4,305,766	4,305,766
Government securities	258,861	582,249	11,738,672	-	12,579,782
Corporate bonds	-	1,962,176	654,823	-	2,616,999
Deposits with financial institutions	2,239,644	-	-	-	2,239,644
Total	2,498,505	2,544,425	12,393,495	4,305,766	21,742,191

Included within the government securities are bonds held under lien as required by the Insurance Regulatory Authority. The Group has the positive intention and ability to hold these bonds until maturity.

Determination of fair value and fair value hierarchy

Below is the 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.

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.

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 at fair value through P&L. 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.

Notes (continued)

16. Financial assets (continued)
Determination of fair value and fair value hierarchy (continued)

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 mean 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.

	Level 1	Level 2	Level 3	Total fair value
As at 31 December 2018:	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Equity securities	2,157,938	421,333	-	2,579,271
Government securities	15,167,215	-	-	15,167,215
Corporate bonds	823,684	445,836	-	1,269,520
Deposits with financial institutions	-	-	2,275,478	2,275,478
Total	**18,148,837**	**867,169**	**2,275,478**	**21,291,484**

	Level 1	Level 2	Level 3	Total fair value
As at 31 December 2017:	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Equity securities	3,400,973	800,000	104,793	4,305,766
Government securities	12,579,782	-	-	12,579,782
Corporate bonds	1,620,332	996,667	-	2,616,999
Deposits with financial institutions	-	-	2,239,644	2,239,644
Total	17,601,087	1,796,667	2,344,437	21,742,191

Notes (continued)

17. Weighted average effective interest rate

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

	2018	2017
Treasury bills	9%	9%
Treasury bonds	12%	12%
Mortgage loans and corporate bonds	9%	11%
Deposits with financial institutions	6%	12%
Policy loans	13%	16%

18. Reinsurance share of insurance contract liabilities

The reinsurance asset can be broken down as follows;

	Group	
	2018	2017
	KShs. '000	KShs. '000
Long term business reinsurance asset (Note 18 (i))	157,706	153,572
General business reinsurance asset (Note 18 (ii))	661,670	479,654
	819,376	633,226

The following is a summary of the movements in the reinsurance share of insurance contract liabilities:

i) Long term reinsurance asset movement

	Group	
	2018	2017
	KShs. '000	KShs. '000
Opening balance	153,572	134,296
Current year movement (Note 24 (b))	4,134	19,276
	157,506	153,572

Notes (continued)

18. Reinsurance share of insurance contract liabilities (continued)

ii) General reinsurance asset movement

	Group	
	2018	2017
	KShs. '000	KShs. '000
As at 1 January 2018		
Reinsurer's share of contract liabilities (Note 24(a))	317,312	327,341
Reinsurer's share of unearned premium (Note 25)	162,342	93,346
Current year movements		
Increase in reinsurer's share of contract liabilities	105,538	(10,029)
Increase in reinsurer's share of unearned premiums (Note 25)	76,478	68,996
At 31 December 2018		
Reinsurer's share of contract liabilities (Note 24(a))	422,850	317,312
Reinsurer's share of unearned premium (Note 25)	238,820	162,342
Total reinsurer's share of liabilities	**661,670**	**479,654**

19. Land and development

	Group		Company	
	2018	2017	2018	2017
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
At start of year	118,734	127,366	118,734	127,366
Disposals	(9,545)	(8,632)	(9,545)	(8,632)
As at December	**109,189**	**118,734**	**109,189**	**118,734**

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

Notes (continued)

20. Receivables and deferred acquisition costs

(a) Insurance receivables	Group	
	2018	2017
	KShs.'000	KShs.'000
Due from policyholders	1,804,011	1,728,063
Provision for doubtful debts	(1,376,303)	(1,261,847)
Net amount due from policyholders	427,708	466,216
Amounts due from reinsurers	432,657	361,943
Provision for doubtful debts	(20,686)	(20,686)
Amounts due from agents, brokers and intermediaries	4,162	22,571
	843,841	830,044

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.

(b) Receivables and other financial assets	Group		Company	
	2018	2017	2018	2017
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Amounts due from related parties (Note 34 (a))	41,574	26,899	144,359	100,152
Rent outstanding	2,187	4,934	-	-
Prepayments	30,824	28,221	5,888	802
VAT claimable	152,066	109,854	-	-
Other receivables	222,711	282,033	31,984	72,333
Total	449,362	451,941	182,231	173,287

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

Notes (continued)

20. Receivables and deferred acquisition costs (continued)

(c) Deferred acquisition costs

The movement in deferred acquisition costs is shown below;

	Group	
	2018	2017
	KShs '000	KShs '000
At start of year	153,049	150,427
Net movements in the year	(1,757)	2,622
At end of year	151,292	153,049

21. Cash and cash equivalents

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

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
Cash and bank balances	403,629	301,567	2,969	26,362
Deposits with financial institutions (Note 16)	2,275,478	2,239,644	354,000	-
	2,679,107	2,541,211	356,969	26,362

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

22. Share capital and reserves

Share capital	Ordinary shares	2018	2017
	Thousands	KShs '000	KShs '000
At start and end of year	144,000	720,000	720,000
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.

