Sanlam
Wealthsmiths™

Annual Financial Statements 2018

Contents

Financial Statements

Company Information

Directors

Enoch Rukidi*	Chairman
Mugo Kibati**	Resigned 19 February 2018
Warren Bruce ***	Appointed 19 February 2018
Nelius Bezuidenhout***	Resigned 1 January 2018
Moses Mutuli**	Appointed 1 January 2018
John Lintari**	Chief Executive Officer

*Ugandan **Kenyan ***South African

Company Secretary

Kampala Associated Advocates
Plot 41, Nakasero Road
P. O. Box 9566
Kampala, Uganda

Principal place of business and registered office

Plot 15, Princess Anne Drive, Bugolobi
P. O. Box 25495
Kampala, Uganda

Legal advisers

Kampala Associated Advocates
Plot 41, Nakasero Road
P. O. Box 9566
Kampala, Uganda

Bankers

Standard Chartered Bank Uganda Limited
Plot 5, Speke Road
P O Box 7111, Kampala

Barclays Bank of Uganda Limited
Plot 5, Hannington Road
P. O. Box 7101, Kampala

DFCU Bank Limited
Plot 2, Jinja Road
P. O. Box 70, Kampala

Independent auditors

Ernst & Young
Certified Public Accountants
Ernst & Young House
Plot 18, Clement Hill Road
Kampala.

Statutory Actuary

Edwin Splinter - Sanlam Group, South Africa.

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2018, which discloses the state of affairs of Sanlam Life Insurance (Uganda) Limited ("the company").

Incorporation and principal activity

Sanlam Life Insurance (Uganda) Limited was incorporated on 03 November 2009 as a private limited liability company.

The principal activity of the company is to provide various classes of long term insurance business as defined in the Insurance Act (Cap 213) including the re-insurance of any such business. The company also obtained approval from the Insurance Regulatory Authority of Uganda to provide a medical product, Sancare Medical Insurance.

Results

The company reported a net profit of Ushs 882 million (2017: Ushs 554 million) which has been offset against the accumulated losses.

Dividends

The directors do not recommend the payment of a dividend in 2018 (2017: Nil).

Reserves

Contingency reserve

Under section 5 (b) of the Insurance Regulations, 2002, the company is required to annually credit an amount equal to 1 percent of premiums to contingency reserves.

An amount of Ushs 311 million (2017: Ushs 248 million) has been transferred to the contingency reserve to comply with Section 5 (b) of the Insurance Regulations, 2002.

Capital reserve

The Insurance laws and regulations require the company to transfer from its profits for the year, before any dividend is declared and after provision has been made for taxation, a sum of 5 percent of the profits to capital reserves to facilitate capital base growth.

An amount of Ushs 91.2 million (2017: Ushs 27.7 million) has been transferred to the capital reserve to comply with insurance laws and regulations.

Statutory requirements

Share capital

Under Section 37 of the Insurance Act, 2017, the Company is required to have a minimum paid up capital of Ushs. 3,000 million (Three billion Uganda shillings). This requirement has been met by the Company at 31 December 2018 and 31 December 2017.

Issued and paid up share capital

The issued and paid up share capital is Ushs 21,714 million (2017: 18,690 million) which is divided into 21,714 (2017: 18,690) ordinary shares of Ushs 1,000,000 each.

Statutory deposit

Security deposits with Bank of Uganda (the Central Bank)

Under the Ugandan Insurance laws and regulations, the Company is required to make and maintain a security deposit with the Bank of Uganda of at least 10% of the prescribed paid-up capital. The Company has fulfilled this requirement by making a deposit of Ushs 2,698 million (2017: Ushs 2,325 million) with the Bank of Uganda.

Financial risk management and objective

The Company's activities expose it to a variety of financial risks, including underwriting risk, equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimize potential adverse effects on its financial performance and position.

The Company's risk management policies include the use of underwriting guidelines and capacity limits, reinsurance planning, policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximize return within an acceptable level of interest rate risk.

Related party transactions

Transactions with related parties during the year were in the normal course of business. Details of transactions and balances with related parties are included in note 22 to the financial statements.

Solvency

The Directors consider the Company's solvency position on the Statement of Financial Position as set on these financial statements to be satisfactory based on the fact that the Company's solvency margin at 31 December 2018, and as at 31 December 2017, exceeded the minimum requirements of the Insurance Act, 2017.

Employee welfare

The Company's employment terms are reviewed annually to ensure that they meet statutory and market conditions. The Company has a medical scheme that caters for medical needs of employees and their immediate dependents.

In order to improve the motivation of employees, the Company provides training and holds regular meetings with employees to elicit their views on the promotion of customer service and working conditions.

Directors

The directors who held office during the year up to the date of this report are set out on page 1.

Auditors

In accordance with Section 108 of the Insurance Act, 2017, an insurance company's auditors are required to rotate upon completion of audit for a continuous period of four years.

The auditors, Ernst & Young, who were appointed during the year, have expressed willingness to continue in office in accordance with section 167 (2) of the Companies Act, 2012 of Uganda and the Insurance Act, 2017.

By Order of the Board

Kampala Associated Advocates
In association with DENTONS
P. O. Box 9566, Kampala, Uganda

Secretary

Date: ....01st April..........**2019**

Statement of Directors' Responsibilities

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the Companies Act of Uganda and, Ugandan Insurance Act 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.

The director's responsibilities include: designing implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatements whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. They are also responsible for safe guarding the assets of the company.