Notes (continued)

22. Share capital and reserves (continued)

Statutory fund – Group

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	
	2018	2017
	KShs '000	KShs '000
Balance at the beginning of the year	1,609,658	1,862,245
Changes on initial application of IFRS 9	(306,278)	-
(Loss)/surplus for the year	(626,660)	307,666
Transfer to retained earnings	-	(560,253)
Closing fund	676,720	1,609,658

No transfers from the statutory fund to the shareholders have been recommended by the statutory actuary for the year ended 31 December 2018 (2017: KShs 800,362 (KShs 560,253 net of tax)).

23. Borrowings

The movement in the loan balance during the period is as shown below;

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
At start of year	1,030,741	-	1,030,741	-
Loans advanced	2,466,691	1,029,800	1,746,639	1,029,800
Accrued interest	191,863	941	118,263	941
Interest repayments	(191,863)	-	(118,263)	-
At end of year	3,497,432	1,030,741	2,777,380	1,030,741

Maturity profile of the borrowings:

The maturity profile of borrowing is as shown below:

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
- Current	2,777,380	941	2,777,380	941
- Non-current	720,052	1,029,800	-	1,029,800
	3,497,432	1,030,741	2,777,380	1,030,741

The Group has acquired a loan facility from Sanlam Capital Markets totalling USD 34 million for a period of two years whose interest is referenced to the 3 month LIBOR. The facility was obtained to settle intercompany balances with related parties, recapitalize the Group's insurance businesses and finance completion of the Sanlam Tower.

Notes (continued)

24. 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;

	2018	2017
	KShs.'000	KShs.'000
Insurance contract liabilities		
- General insurance policy liabilities	1,222,051	1,438,091
- Long term policy liabilities	13,594,596	12,123,092
Total insurance contract liabilities	**14,816,647**	**13,561,183**
Investment contract liabilities - long-term	5,340,462	6,568,158
Payables under deposit administration contracts	1,107,372	1,433,027
Total investment contract liabilities	6,447,834	8,001,185
Total liabilities	**21,264,481**	**21,562,368**

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

	2018	2017
	KShs '000	KShs '000
General insurance policy liabilities (Note 24(a))	1,222,051	1,438,091
Long term policy liabilities (insurance and investment contracts) (Note 24(b))	18,935,058	18,691,250
Payables under deposit administration (Note 24(b))	1,107,372	1,433,027
	21,264,481	**21,562,368**

Notes (continued)

24. Insurance contract liabilities (continued)

(a) Group General policy liabilities

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

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	KShs.'000	KShs.'000	KShs '000	KShs '000	KShs '000	KShs '000
At beginning of year	1,438,091	317,312	1,120,779	1,414,942	327,341	1,087,601
Cash paid for claims settled in year	(1,681,269)	(396,921)	(1,284,348)	(1,189,921)	(453,284)	(736,637)
Movement in liabilities						
- arising from IBNR	(7,233)	1,272	(8,505)	2,902	603	2,299
- arising from AURR	(8,942)	3,111	(12,053)	51,770	-	51,770
- arising from current year claims	451,088	116,859	334,229	982,608	363,648	618,960
- arising from prior year claims	1,030,316	381,217	649,099	175,790	79,004	96,786
Total at end of year	1,222,051	422,850	799,201	1,438,091	317,312	1,120,779
Notified claims	999,170	380,870	618,300	1,199,136	279,714	919,422
Additional unexpired risk reserve (AURR)	44,537	1,271	43,266	51,770	-	51,770
Incurred but not reported (IBNR)	178,344	40,709	137,635	187,185	37,598	149,587
Total at end of year	1,222,051	422,850	799,201	1,438,091	317,312	1,120,779

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 within the Group 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.

Notes (continued)

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

Summary of movements is as shown below;

	2018			2017		
	Total	Insurance and Investment contracts	Deposit admin contracts	Total	Insurance and 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)	4,146,915	3,936,501	210,414	4,339,406	3,927,609	411,797
Income on Investment	1,176,858	1,139,764	37,094	1,923,799	1,771,670	152,129
Asset management fees	(61,958)	(53,202)	(8,756)	(76,917)	(65,890)	(11,027)
Net investment income	1,114,900	1,086,562	28,338	1,846,882	1,705,780	141,102
Income /Inflow	5,261,815	5,023,063	238,752	6,186,288	5,633,389	552,899
Policy benefits (net)	(4,694,429)	(4,151,369)	(543,060)	(4,616,236)	(4,035,716)	(580,520)
Sales remuneration and administrative expenses	(1,505,995)	(1,484,648)	(21,347)	(1,424,366)	(1,395,607)	(28,759)
Transfer to statutory fund	852,628	852,628	-	(473,175)	(473,175)	-
Outflow	(5,347,796)	(4,783,389)	(564,407)	(6,513,777)	(5,904,498)	(609,279)
Net movement for the year	(85,981)	239,674	(325,655)	(327,489)	(271,109)	(56,380)
Balance at beginning of the year (net of reinsurance)	20,124,277	18,691,250	1,433,027	20,432,490	18,943,083	1,489,407
Contract liabilities ceded to reinsurers	4,134	4,134	-	19,276	19,276	-
Balance at end of year	20,042,430	18,935,058	1,107,372	20,124,277	18,691,250	1,433,027

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.