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

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, Ugandan Companies Act and Ugandan Insurance Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the profit for the year ended 31 December 2018. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approval of the Financial Statements

The financial statements, as indicated above, were approved by the Board of directors on ……01st April……2019 and were signed on its behalf by:

Report of the Independent Auditors to the members of Sanlam Life Insurance Uganda Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sanlam Life Insurance Uganda Limited ("the Company") set out on pages 11 to 75, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion the accompanying financial statements present fairly in all material respects, the financial position of Sanlam Life Insurance Uganda Limited as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), the Ugandan Companies Act and the Ugandan Insurance Act.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements section of* our report. We are independent of the Company in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing audits of Sanlam Life Insurance Uganda Limited. We have fulfilled our other ethical responsibilities in accordance with the IFAC Code, and in accordance with other ethical requirements applicable to performing the audit of Sanlam Life Insurance Uganda Limited. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter was addressed in the audit
Insurance contract liabilities	
As stated in note 27, Insurance Contract Liabilities amounted to Ushs 14.4 billion. The life business policy liabilities and income recognition for the period is determined by actuarial valuations which are done by the Company's designated actuarial expert. The determination of insurance contract liabilities requires significant judgment in the determination of policyholders' benefits that represent the estimated future benefit liability for traditional life insurance policies and include the value of accumulated declared bonuses or interest that have vested to the policy holders. The reserves for life benefits for participating traditional life insurance policies are calculated using a gross level premium valuation method. The calculation of reserves depends on the type of profit participation and is based on actuarial assumptions, such as guaranteed mortality benefits, interest rates, persistency, expenses and investment return, plus a margin for adverse deviations.	We reviewed the procedures/accounting policies around recognition of insurance contract liabilities and the application thereof to check that these are in compliance with IFRS. We tested the models used in developing these balances, reviewing management's assumptions in light of current market conditions, industry developments and policyholder behavior, and obtaining comfort over the completeness and accuracy of underlying data used in the calculations. We examined the biometric assumptions, such as mortality and disability and additional assumptions, such as investment return in light of the current market environment, the expected development within the industry as well, as the behavior of insurers. The future life policyholder benefits are calculated using a discount rate. We have reviewed significant assumption changes made during the year with a focus on the interest rate used in the traditional life insurance policies. In assessing the interest rate used, we confirmed that the interest rates are supported by the anticipated economic performance of the assets backing the liability when considering any planned changes in asset strategy and reinvestment. In particular, we assessed the different components of the discount rate on a portfolio level ("individual life" and "group life"). We verified the consistency of the assumptions made by management with assumptions made elsewhere (for example in the determination of the market consistent embedded value (MCEV), and We reviewed the methodology for determining the selected discount rate, based on the above input parameters.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement of this information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012 and the Insurance Act, 2017, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The directors are responsible for overseeing the Company's financial reporting processes.

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 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company 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.

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

Report on other legal requirements

As required by the Companies Act of Uganda, 2012, we report to you based on our audit, that:

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

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

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

The engagement Partner on the audit resulting in this independent auditor's report is CPA Michael Kimoni – P0248.

ERNST & YOUNG
………………………………

Ernst & Young
Certified Public
Accountants of Uganda
Kampala, Uganda

Date....01st April.....................2019

Statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 Ushs '000	2017 Ushs '000
Gross written premiums	4	35,185,474	24,803,785
Reinsurance gross premium ceded	4	(6,769,196)	(323,265)
Net change in provision for unearned premium - Sancare		(293,012)	(689,293)
Net written premiums		28,123,266	**23,791,227**
Interest income using the EIR	5(a)	3,086,278	1,753,916
Other investment income	5(b)	194,557	108,347
Commission income		253,045	171,312
Other operating income	6	265,168	298,189
Fair value movement on quoted shares and unquoted shares	19 & 21	81,561	55,149
Net fair value losses on debt instruments at fair value through profit or loss		(277,917)	-
Other income		**3,602,692**	**2,386,913**
Total income		**31,725,958**	**26,178,140**
Claims incurred and policy holders' benefits	7	(10,322,931)	(10,654,750)
Claims ceded to reinsurers		2,488,196	273,820
Net change in insurance contract liabilities	8	(5,329,137)	(1,671,241)
Net claims incurred		**(13,163,872)**	**(12,052,171)**
Finance Costs	9	-	(68,176)
Expected credit losses on financial instruments	10(a)	20,347	-
Operating and administrative expenses	10(b)	(12,914,102)	(9,027,465)
Commissions expense		(4,248,202)	(4,439,191)
Total expenses		**(17,141,957)**	**(13,534,832)**
Total benefits, claims and other expenses		**(30,305,829)**	**(25,587,003)**
Profit before tax		1,420,129	**591,137**
Income tax charge	12(a)	(538,251)	(37,272)
Net profit for the year		**881,878**	**553,865**
Total comprehensive income		**881,878**	**553,865**

Statement of financial position

as at 31 December 2018

	Note	2018	2017
		Ushs '000	Ushs '000
CAPITAL EMPLOYED			
Share capital	13 (a)	21,714,000	18,690,000
Share premium	13 (b)	47,000	47,000
Other reserves	13 (c)	49,250	49,250
Capital reserve	15	234,671	143,437
Contingency reserve	14	1,216,651	906,089
Accumulated loss		(13,090,238)	(13,353,997)
Shareholders' funds		10,171,334	**6,481,779**
REPRESENTED BY:			
Assets			
Property and equipment	16	447,449	516,481
Intangible assets	17	13,435	28,130
Statutory deposits	18	2,698,244	2,325,611
Investment in unquoted shares	19	277,500	242,299
Held to maturity investments	20	-	14,616,588
Debt instruments – at amortised cost	20	6,004,597	-
Debt instruments – at fair value through profit or loss	20	17,419,763	-
Investment in quoted shares	21	312,157	265,797
Reinsurance receivables	23(a)	5,446,332	71,733
Deferred tax asset	24	425,125	538,945
Other receivables	25(a)	645,173	1,284,658
Premium receivables	25(b)	1,780,681	1,905,535
Deferred acquisition costs	29	1,440,767	1,192,933
Cash and bank balances	26	1,509,932	1,253,908
Total assets		38,421,155	24,242,618
Liabilities			
Insurance contract liabilities	**27**	14,372,762	**9,043,625**
Provision for unearned premium	30	4,399,998	4,106,986
Reinsurance payable	23(b)	4,029,905	251,667
Commission payable	31	15,429	34,727
Amount due to related parties	22(a)	2,060,928	1,350,498
Medical claims payable	32	1,429,269	1,056,180
Other payables	28	1,941,530	1,917,156
Total liabilities		28,249,821	**17,760,839**
Net assets		10,171,334	**6,481,779**