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

Notes (continued)

24. Insurance contract liabilities (continued)
b) Group Long-term policy liabilities (continued)

(ii) Maturity analysis of long term policy liabilities:

	< 1 year	1-5 years	>5 years	open ended	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
As at December 2018:					
Linked and market-related investment contract liabilities	745,656	3,236,989	1,357,817	-	5,340,462
Insurance contract liabilities:					
Reversionary bonus policies	62,283	726,425	1,494,764	-	2,283,472
Other non-participating liabilities	1,375,273	3,519,346	6,236,896	179,609	11,311,124
Total insurance contracts liabilities	**1,437,556**	**4,245,771**	**7,731,660**	**179,609**	**13,594,596**
Deposit administration contracts	-	-	-	1,107,372	1,107,372
Total long-term policy liabilities	2,183,212	7,482,760	9,089,477	1,286,981	20,042,430

	< 1 year	1-5 years	>5 years	open ended	Total
	KShs:'000	KShs:'000	KShs:'000	KShs:'000	KShs:'000
As at December 2017:					
Linked and market-related investment contract liabilities	1,041,723	3,602,468	1,772,200	151,767	6,568,158
Insurance contract liabilities:					
Reversionary bonus policies	141,419	153,470	1,613,841	-	1,908,730
Other non-participating liabilities	2,014,054	3,984,060	4,216,248	-	10,214,362
Total insurance contracts liabilities	**2,155,473**	**4,137,530**	**5,830,089**	**-**	**12,123,092**
Deposit administration contracts	-	-	-	1,433,027	1,433,027
Total long-term policy liabilities	3,197,196	7,739,998	7,602,289	1,584,794	20,124,277

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.

Notes (continued)

24. 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 2018:

	Gross provisions	Reinsurance assets	Net
	KShs.'000	KShs.'000	KShs.'000
Long-term business:			
Insurance contracts liabilities	13,594,596	(157,706)	13,436,890
Investment contract liabilities	5,340,462	-	5,340,462
Deposit administration contracts	1,107,372	-	1,107,372
	20,042,430	(157,706)	19,884,724

The following is a summary of the contract provisions and related reinsurance assets as at 31 December 2017:

	Gross provisions	Reinsurance assets	Net
	KShs.'000	KShs.'000	KShs.'000
Long-term business:			
Insurance contracts liabilities	12,123,092	(153,572)	11,969,520
Investment contracts liabilities	6,568,158	-	6,568,158
Deposit administration contracts	1,433,027	-	1,433,027
	20,124,277	(153,572)	19,970,705

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

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 year end i.e.31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 7.5% (2017: 7.5%).

Insurance contracts

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

	2018	2017
Reversionary bonus	1.5%	0.5%
Terminal bonus	1.5%	0.5%
Total bonus declared	3.0%	1.0%

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

Notes (continued)

25. 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;

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
At beginning of year	655,110	(162,342)	492,768	474,115	(93,346)	380,769
Net increase in the period	244,543	(76,478)	168,065	180,995	(68,996)	111,999
At end of year	899,653	(238,820)	660,833	655,110	(162,342)	492,768

26. Provisions

	Group	
	2018	2017
	KShs.'000	KShs.'000
General provision on insurance claims	34,620	34,620
Specific provision for financial guarantee	17,305	17,305
	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.

Notes (continued)

27. 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% (2017: 30%). The movement on the deferred income tax account is as follows:

For the year ended 31 December 2018:	At start of year	IFRS 9 adjustment impacts on 1 January 2018	(Charge)/credit to Income statement	Transfer to current tax	At end of year
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Property and equipment	6,261	-	202	-	6,463
Quoted shares – fair value gain	(9,435)	-	-	-	(9,435)
Unrealised fair value losses	26,667	-	(26,667)	-	-
Provisions	146,740	23,002	4,403	-	174,145
Tax losses carried forward	25,844	-	42,782	-	68,626
Deferred tax on life fund surplus	(747,449)	131,263	255,789	-	(360,397)
	(551,372)	154,265	276,509	-	(120,598)
Deferred tax not recognised	3,234	-	14		3,248
Deferred tax asset	192,842	-	43,708	-	236,551
Deferred tax liability	(747,449)	131,263	255,789	-	(360,397)

For the year ended 31 December 2017:	At start of year		(Charge)/credit to Income statement	Transfer to current tax	At end of year
	KShs.'000		KShs.'000	KShs.'000	KShs.'000
Property and equipment	5,559		702	-	6,261
Quoted shares – fair value gain	(9,435)		-	-	(9,435)
Unrealised fair value losses	18,117		8,550	-	26,667
Provisions	132,437		14,303	-	146,740
Tax losses carried forward	39,277		(13,433)	-	25,844
Deferred tax on life fund surplus	(844,396)		(143,162)	240,109	(747,449)
	(658,441)		(133,040)	240,109	(551,372)
Deferred tax not recognised	3,234		-	-	3,234
Deferred tax asset	182,721		10,122	-	192,843
Deferred tax liability	(844,396)		(143,162)	240,109	(747,449)

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.