The financial statements were on pages 15 to 75 approved for issue by the Board of directors on……………......…2019 and signed on its behalf by:

Director

Director

Statement of changes in equity

	Share capital Ushs'000	Share premium Ushs'000	Contingency reserve Ushs'000	Capital reserve Ushs'000	Other reserves	Accumulated losses Ushs'000	Total Ushs'000
At 1 January 2017	**18,690,000**	**47,000**	**658,051**	**115,744**	**49,250**	**(13,632,131)**	**5,927,914**
Total comprehensive income for the year	**-**	-	-	-	-	553,865	**553,865**
Transfer to capital reserve	-	-	-	27,693	-	(27,693)	**-**
Transfer to contingency reserve	-	-	248,038	-	-	(248,038)	**-**
At 31 December 2017	**18,690,000**	**47,000**	**906,089**	**143,437**	**49,250**	**(13,353,997)**	**6,481,779**
Impact of adopting IFRS 9	**-**	-	-	-	-	(216,323)	**(216,323)**
Restated opening balance	**18,690,000**	**47,000**	**906,089**	**143,437**	**49,250**	**(13,570,320)**	**6,265,456**
At 1 January 2018	**18,690,000**	**47,000**	**906,089**	**143,437**	**49,250**	**(13,570,320)**	**6,265,456**
Issue of share capital	3,024,000	-	-	-	-	-	**3,024,000**
Total comprehensive income for the year	-	-	-	-	-	881,878	**881,878**
Transfer to capital reserve	-	-	-	91,234	-	(91,234)	**-**
Transfer to contingency reserve	-	-	310,562	-	-	(310,562)	**-**
At 31 December 2018	**21,714,000**	**47,000**	**1,216,651**	**234,671**	**49,250**	**(13,090,238)**	**10,171,334**

Statement of cash flows

	Note	2018	2017
		Ushs '000	Ushs '000
Profit before tax		1,420,129	591,137
Adjustments for:			
Net change in insurance contract liabilities		5,329,137	1,671,241
Expected credit losses on bank balances		1,703	-
Expected credit losses on debt instruments		(22,050)	-
Fair value movements on debt instruments		277,917	-
Accrued interest income		(845,978)	(404,112)
Depreciation	10	137,191	125,455
Amortisation	10	91,151	18,062
Gain on sale of property and equipment		(58,254)	(9,522)
Change in fair value of quoted/unquoted shares		(81,561)	(55,149)
		6,249,385	1,937,112
Movement in:			
Receivables arising out of reinsurance		(5,374,599)	18,618
Reinsurance payables		3,778,238	80,887
Other receivables		516,505	(110,784)
Related party balances		710,430	1,003,780
Technical reserves		293,012	1,240,720
Reinsurance and commission payable		(19,298)	(56,433)
Other payables		397,463	346,456
Cash generated from operations		6,551,136	**4,460,356**
Tax paid:	12 (a)	(424,431)	(287,782)
Net cash generated from operating activities:		6,126,705	**4,172,574**
Investing activities			
Purchase of property and equipment	16	(116,030)	(258,700)
Purchase of intangible assets	17	(76,456)	(20,599)
Proceeds from disposal of property and equipment		106,125	16,200
Investment in government securities and deposits		(37,386,858)	(27,134,746)
Maturity of financial assets		28,908,335	22,832,484
Statutory deposits – additional investments	18	(690,238)	(2,493,936)
Statutory deposits – Maturities	18	362,144	670,054
Purchase of stock from listed entities		-	(72,859)
Net cash used in investing activities		(8,892,978)	**(6,462,102)**
Financing activities			
Shareholders' contribution		3,024,000	-
Cash flows from financing activities		3,024,000	**-**
(Decrease)/Increase in cash and cash equivalents		257,727	(2,289,528)
Expected credit losses on bank balances		(1,703)	-
At 1 January		1,253,908	**3,543,436**
At 31 December	**26**	1,509,932	**1,253,908**

Notes to Financials

1. Reporting entity

Sanlam Life Insurance (Uganda) Limited is a limited liability company incorporated under the Companies Act of Uganda and domiciled in Uganda. The principal activity of the company is to carry on any class of long term insurance business and to provide a medical insurance product, as defined in the Insurance Act, 2007 including the re-insurance of any such business. The Company is also licensed to provide a medical product, Sancare Medical Insurance.

2. Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards. Except for policy holder investments, investments in quoted and unquoted shares measured at fair value through profit or loss (FVTPL), the financial statements are prepared under the historical cost convention, as modified by the carrying of impaired assets at their recoverable amounts, and actuarially determined liabilities at their present value. The financial statements are presented in Uganda Shillings (Ushs), rounded to the nearest thousand.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.3

3. 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;

» Classification of contracts

A contract is classified as insurance where the company accepts significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Significant insurance risk exists where it is expected that for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will significantly exceed the amount payable on early termination, before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

» Life insurance contract liabilities

Life insurance liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are measured by using the gross premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected 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 premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the company.

In line with IFRS 4, the company assesses the adequacy of the recognised insurance contract liabilities using current estimates of future cash flows. If the assessment shows that the carrying amount of the insurance contract liabilities is inadequate in the light of related future cash flows, the entire deficiency is recognised in profit or loss.

The insurance contract provisions are valued using realistic expectations of future experience, with margins for prudence and deferral of profit emergence. The provision, estimation techniques and assumptions are periodically reviewed, with changes in estimates reflected in the profit or loss as they occur. Whilst the Directors consider that the insurance contract provisions and the related reinsurance recovery are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided.
The insurance contract liabilities are determined through an actuarial valuation done on an annual basis.

Group credit liabilities

For personal loans, unearned premium reserve (UPR) is calculated as a reducing balance of the single premium received over the term of the loan. A loss ratio of 80% (2017: 80%) is then applied to the UPR. An Incurred But Not Reported (IBNR) reserve equivalent to one month of earned premium is also maintained.

Group life liabilities

This is annually renewable business with cover restricted to the period covered by premiums.
For this business, the company holds an Unearned Premium Reserve (UPR), which represents the element of premiums already received where cover has not yet been provided. A loss ratio of 80% (2017: 80%) is then applied to the UPR.

Individual life liabilities

Two reserves are considered for this valuation, the unit reserve and the shillings reserve (or non-unitized reserve). The unit reserve is the reserve held in respect of the investment account component for the investment products. It represents the total value of investment funds held in respect of policyholders and is calculated as the number of units times the unit price as at the valuation date.
For the shillings reserve (or non-unitized reserve), all policies are valued on a policy-by-policy Financial Soundness Valuation (FSV) method. The shilling reserves is calculated by subtracting the present value of the future projected income to the company (predominantly premiums and investment income) from the present value of the future projected outflow of the company (predominantly claims and expenses). The estimates of projected income and outflows are based on a set of realistic assumptions (best estimate assumptions) with an added margin for prudence. In addition, the statutory actuary may choose to strengthen these margins by applying an additional layer of what is known as discretionary margins. Thus, the valuation basis results in a larger reserve than would be required on a true best estimate basis. The degree of conservatism in the results depends on the extent of the discretionary margins.

Group Deposit Administration Liabilities

The Deposit Administration business was introduced in 2015. This is a with-profit arrangement where Sanlam Uganda is responsible for collecting contributions; investing them appropriately and managing the individual member accounts. Interest added to each account in the first three years from the date of joining the scheme is guaranteed to be 7.5% to 8% per annum. The reserve is calculated as the build-up of actual member contributions at a prudent rate of investment return, less charges and claims. An average investment return (net of management charges and withholding tax) of 8.5% (2017: 9.0%) was used to calculate the reserve for the December 2018 valuation.

Medical

Medical insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. The cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is the company's past claims development experience.

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. The portion of premiums received on in-force contracts that relates to unexpired risks at the statement of financial position date is reported as an unearned premium liability.

Adjustments to the liabilities at each reporting date are recorded in the statement of comprehensive income in 'gross change in contract liabilities'. The liability is derecognised when the contract expires, is discharged or is cancelled. Refer to Note 27 for the actuarial findings. When the present value of expected future cash flows, results in an asset, the asset is recognized on the statement of financial position.

» Reinsurance

The company cedes insurance risk in the normal course of business.
Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts. Reinsurance assets include balances due from reinsurance companies relating to the portion of the insurance liability that is recoverable from the reinsurer. Reinsurance assets are measured in accordance with the terms of the reinsurance contract.

Gains or losses on buying reinsurance are recognised in the statement of comprehensive income immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the company from its obligations to policyholders.
Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.
Claims are presented on a gross basis for ceded reinsurance.

Reinsurance liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

» Revenue recognition

Premium income

Gross premiums

Gross recurring premiums on life 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. Monthly premiums in respect of certain products are accounted for in accordance with the terms of their policy contracts. Cover only commences when premiums are received.

For medical insurance, written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences, and adjusted for, by recognition of the unearned premium reserve (UPR).

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The unearned portion of accrued premiums is included within long-term policy liabilities.

Reinsurance premiums

Gross reinsurance premiums on life contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

Investment income

Interest income (including income on DAP funds) is recognised in the statement of comprehensive income as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Dividend income is recognised in the statement of comprehensive income when authorised by the counterparty, and the Company has an unconditional right to receipt of the amount due.

» Benefits, claims and expenses recognition

Gross benefits and claims for life insurance contracts 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.

Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Medical claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims.

» Share capital

Share capital is classified as equity where the company has no obligation to deliver cash or other assets to shareholders.

» Property and equipment

Property and equipment is stated at cost, excluding the costs of day-today servicing, less accumulated depreciation and accumulated impairment losses.

Depreciation is provided for on a straight-line basis over the useful lives of the following classes of assets:

Computer equipment	33%
Furniture, fittings and other equipment	10%
Motor vehicles	25%
Leasehold improvements	10%

The assets' residual values, and useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.
Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the statement of comprehensive income as an expense.
An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

» Financial assets

Initial recognition and measurement

On 1 January 2018, the Company adopted IFRS 9 financial instruments using the modified retrospective method of adoption. The cumulative effect of initially adopting IFRS 9 is recognised as an adjustment to the opening balance of retained earnings. Therefore, the comparative information has not been restated and continues to be reported under IAS 39 as follows:
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are i.e., the date that the company commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as losses (negative net changes in fair value) or gains (positive net changes in fair value) in the statement of comprehensive income. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

ii. Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. On adoption of IFRS 9, these instruments are now classified at amortised cost, as disclosed later.

iii. Other assets and amounts due from related parties

The above financial assets are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'financial Investments-available for sale' or 'financial assets designated at fair value through profit or loss'. After initial measurement, these financial assets are subsequently measured at amortised cost, using the effective interest rate method, less allowance for impairment. On adoption of IFRS 9, these instruments are now classified at amortised cost. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortization is included in the statement of comprehensive income. The losses arising from impairment are included in the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

The rights to receive cash flows from the asset have expired; and
The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

(a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.
If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Financial liabilities – initial recognition and subsequent measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives as appropriate. The company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value. The company's financial liabilities include reinsurance and other payables and amounts due to related parties.

The financial liabilities are subsequently measured at amortised cost, using the effective interest rate (EIR) method. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the company.

i. Impact of adoption of IFRS 9

On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard which bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

On 1 January 2018, the Company adopted IFRS 9 on its effective date of 1 January 2018.

The Company has taken advantage of the exemption that allows it not to restate comparative information for prior periods with respect to classification and measurement, including impairment changes, in the scope of IFRS 9.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 have been recognized in retained earnings and reserves as at 1 January 2018. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018.

Changes to classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. All financial instruments, except equity instruments and derivatives, including hybrid contracts are measured at fair value through profit or loss (FVTPL), fair value through comprehensive income (FVOCI) or amortized cost, based on the (i) their business model and (ii) the instrument's contractual cash flow characteristics.

These categories replace the IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held to maturity.