Notes (continued)

27. Deferred income tax (continued)
a) Group (continued)

The deferred income tax split per entity is as follows:

For the year ended 31 December 2018	At start of year	IFRS 9 adjustment impacts on 1 January 2018	(Charge)/ credit to profit or loss	Transfer to current tax	At end of year
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Sanlam Life Insurance Limited	(747,449)	131,263	255,789	-	(360,397)
Sanlam Securities Limited	45,336	-	(27,151)	-	18,185
Mae Properties Limited	3,234	-	14	-	3,248
Sanlam Investments Limited	2,050	-	(2,050)	-	-
Sanlam Kenya Plc	48,868	-	33,516	-	82,384
Sanlam General Insurance Limited	96,589	23,002	16,391	-	135,982
	(551,372)	154,265	276,509	-	(120,598)

For the year ended 31 December 2017	At start of year		(Charge)/ credit to profit or loss	Transfer to current tax	At end of year
	KShs. '000		KShs. '000	KShs. '000	KShs. '000
Sanlam Life Insurance Limited	(844,396)		(143,162)	240,109	(747,449)
Sanlam Securities Limited	36,406		8,930	-	45,336
Mae Properties Limited	3,234		-	-	3,234
Sanlam Investments Limited	4,136		(2,086)	-	2,050
Sanlam Kenya Plc	24,883		23,985	-	48,868
Sanlam General Insurance Limited	117,296		(20,707)	-	96,589
	(658,441)		(133,040)	240,109	(551,372)

Notes (continued)

27. Deferred income tax (continued)

b) Company

For the year ended 31 December 2018:	At start of year	(Charge)/ credit to profit or loss	At end of year
	KShs.'000	KShs.'000	KShs.'000
Property and equipment	1,575	141	1,716
Provisions	26,498	(11,207)	15,291
Tax losses carried forward	20,795	44,582	65,377
Deferred tax	48,868	33,517	82,384

For the year ended 31 December 2017:	At start of year	Credit to profit or loss	At end of year
	KShs.'000	KShs.'000	KShs.'000
Property and equipment	1,116	459	1,575
Provisions	23,767	2,731	26,498
Tax losses carried forward	-	20,795	20,795
Deferred tax	24,883	23,985	48,868

28. Insurance payables

	Group	
	2018	2017
	KShs '000	KShs '000
Outstanding claims	383,474	444,558
Payables arising out of direct insurance arrangements	274,165	242,696
Payables arising out of reinsurance operations arrangements	31,007	71,752
Total insurance payables	688,646	759,006

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

Notes (continued)

29. Payables and other charges

	Group		Company	
	2018	2017	2018	2017
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Amounts due to related parties (Note 34)	-	-	358,132	241,666
Stale cheques	-	36,142	-	-
Accruals	183,745	107,310	27,134	17,027
Trade creditors	27,356	191,013	-	-
Payroll creditors	99,169	35,904	-	-
Other payables	394,466	351,882	15,155	52,754
	704,736	722,251	400,421	311,447

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.

30. Earnings per share

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

a) Group	2018	2017
	KShs '000	KShs '000
Net profit attributable to ordinary shareholders for basic and diluted earnings	(2,017,061)	30,814
Weighted average number of ordinary shares for basic and diluted earnings per share	144,000	144,000
Basic earnings per ordinary share KShs.	(14.01)	0.21
Diluted earnings per ordinary share KShs.	(14.01)	0.21
b) Company		
Net (loss)/profit attributable to ordinary shareholders for basic and diluted earnings	(636,034)	(70,640)
Weighted average number of ordinary shares for basic and diluted earnings per share	144,000	144,000
Basic earnings per ordinary share KShs.	(4.42)	(0.49)
Diluted earnings per ordinary share KShs.	(4.42)	(0.49)

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

Notes (continued)

31. 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 Group (See Note 26). 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 Kenya Revenue Authority (KRA) conducted a tax compliance inspection of the Sanlam Life Insurance Company for the period 2014 to 2017. Based on the inspection, the Company has received a findings report impacting several taxes and management is currently responding to queries and or providing clarifications to KRA. Any tax obligation arising from the inspection cannot be measured with sufficient reliability and thus a quantum has not been disclosed.

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

32. Capital commitments – Group

Capital commitments:

Capital commitments relating to completion of the head office building are as follows:

	2018	2017
	KShs.'000	KShs.'000
Not later than 1 year	-	784,350

There are no capital commitments relating to Sanlam Tower which was completed in the second quarter of 2018.

The Group has entered 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.

Operating lease commitments:

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

	Receivable		Payable	
	2018	2017	2018	2017
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Not later than 1 year	93,589	19,980	104,309	92,510
Later than 1 year but not later than 5 years	235,635	101,991	277,052	263,859
More than 5 years	125,852	32,174	119,669	20,146
	455,076	154,145	501,030	376,515

Notes (continued)

33. Cash generated from operations

a) Group

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

	Note	2018	2017
		KShs '000	KShs '000
(Loss)/profit before income tax:		(2,129,186)	247,098
Adjusted for:			
Interest income on financial assets at fair value through profit and loss	6(a)	(1,888,975)	(780,707)
Interest income on financial assets at amortised cost	6(a)	-	(1,142,676)
Revaluation loss/(gain) on investment property	6(b)	43,371	(176,749)
Depreciation and amortization		66,485	68,082
Fair value losses (gains) on financial assets at fair value through profit or loss	6(b)	1,940,210	(192,340)
Rental income	6(a)	(13,618)	(40,070)
Other investment income	6(a)	(281,174)	(321,857)
Impairment of financial assets	6(c)	12,795	1,125,243
Other operating revenues		(86,214)	(129,438)
Finance costs	23	191,863	-
Share of associate's (profit) /loss	14(b)	(314)	4,107
		(2,144,757)	(1,339,307)
Changes in working capital:			
Actuarial value of policyholder liabilities		27,768	(228,684)
Payables under deposit administration contracts		(325,655)	(56,380)
Reinsurance share of insurance contract liabilities		(186,150)	(78,243)
Insurance receivables		(13,797)	(279,422)
Insurance payables		(70,360)	(43,465)
Receivables and other financial assets		2,579	(139,149)
Payables and other charges		(17,515)	294,912
Cash utilised in operations		(2,727,887)	(1,869,738)
Tax paid		(313,214)	(33,477)
Net cash utilised in operations		(3,041,101)	(1,903,215)

Notes (continued)

33. Cash generated from operations (continued)

b) Company

Reconciliation of profit before income tax to cash generated from operations

Cash flow from operations	2018 KShs.'000	2017 KShs.'000
Loss before income tax	(669,551)	(94,624)
Adjusted for:		
Investment income	-	(30)
Depreciation (Note 12(b))	1,905	2,457
Dividend income	(368,500)	(36,000)
Interest expense	118,263	13,483
Impairment of investment in subsidiary	59,514	-
	(858,369)	(114,714)
Changes in working capital		
Receivables and other financial assets	602	202,112
Payables and other charges	88,974	(1,003,044)
Cash utilised in operations	89,576	(800,932)
Tax paid	-	-
Net cash used in operations	(768,793)	(915,646)

34. Related party transactions

The Group is controlled by the following entities;

Name	Type	Place of incorporation	Ownership interest 2018	Ownership interest 2017
Hubris Holdings Limited	Immediate parent entity	Kenya	57.14%	57.14%
Sanlam Emerging Markets Proprietary Limited	Intermediate parent entity	South Africa	57.14%	57.14%
Sanlam Limited	Ultimate parent entity and controlling party	South Africa	57.14%	57.14%

There are other companies that are related to the company through common shareholdings or common directorships.

Interests in subsidiaries are set out in note 14(a).

Notes (continued)

34. Related party transactions (continued)

a) Amounts due from related parties:	Group		Company	
	2018	2017	2018	2017
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Hubris Holdings Limited (immediate parent)	16,543	15,311	16,543	11,853
Sanlam Emerging Markets Proprietary Limited (intermediate parent)	25,121	11,588	-	-
Sanlam Investments Limited (subsidiary)	-	-	9,308	4,324
Sanlam General Insurance Limited (Subsidiary)	-	-	118,598	83,793
Total	41,574	26,899	144,359	99,970

There were no provisions made or amounts written off on related party balances during the year (2017: nil). The amounts due from related parties are non-interest bearing and will be paid using cash and cash equivalents.

b) Loans and amounts due to related parties	Group		Company	
	2018	2017	2018	2017
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Sanlam Capital Markets (Note 23)	3,497,432	1,030,741	2,777,380	1,030,741
Sanlam Life Insurance Limited (Subsidiary)	-	-	-	66,594
Sanlam Securities Limited (Subsidiary)	-	-	358,132	175,072
Total	3,497,432	1,030,741	3,135,512	1,272,407

c) Key management compensation:	Group		Company	
	2018	2017	2018	2017
	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Salaries and other short-term employment benefits	186,656	177,350	88,304	90,001
Post-employment benefits	20,728	22,169	8,434	11,250
	207,384	199,519	96,738	101,251

d) Directors' remuneration:				
Fees	19,309	16,822	8,220	6,717
Other emoluments (included in (c) above)	39,713	48,066	39,713	48,066
Total	59,022	64,888	47,933	54,783

e) Directors' pension				
Pension benefits	2,360	5,579	2,360	5,579
Mortgage loans to key management where collateral is accepted as security	-	74,532	-	-

Notes (continued)

34. Related party transactions (continued)

f) Other related party transactions through the statement of profit or loss

	Group		Company	
	2018	2017	2018	2017
	KShs '000	KShs '000	KShs '000	KShs '000
Fund management fees payable to Sanlam Investments East Africa Limited	50,057	63,659	-	-
Management fees payable to Sanlam Emerging Markets Proprietary Limited	18,297	15,362	-	-
Finance costs payable to Sanlam Capital Markets	191,863	971	118,263	971
Interest expense on intercompany advances payable to Sanlam Life Insurance Limited	-	-	(24,838)	-
	260,217	79,992	93,425	971

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	75.12
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.

35. 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 and General insurance subsidiaries of the Group are subject to the following external capital requirements as guided by the Risk Based Capital guidelines in the insurance act;

The risk-based capital of an insurer shall be the square root of the sum of the squares of capital required for;

i. insurance risk;
ii. market risk;
iii. credit risk; and
iv. capital required for operational risk,

Notes (continued)

35. Capital management (continued)

The Capital Adequacy Ratio (CAR) is the measure used for capital and the minimum requirement as stipulated by the guidelines is 100%.

As at 31 December 2018, both the Life and General insurance subsidiaries had complied with the external capital requirements and had CARs of 103% and 122% respectively.

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

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 23 to 27. The Group Embedded Value is the aggregate of the following components:

(i) 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 23);

(ii) 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

i) 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.

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 company's regulatory capital.

Notes (continued)

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

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.

ii) 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.

36. Risk management– life insurance

The life insurance business' capital is invested in financial instruments and properties, which also exposes the business to financial risk, in the form of market, property, credit and liquidity risk. The management of these risks is described below.

a) 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.

i) 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;

iii. Equity assets backing insurance liabilities that are not participating or not fully market linked; and

iv. 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 2018			
Equities and similar securities	428,135	+(-) 18%	+(-) 77,064
31 December 2017			
Equities and similar securities	1,081,529	+(-) 11.2%	+(-) 107,568

Change in base is the relative movement in the carrying value of equities and similar securities over the two reporting periods in review.