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9. The table below summarizes the changes in classification of financial instruments recognized in accordance with IAS 39, after the adoption of IFRS 9:

Financial Instrument		Classification under IAS 39	Classification under IFRS 9	Measurement
Cash and balances with banks	1	Loans & receivables	Cash and cash equivalents	Amortized cost
Treasury bills and bonds, and fixed deposits – shareholder funds	2	Loans & receivables	Debt instruments at amortized cost	Amortized cost
Statutory deposits	2	Loans & receivables	Debt instruments at amortized cost	Amortized cost
Treasury bills and bonds, and fixed deposits – policy holder funds	2	Loans & receivables	Fair value through profit or loss	Amortized cost
Investment in quoted/ unquoted shares	3	Fair value through profit or loss	Fair value through profit or loss	Fair value
Reinsurance receivables	4	Not in scope**	Not in scope**	Not in scope**
Premium receivables	4	Not in scope**	Not in scope**	Not in scope**
Other receivables	5	Loans & receivables	Amortized cost	Amortized cost

***In accordance with IFRS 9, rights and obligations arising from insurance contracts are not in the scope of IFRS 9 and therefore the measurement criteria for premium receivables remains unchanged, after the adoption of IFRS 9. The change in carrying amounts relates to additional impairment allowances and fair values losses amounting to Ushs 216 million.*

As at 1 January 2018, the Company classified its financial instruments at amortized cost, if both of the following conditions were met:

i. The financial assets are held within a business model with the objective to hold financial assets in order to collect contractual cash flows (business model test)

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding (SPPI test)

Instruments at fair value through profit or loss

The Company has designated certain financial assets that would otherwise meet the requirements to be measured at amortized cost, as at fair value through profit or loss (FVTPL), to significantly reduce an accounting mismatch that would have arisen, since the underlying liabilities (insurance contract liabilities) are assessed by actuarial techniques based on fair valuation assumptions. The instruments include fixed deposits, treasury bills and treasury bonds that are directly attributable to policy holders. The following methodologies applied in the valuation of insurance contract liabilities, are based on fair valuation techniques:

Individual Life Liabilities:

- The unit reserve, which relates to the savings component of Dreambuilder policies is calculated as the number of units multiplied by a unit price (less a surrender penalty for inactive policies).
- A bonus stabilization reserve for the Dreambuilder product which is assessed an accumulation for past over-/ under declarations of bonuses relative to the actual investment return earned on the funds, and:
- Non-unit reserves are also calculated by projecting all future outgoes less all future income and discounting these reserving cash flows back to the valuation date.

Group Life Liabilities

- An Unearned Premium Reserve is calculated to represent the element of premiums already received where cover has not yet been provided. Upfront costs equal to the commission rate paid per scheme are then subtracted from the UPR.
- For personal loans, an Unearned Premium Reserve, an INBR equivalent to earned premiums is held. A run-down of the UPR takes into account, changes in sum assured over the loan term, therefore a reducing sum assured UPR is adopted

for credit life polices where the data is available. Upfront costs equal to the actual commission rate paid per scheme are then subtracted from the UPR.

- Under the Deposit Administration business, Sanlam Uganda collects contributions and invests them. Interest is added to each account in the first three years from the date of joining the scheme, with a guaranteed rate ranging from 7.5% to 8% per annum. The total reserve held is the market value of the fund.

The market value of the fund refers to the underlying assets of the deposit administration portfolio and is an accumulation of the net contributions at the actual investment returns earned, which can be positive or negative. A portion is allocated to member accounts representing the guaranteed benefit payable and is an accumulation of the net contributions at the bonus rates declared. A bonus stabilization reserve (BSR), which is the difference between the market value (the total reserve) and the book value (member accounts) is continually assessed.

Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs:

	IAS 39 Category	IFRS 9 Category	IAS 39 measurement	Re-measurement (ECL/Fair value changes)	IFRS 9 measurement
			Amount (Ushs'000)	Amount (Ushs'000)	Amount (Ushs'000)
Financial assets					
Cash and balances with banks	*L & R*	AC[1]	1,253,908	(14,678)	1,239,230
Staff debtors	*L & R*	AC	45,932	-	45,932
Statutory deposits	*L & R*	AC[1]	2,698,244	(25,443)	2,672,801
Financial investments held to maturity	L & R	AC[1]	4,838,043	(90,790)	4,747,253
		FVTPL[2]	9,778,545	(85,412)	9,693,133
Investments in quoted and unquoted shares	FVTPL	FVTPL	508,096	-	508,096
			19,122,768	(216,323)	18,906,445
Financial liabilities					
Amount due to related parties	*L & R*	AC	1,350,498	-	1,350,498
Other payables	*L & R*	AC	1,362,939	-	1,362,939
			2,713,437	**-**	**2,713,437**
Total change in equity due to adopting IFRS 9:				**(216,323)**	

[1]The company has assessed expected credit losses on these instruments, held at amortized cost, as at 1 January 2018. The expected credit loss computations indicated that a higher provision should have been recognized. There were no loss provisions recognized on these financial instruments as at 31 December 2017.

[2]On initial recognition (under IAS 39), these instruments were classified as held to maturity. Under IFRS 9, these instruments have been reclassified to fair value through profit or loss (FVPL) to significantly reduce an accounting mismatch, since the underlying liabilities, are measured at fair value. The re-measurement relates to the fair value loss that was recognized on 1 January 2018.

Business model test

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly assessed financial assets going forward.

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost.

Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR). A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

The accounting for financial liabilities has remained largely the same as it was under IAS 39.

SPPI test

As a second step of its classification process the Company assesses the contractual terms of the financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

From 1 January 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line.

Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2018.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Company's accounting for credit losses by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The impairment model is applied to all financial assets except for financial assets classified as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment.

Under IAS 39, impairment losses are recognized, if and only if, there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified.

Under IFRS 9, ECLs are recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the IAS 39 model.

Under IAS 39, incurred losses are measured by incorporating reasonable and supportable information about past events and existing conditions. Under IFRS 9, the ECL model, which is forward-looking. In addition, IFRS 9 requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses.

Therefore, from 1 January 2018, the Company has been recording the allowance for expected credit losses for all debt financial assets held at amortized cost.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Changes to the impairment calculation (continued)

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each month, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. Sanlam Life InsurLimited has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 8 days past due. All financial instrument that are 30 days past due are migrated to stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the COMPANY records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Calculation of ECL

The Company calculates ECLs by measuring the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.
The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon.
A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Under **stage 1**, The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

When a financial instrument has shown a significant increase in credit risk since origination (stage 2), the PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR. For financial instruments considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. POCI assets are financial assets that are credit impaired on initial recognition. The COMPANY only recognises the cumulative changes in lifetime ECLs since initial recognition, discounted by the credit adjusted EIR.

The company applies the simplified model applies for staff debtors and other receivables with maturities of less than 12 months.

ECL models

In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates
- Inflation rates
- Interest rates
- Exchange rates
- Domestic borrowing
- Credit to private sector

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Impairment of investments and bank balances

Investments in treasury bills, treasury bonds, investments in fixed deposits and bank balances are impaired by applied the following:

A probability of default determined from a credit rating from Fitch. A probability of default is assigned to the credit rating obtained. When a credit from Fitch is not available, Standard & Poor and Fitch are used. The loss given default is assigned at 45% based on Basel specifications.

Definition of Default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Company will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days and above past due.

Write-offs

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to profit or loss.

Hedging accounting

The company had no hedging relationships as at 1 January 2018, hence no impact on transition to IFRS 9.

Other adjustments

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, income tax expense and retained earnings were adjusted as necessary.

» Impairment of non-financial assets

The company 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 company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) 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.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets, 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 such indication exists, the company makes an estimate of the asset's or CGU recoverable amount. A previously recognised 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 comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

» Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the statement of financial position. Cash and cash equivalents are valued at amortised cost. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

» Taxes

Current income tax

Current income tax is provided for in the statement of comprehensive income on the basis of the results included therein adjusted in accordance with the provisions of the Income Tax Act (Cap. 340).
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.
Revenues, expenses and assets are recognised net of the amount of Value Added Tax (VAT) except:

- Where the VAT incurred on a purchase of goods and services is not recoverable from Uganda Revenue Authority, in which case the VAT is recognized as part of the cost of the acquisition of the asset or as part of the expense for the item as applicable; and
- Receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the tax authority is included as part of receivables or payables in the statement of financial position.

Deferred income tax

Deferred income tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when 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.

Deferred income tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- 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.

The carrying amount of deferred income 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 tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred income tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

» Foreign currency translation

The company's financial statements are presented in Uganda Shillings (Ushs), which is also the company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the company at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

» Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and 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 are 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 the statement of comprehensive income in the expense category consistent with the function of the intangible asset. An intangible asset is derecognized upon disposal or when no further economic benfits are expected from its use or disposal.

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 comprehensive income when the asset is derecognised.

» Provisions

Provisions are recognised when the company 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 company 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 comprehensive income net of any reimbursement.

» Employee benefits

National Social Security Fund (NSSF)

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salary. The company's contributions are charged to the statement of comprehensive income in the period to which they relate.

Other employee benefits

The company recognizes initially, and at each reporting period, a liability at the fair value of cash settled transactions, with changes in fair value recognized in employee benefits expenses. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The company also recognizes a medical expense for certain grades of permanent employees included in the group medical aid, paid for by the Company.

» Deferred acquisition costs

Deferred acquisition costs relate to commission paid in advance. The company fully recognizes deferred acquisition costs upon payment and these are amortised on a monthly basis over twelve months.

» New standards, amendments and interpretations

New standards, amendments and interpretations effective and adopted during the year ended 31 December 2018

During the current year, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC) that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018. The adoption of these new and revised standards and interpretations has not resulted in material changes to the Company's accounting policies.

The Company adopted the following standards, interpretations and amended standards during the year:	
IFRS 9 *Financial Instruments*	IFRS 9 Financial instruments replaces IAS 39 Financial Instruments: Recognition and measurement. The standard applies to recognition, measurement, impairment, de-recognition of financial instruments, and general hedge accounting. The standard has fundamentally changed the Company's financial statement recognition and impairment processes, and is discussed in detail in note 3 (l).
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4	The amendment, issued in September 2016 provides a deferral option for entities that issue insurance contracts within the scope of IFRS 4. Applying IFRS 9 Financial instruments (amendments) allows an entity that issues insurance contracts the opportunity to utilize two options - where IFRS 9 is applied prior to the forthcoming insurance contracts standard. These are (a) the overlay approach - which permits an insurer to reclassify certain income/ expenditure, arising from designated financial instruments, from profit or loss to OCI, and (b) the deferral approach - temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts. The Company has assessed that the amendment will not any significant impact on the company's financial statements.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 replaced all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRS 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Adoption of the standard did not have a significant impact on the financial reporting of the Company.
Clarifications to IFRS 15	In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition. The clarifications did not have a significant impact on the financial reporting of the Company.
The Company adopted the following standards, interpretations and amended standards during the year:	
Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2	In June 2016, the IASB issued amendments to IFRS 2 Share Based Payments to clarify the classification and measurement of share-based payment transactions. The clarifications did not have a significant impact on the financial reporting of the Company.
Annual Improvements 2014–2016 Cycle (short-term exemptions)	Following is a summary of the amendments from the 2014–2016 annual improvement cycle, that became effective during the year: IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters. IAS 28 Investment in Associates and Joint Ventures –Clarification that measuring investees at fair value through profit or loss in an investment-by-investment. The amendments did not have a significant impact on the financial reporting of the Company.
IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	Foreign Currency Transactions and Advance Consideration - Amendments clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Company adopted the following standards, interpretations and amended standards during the year:	
Transfers of Investment Property – Amendments to IAS 40	The amendments require that an entity shall transfer a property to, or from investment property, when and only when, there is evidence of a change in use. The amendment clarifies that a change in use occurs if property meets, or ceases to meet, the definition of investment property, and that a change in management's intention does not, in itself constitute evidence of a change in use.

New and revised International Financial Reporting Standards issued but not yet effective.