Linked and market-related business

Linked and market-related business are 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.

Market risk on 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.

Notes (continued)

36. Risk management (continued)
a) Market risk (continued)
i) Equity risk (continued)

Market risk on stable, reversionary bonus and participating annuity business (smoothed-bonus business) (continued)

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 2018, all stable and reversionary bonus business portfolios had a funding level in excess of 100%. (2017: 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.

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.

ii) 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. 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 not hold instruments with a floating rate. The Group is however exposed to fair value interest risk as it holds investments in government bonds, corporate bonds and deposits with financial institutions 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.

Notes (continued)

36. Risk management (continued)
a) Market risk (continued)
ii) Interest rate risk (continued)

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.

	Gross portfolio	% change in base	2018	Gross portfolio	% change in base	2017
Financial assets			KShs '000			KShs '000
Government bonds	15,140,634	+(-) 10%	+(-) 181,688	12,579,782	+(-) 10%	+(-) 150,957
Corporate bonds	1,269,520	+(-) 10%	+(-) 11,426	2,616,999	+(-) 10%	+(-) 28,787
Deposits with financial institutions	2,272,518	+(-) 10%	+(-) 13,635	2,239,644	+(-) 10%	+(-) 26,876
Financial liabilities						
Borrowings	3,497,432	+(-) 10%	+(-) 31,921	1,030,741	+(-) 10%	+(-) 8,906

The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual maturity and interest rate repricing.

		Contractual cashflows (undiscounted)		
At 31 December 2018	**Carrying amount**	**< 1 year**	**1 - 5 years**	**> 5 years**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
Assets				
Government securities	15,140,634	315,097	700,403	14,125,134
Corporate bonds	1,269,520	529,438	740,082	-
Deposits with financial institutions	2,272,518	2,272,518	-	-
Cash and bank balances	357,063	357,063	-	-
Total	**19,039,735**	**3,474,116**	**1,440,485**	**14,125,134**
Liabilities				
Borrowings	3,497,432	2,777,380	720,052	-
Total	3,497,432	2,777,380	720,052	-

		Contractual cashflows (undiscounted)		
At 31 December 2017	**Carrying amount**	**< 1 year**	**1 - 5 years**	**> 5 years**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
Assets				
Government securities	12,579,782	258,861	582,249	11,738,672
Corporate bonds	2,616,999	-	1,962,176	654,823
Deposits with financial institutions	2,239,644	2,239,644	-	-
Cash and bank balances	301,567	301,567	-	-
Total	**17,737,992**	**2,800,072**	**2,544,425**	**12,393,495**
Liabilities				
Borrowings	1,030,741	941	1,029,800	-
Total	**1,030,741**	**941**	**1,029,800**	**-**

Notes (continued)

36. Risk management (continued)
a) Market risk (continued)
ii) Interest rate 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 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 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.

b) Currency risk

The Group is exposed to currency risk due to revenue collected in foreign currency. The revenue amounts in foreign currency are not significant and consequent claims are paid in foreign currency. The major currency exposure is on the borrowings, Kshs. 3,497,432,000 (2017: KShs 1,030,741,000). The loan proceeds were in USD. The loan interest payments is also done in USD. If the currency movement was up/down by 1%, the loan balance would have been KShs 3,532,406,000 while the finance cost would have increased by 18.2%.

c) 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.

d) Market risk – capital

Comprehensive measures and limits are in place to control the exposure of the 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.

Market risk – sensitivities

Sensitivities that illustrate the effect of changes in investment return assumptions on the value of in-force (VIF) business are disclosed on page 26. 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 2018				
Interest rate	+(-)3%	+(-)20,291	+(-)456,327	+(-)35,537
Equity/Property	+(-)4%	+(-)11,668	+(-)-74,626	+(-)134,560
31 December 2017				
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

Notes (continued)

36. Risk management (continued)

e) Credit risk

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.

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.

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 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.

Notes (continued)

36. Risk management (continued)
e) Credit risk (continued)

Maximum exposure to credit risk

The amount that best represents the Group's and Company maximum exposure to credit risk at end of year 2018 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	15,140,634	1,269,520	-	-	-	-	16,410,154
Reinsurers' share of insurance contract liabilities	-	-	819,376	-	-	-	819,376
Receivables arising out of direct insurance arrangements	-	-	843,841	-	-	-	843,841
Loans	-	-	-	-	-	504,851	504,851
Receivables and other financial assets	-	-	-	-	-	477,436	477,436
Cash and cash equivalents	-	-	2,629,581	-	-	-	2,629,581
	15,140,634	1,269,520	4,292,798	-	-	982,287	21,685,239
Company							
Receivables and other financial assets	-	-	-	-	-	182,229	182,229
Cash and cash equivalents	-	-	356,969	-	-	-	356,969
	-	-	356,969	-	-	182,229	539,198

Notes (continued)

36. Risk management (continued)
e) Credit risk (continued)
Maximum exposure to credit risk (continued)

The amount that best represents the Group's and Company maximum exposure to credit risk at end of year 2017 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	3,093,379	2,640,174	-	-	-	-	5,733,553
Held to maturity	9,463,228	-	-	-	-	-	9,463,228
Reinsurers' share of insurance contract liabilities	-	-	633,226	-	-	-	633,226
Receivables arising out of direct insurance arrangements	-	-	830,044	-	-	-	830,044
Loans	-	-	-	-	-	758,234	758,234
Receivables and other financial assets	-	-	-	-	-	451,941	451,941
Cash and cash equivalents	-	-	2,541,211	-	-	-	2,541,211
	12,556,607	2,640,174	4,004,481	-	-	1,210,175	20,411,437
Company							
Receivables and other financial assets	-	-	-	-	-	173,287	173,287
Cash and cash equivalents	-	-	26,362	-	-	-	26,362
	-	-	26,362	-	-	173,287	199,649

Notes (continued)

36. Risk management (continued)
e) Credit risk (continued)

Credit exposure by staging

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

The table below provides information regarding the credit risk exposure of the Group and Company

Group:				
31 December 2018	**ECL Stage 1**	**ECL Stage 2**	**ECL Stage3**	**Total**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
Financial Instruments:	16,410,154	-	-	16,410,154
Reinsurers' share of technical provisions and reserves	819,376	-	-	819,376
Receivables arising out of direct insurance arrangements	843,841	-	1,396,989	2,240,830
Loans	504,851	-	131,333	636,184
Receivables and other financial assets	477,436	-	-	477,436
Cash and cash equivalents	2,629,581	-	-	2,629,581
	21,685,239	-	1,528,322	23,213,561
Company:				
31 December 2018				
Financial Instruments:	-	-	-	-
Receivables and other financial assets	182,229	-	-	182,229
Cash and cash equivalents	356,969	-	-	356,969
	539,198	-	-	539,198

Notes (continued)

36. Risk management (continued)
e) Credit risk (continued)
Credit exposure by staging (continued)

Group:				
31 December 2017	**ECL Stage 1**	**ECL Stage 2**	**ECL Stage3**	**Total**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**
Financial Instruments:	15,196,781	-	-	15,196,781
Reinsurers' share of technical provisions and reserves	633,226	-	-	633,226
Receivables arising out of direct insurance arrangements	830,044	-	1,282,533	2,112,577
Loans	758,234	-	6,371	764,605
Receivables and other financial assets	451,941	-	-	451,941
Cash and cash equivalents	2,541,211	-	-	2,541,211
	20,411,437	-	1,288,904	21,700,341
Company:				
31 December 2017				
Financial Instruments:	-	-	-	-
Receivables and other financial assets	173,287	-	-	173,287
Cash and cash equivalents	26,362	-	-	26,362
	199,649	-	-	199,649

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.

Notes (continued)

36. Risk management (continued)
e) Credit risk (continued)

An impairment provision of KShs 1,530 million (2017: KShs 1,289 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.

The following is a movement of impairment provision account:

	Corporate bond	Loans	Insurance receivables	Receivables and other financial assets	Deposits with financial institutions	Cash and bank balances	Total
	KShs '000	KShs.'000	KShs '000	KShs '000	KShs '000	KShs '000	KShs.'000
The movement in the provisions is as follows:							
At 1 January 2018	-	6,371	1,282,533	-	-	3,875	1,292,779
Additional provision	-	124,962	114,456	-	-	(1,218)	238,200
Unused amounts reversed	-	-	-	-	-	-	-
At end of year	-	131,333	1,396,989	-	-	2,657	1,530,979
At 1 January 2017	-	6,371	1,213,547	-	-	-	1,219,918
Additional provision	-	-	68,986	-	-	-	68,986
Unused amounts reversed	-	-	-	-	-	-	-
At end of year	-	6,371	1,282,533	-	-	-	1,288,904

Notes (continued)

36. Risk management (continued)
e) Credit risk (continued)

Analysis of financial assets at amortised cost loss allowance is as summarised below:

	ECL Stage 1	ECL Stage 2	ECL Stage3	Total
At 31 December 2018:	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Corporate bonds	14,746	-	-	14,746
Loans	504,851	-	131,333	636,184
Insurance receivables	843,841	-	1,396,989	2,240,830
Receivables and other financial assets	477,436	-	-	477,436
Deposits with financial institutions	2,275,478	-	-	2,275,478
Cash and bank balances	357,063	-	2,657	359,720
Gross financial assets	**4,473,415**	**-**	**1,530,979**	**6,004,394**

	ECL Stage 1	ECL Stage 2	ECL Stage3	Total
At 31 December 2017:	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Corporate bonds	20,000	-	-	20,000
Loans	758,234	-	6,371	764,605
Insurance receivables	830,044	-	1,282,533	2,112,577
Receivables and other financial assets	451,941	-	-	451,941
Deposits with financial institutions	2,239,644	-	-	2,239,644
Cash and bank balances	301,567	-	-	301,567
Gross financial assets	**4,601,430**	**-**	1,288,904	**5,890,334**

f) 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.

Notes (continued)

36. Risk management (continued)
g) 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)

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.