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

Pronouncements		**Annual periods beginning on or after**
Conceptual framework for financial reporting	In March 2018, the IASBN issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework). The revised framework addresses the balance between concepts and details for the framework to the useful to the Board and the users. The Company will adopt the Framework on its effective date.	1 January 2020
IFRS 16 *Leases*	Leases - A new accounting standard that replaces the following standards and interpretations: IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying assets has a low value. The accounting processes for lessors will remain unchanged with leases being classified as either operating or finance, as was the case with IAS 17. The company currently has a number of office premises that were initially treated as operating leases. The Company is assessing the extent to which a right to use the assets during the lease term will be recognized in the financial statements for the year ending 31 December 2019.	1 January 2019
Prepayment Features with Negative Compensation – Amendments to IFRS 9	The amendment clarifies that a financial asset passes the SPPI test regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The Company will adopt the amendment on its effective date.	1 January 2019

New and revised International Financial Reporting Standards issued but not yet effective.

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

Pronouncements		Annual periods beginning on or after
Long term interests in Associates and Joint Ventures – Amendments to IAS 28	The amendment clarifies that an entity applies IFRS 9 to long term interests in an associate or joint venture to which the equity method is not applied but that, in substance form part of the net investment in the associate or joint venture. The amendment will not have any impact on the financial reporting of the Company.	1 January 2019
Annual Improvements 2015–2017 Cycle (short-term exemptions)	In December 2017, the IASB issued these improvements containing the following amendments to IFRS; the amendments are effective for annual periods beginning on or after 1 January 2019 and include: • IFRS 3 *Business Combinations*— Clarifies that when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. • IAS 12 *Income Taxes*— Clarifies that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. • IAS 23 *Borrowing Costs* — Clarifies that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. • IFRS 11 *Joint Arrangements*— Clarifies that previously held interests in a joint operation are not remeasured when a party that participates in, but does not have joint control of a joint operation, obtains joint control. The amendments will not have any impact on the financial reporting of the Company.	1 January 2019
Plan Amendment, Curtailment or Settlement – Amendment to IAS 19	Plan Amendment, Curtailment or Settlement – Amendment to IAS 19— Clarifies that when a plan curtailment or settlement occurs, the entity should determine the current service cost for the remainder of the period after the plan amendment using the actuarial assumptions used to remeasure the net benefit liability reflecting the benefits offered under the plan and the plan assets after that event. The entity should also determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability. The Company has not recognized a plan asset or liability, and therefore the amendment will not have an impact on the Company's financial statements.	1 January 2019

IFRIC 23	Uncertainty Over Income Tax Treatments - Interpretation clarifying the accounting for uncertainties in income taxes. The Company does not expect the interpretation to have a significant impact on its financial statements.	1 January 2019
Other amendments	The following pronouncements are not expected to have any impact on the financial reporting of the Company: • Definition of a Business – Amendments to IFRS 3 • Definition of Material – Amendments to IAS 1 and IAS • Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	 1 January 2020 1 January 2020 Postponed indefinitely

IFRS 17 *Insurance contracts*

IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI. The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity's financial statements.

The standard is effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted.
The company has begun assessing the potential impact on the financial statements resulting from the application this standard.

4. Risk management objectives and policies

The primary objective of the company's risk and financial management framework is to protect the company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.
The company has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees

The company's activities expose it to a variety of risks, including insurance risk, liquidity risk, credit risk, foreign currency exchange rates and interest rates.
The disclosures below summarize the way the company manages key risks:

» Insurance risk

The principal risk the company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the company is to ensure that sufficient reserves are available to cover these liabilities.
The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.
The company also purchases reinsurance as part of its risks mitigation programme.
The main insurance risks that the company is exposed to are as follows:

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected

- Longevity risk – risk of loss arising due to the annuitant living longer than expected
- Investment return risk – risk of loss arising from actual returns being different than expected
- Expense risk – risk of loss arising from expense experience being different than expected
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected

The company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the company to pursue third parties for payment of some or all costs. The company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the company.

» Financial risks

The company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate and currency, which are exposed to general and specific market movements.

» Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. In the normal course of its business, the company incurs credit risk from financial institutions and accounts receivable. The credit risk exposure is, however, limited due to management's constant monitoring of the status of financial institutions where deposits are maintained, and by the terms of the transaction agreement with the customers. There are no significant concentrations of credit risk within the Company. The following table summarises the company's maximum exposure to credit risk before collateral held.

	2018	2017
	Ushs '000	Ushs '000
Statutory deposit	2,698,244	2,325,611
Debt instruments – at amortised cost	6,004,597	-
Debt instruments – at fair value through profit or loss	17,419,763	-
Held to maturity financial assets	-	14,616,588
Reinsurance receivables	5,446,332	71,733
Premium receivables	1,780,681	1,905,535
Other receivables	46,034	1,284,658
Bank balances	1,517,848	**1,249,746**
	34,913,499	**21,453,871**

There was no collateral held on any of the above amounts.
The ageing of premium receivables and other receivables at the reporting date has been disclosed in note 3.2.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out–flows and expected reinsurance recoveries.

The company maintains cash resources to meet the majority of these claims and also maintains a level of maturing funds that may be called upon should the available cash on current account prove insufficient to meet a given claim. Re-insurers may also be called upon based on the magnitude of the claim and the applicable reinsurance arrangements.

The table below summarizes the maturity profile of the company's financial assets and liabilities based on contractual undiscounted receipts and payments.