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 2018:					
Group	**1 Year**	**1-5 Years**	**>5 Years**	**Open ended**	**Total**
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Financial liabilities					
Borrowings	2,777,380	720,052	-	-	3,497,432
Market linked investment contracts	3,236,989	745,656	1,357,817	-	5,340,462
Non-market related insurance contracts	1,437,556	4,245,771	7,731,660	179,609	13,594,596
Deposit administration contracts	-	-	-	1,107,372	1,107,372
Insurance payables	-	-		688,646	688,646
Payables and other charges	656,704	-	-	-	656,704
Total liabilities	8,108,629	5,711,479	9,089,477	1,975,627	24,885,212
Company					
Borrowings	2,777,380	-	-	-	2,777,380
Payables and other charges	400,421	-	-	-	400,421
Total liabilities	3,177,801	-	-	-	3,177,801

Notes (continued)

36. Risk management (continued)
g) Liquidity risk (continued)

Year ended 31 December 2018:	1 Year	1-5 Years	>5 Years	Open ended	Total
Group	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Financial Assets:					
Public sector stocks and loans	844,535	1,440,485	14,125,134	2,579,271	18,989,425
Loans	189,771	114,041	201,039	-	504,851
Reinsurance assets	412,543	169,645	51,036	-	633,224
Insurance receivables	843,841	-	-	-	843,841
Receivables and other financial assets	477,436	-	-	-	477,436
Deposits with financial institutions	2,272,518	-	-	-	2,272,518
Total assets	5,040,644	1,724,171	14,377,209	2579271	23,721,295
Company					
Receivables and other financial assets	182,229	-	-	-	182,229
Total assets	182,229	-	-	-	182,229

Liquidity gap:

		1 Year	1-5 Years	>5 Years	Open ended	Total
		KShs '000	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Group	At 31 December 2018	(3,067,985)	(3,987,308)	5,287,732	603,644	(1,163,917)
	At 31 December 2017	670,774	(4,555,612)	3,702,231	(2,343,800)	(2,526,407)
Company	At 31 December 2018	(2,995,572)	-	-	-	(2,995,572)
	At 31 December 2017	(139,101)	(1,029,800)	-	-	(1,168,901)

Notes (continued)

36. Risk management (continued)
g) Liquidity risk (continued)

Year ended 31 December 2017:	1 Year	1-5 Years	>5 Years	Open ended	Total
Group	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Financial liabilities					
Borrowings	941	1,029,800	-	-	1,030,741
Market linked investment contracts	1,041,723	3,602,468	1,772,200	151,767	6,568,158
Non-market related insurance contracts	2,155,473	4,137,530	5,830,089	-	12,123,092
Deposit administration contracts	-	-	-	1,433,027	1,433,027
Insurance payables	-	-		759,006	759,006
Payables and other charges	722,251	-	-	-	722,251
Total liabilities	3,920,388	8,769,798	7,602,289	2,343,800	22,636,275
Company					
Borrowings	941	1,029,800	-	-	1,030,741
Payables and other charges	311,447	-	-	-	311,447
Total liabilities	312,388	1,029,800	-	-	1,342,188

Year ended 31 December 2017:	1 Year	1-5 Years	>5 Years	Open ended	Total
Group	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Financial Assets:					
Public sector stocks and loans	649,408	3,597,183	10,950,190	-	15,196,781
Mortgages and policy loans	7,582	447,358	303,294	-	758,234
Reinsurance assets	412,543	169,645	51,036	-	633,224
Insurance receivables	830,044	-	-	-	830,044
Receivables and other financial assets	451,941	-	-	-	451,941
Deposits with financial institutions	2,239,644	-	-	-	2,239,644
Total assets	4,591,162	4,214,186	11,304,520	-	20,109,868
Company					
Receivables and other financial assets	173,287	-	-	-	173,287
Total assets	173,287	-	-	-	173,287

Notes (continued)

36. Risk management (continued)
h) Insurance risk (continued)

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:

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.

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.

i) 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.

ii) Expense risk

Expenses are managed through the Group's budgeting process and continuous monitoring of actual expenses versus budgeted is conducted and reported on.

Notes (continued)

36. Risk management (continued)
Underwriting risk (continued)

iii) 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.

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	
	2018	2017	2018	2017	2018	2017
KShs.'000			KShs '000	KShs '000	KShs '000	KShs '000
0 – 500	133,322	184,967	5,099,384	8,404,960	2,625,913	4,034,012
500 - 1 000	24,091	33,422	17,223,536	28,388,356	8,794,271	13,510,040
1 000- 5 000	38,416	53,298	47,004,202	77,473,753	15,498,644	23,809,511
5 000- 8000	191	265	168,660,139	277,990,761	56,573,759	86,910,411
>8 000	218	302	253,152,272	417,253,260	86,320,093	132,607,678
	196,238	272,254	491,139,535	809,511,090	169,812,680	260,871,652

Non-participating annuity payable per annum per life insured

Notes (continued)

iii) Claims risk (continued)

	Number of lives		Before Reinsurance		After reinsurance	
	2018	2017	2018	2017	2018	2017
Kshs'000			**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
0 – 200	2,049	2,405	136,580,095	188,329,560	136,580,095	188,329,560
200– 400	806	658	179,903,892	185,725,440	179,903,892	185,725,440
400 – 600	357	305	138,435,612	150,387,408	138,435,612	150,387,408
600 – 800	218	146	119,464,236	100,169,052	119,464,236	100,169,052
800 – 1000	113	72	80,326,320	64,271,556	80,326,320	64,271,556
>1000	235	129	313,971,984	202,799,337	313,971,984	202,799,337
Total	3,778	3,715	968,682,139	891,682,353	968,682,139	891,682,353

y) Capital adequacy risk

Refer to the capital management section (Note 35) 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.

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 the Chairman of the meeting of as/ our proxy, to vote for me/ us and on my/ our behalf at the 73rd Annual General Meeting of the company to be held on 10th May 2019 at 10.00 am at Sanlam Tower, 3rd Floor, Waiyaki Way, Westlands Nairobi and at any adjournment thereof.

Signed/Sealed this ………………….............. day of ……………......................... 2019

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

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