At 31 December 2018	Up to 1 month Ushs '000	2 to 3 months Ushs '000	4 to 12 months Ushs '000	Over 12 months Ushs '000	Total Ushs '000
Assets					
Debt instruments - at amortised cost, and at FVTPL	2,036,985	3,477,208	7,319,890	24,284,290	37,118,373
Other assets	46,034	-	-	-	46,034
Premium receivables	1,780,681	-	-	-	1,780,681
Cash and bank balances	1,517,848	-	-	-	1,517,848
	5,381,548	**3,477,208**	**7,319,890**	**24,284,290**	**40,462,936**
Liabilities					
Other liabilities	1,941,530	-	-	-	1,941,530
Amounts due to related parties	-	-	2,060,928	-	2,060,928
	1,941,530	**-**	**2,060,928**	**-**	**4,002,458**
Net liquidity gap	**3,440,018**	**3,477,208**	**5,258,962**	**24,284,290**	**36,460,478**

At 31 December 2017	Up to 1 month Ushs '000	2 to 3 months Ushs '000	4 to 12 months Ushs '000	Over 12 months Ushs '000	Total Ushs '000
Assets					
Investment in unquoted shares - Uganda Reinsurance Company	-	-	-	242,299	242,299
Held- to-maturity financial assets	1,341,387	196,200	4,579,500	8,499,500	14,616,587
Financial assets at fair value through profit or loss	-	-	-	265,797	265,797
Other assets	1,356,391	-	-	-	1,356,391
Premium receivables	1,659,403	154,539	91,593	-	1,905,535
Cash and bank balances	**1,253,908**	-	-	-	**1,253,908**
	5,611,089	**350,739**	**4,671,093**	**9,007,596**	**19,640,517**
Liabilities					
Other liabilities	3,259,730	-	-	-	3,259,730
Amounts due to related parties	-	-	1,350,498	-	1,350,498
Insurance contract liabilities	-	-	9,043,625	-	**9,043,625**
	3,259,730	-	10,394,123	-	13,653,853
Net liquidity gap	**2,351,359**	**350,739**	**(5,723,030)**	**9,007,596**	**5,986,664**

» Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

- Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board sets limits on the level of exposure by currency. The company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities. This mitigates the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The company had the following significant foreign currency positions (all amounts expressed in Uganda Shillings):

	Currency	2018	2017
		Ushs '000	Ushs '000
Assets			
Cash and bank balances	USD	3,277	84,946
Liabilities			
Amounts due to related parties - SEM	ZAR	(2,060,928)	998,509
Overall net position		(2,057,651)	(913,563)

At 31 December 2018, if the Uganda Shilling weakened by 10% against the US Dollar and the South African Rand, with all other variables held constant, this would have an impact of Ushs 206 million on the profit for the year (2017: Ushs 108 million). This variation in profitability is measured by reference to foreign currency exposures existing at year end.

		31-Dec-18	31-Dec-17
Currency	Change in Variable	Impact on profit before tax	Impact on profit before tax
		Ushs 000	Ushs 000
USD	+ 10%	327	8,496
ZAR	+ 10%	206,093	99,851
USD	- 10%	(327)	(8,496)
ZAR	- 10%	(206,093)	(99,851)

» 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.

At 31 December 2018, the only interest-bearing instruments that the company held were treasury bills, treasury bonds and fixed deposits with financial institutions, all of which are at fixed interest rates (2017: all instruments were at fixed rates). In respect to these assets, the company is therefore not significantly exposed to interest rate risks.

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices, caused by factors specific to the individual financial instrument.

The Company's price risk relates to financial assets whose values fluctuate as a result of changes in market prices. The Company does not issue any participating contracts, therefore there are no insurance or reinsurance contracts that are exposed to price risk.
At 31 December 2018, the Company's exposure to price risk was through equity instruments held at fair value, and listed on the Uganda Securities Exchanges.

The fair value of the listed equity instruments is directly related to the changes in the share price of the listed instruments. The table below summarizes the impact of a 10% increase/decrease of the share price of the instruments on the profit before tax and equity:

		Impact on equity	Impact on profit or loss
		2018	2018
		Ushs '000	Ushs '000
Change in share price	+10%	28,834	28,834
Change in share price	**-10%**	(33,165)	**(33,165)**

- Capital management

The company's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, are to:

- comply with the capital requirements set by the Insurance Act, 2017;
- safeguard the company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain a strong capital base to support the development of its business.

The company manages its capital adequacy by employing techniques based on the Insurance Act, 2017 guidelines. The Insurance Act, 2017 requires the maintenance of the following in regard to capital management:

Share capital

Under Section 6 of the Insurance Act, 2017, an insurance company is required to have paid up capital of Ushs. 3 billion (three billion) for life (long-term) insurance business.

The company's paid up issued capital as at 31 December 2018 exceeded this requirement. The company has paid up capital of Ushs 21.71 billion (2017: 18.69 billion).

Contingency reserve

The Insurance Act, 2017 requires insurance companies to maintain a contingency capital reserve. The contingency reserve is required to cover fluctuations in securities and variations in statistical estimates. With respect to life, the contingency reserve should equal to 1 percent of the premiums. The company monitors the overall capital adequacy following the above guidelines. The company has met the above statutory requirements. Actuarial valuation was done and resulted into a surplus as per the actuarial report.

» Approach to capital management

The company seeks to optimize the structure and sources of capital to ensure that it consistently maximizes returns to the shareholders and policyholders.
The company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the company is equity shareholders' funds.
The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Board. The company has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

	2018	2017
	Ushs'000	Ushs'000
Insurance contract liabilities excluding unearned premium reserve	14,372,762	9,043,625
Trade and other payables	5,447,156	4,610,228
Less: Cash and short - term deposits	(1,527,489)	(3,886,451)
Net payable or debt	18,292,429	**9,767,402**
Equity	23,265,170	19,835,776
Capital and net payable or debt	41,557,599	**29,603,178**
Gearing	44%	**33%**

» **Fair value**

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly from the market; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if 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.

The quoted market price used for financial assets held by the company is the current bid price. Instruments included in level 1 comprise primarily Uganda Securities Exchange equity instruments classified as trading securities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates.

The tables below sets a comparison by category of the carrying amount and fair values of the Company's financial instruments.

	Level 1	Level 2	Level 3	Total Fair Value	2018 Carrying Value
	UShs'000	UShs'000	UShs'000	UShs'000	UShs'000
Financial Assets					
Cash and bank balances*	-	-	-	1,509,932	1,509,932
Investment in unquoted shares	-	277,500	-	277,500	277,500
Debt instruments at amortised cost*				6,004,597	6,004,597
Debt instruments at fair value through profit or loss	17,419,763			17,419,763	17,419,763
Investment in quoted shares	312,157	-	-	312,157	312,157
Reinsurance receivables*	-	-	-	5,446,332	5,446,332
Other receivables*	-	-	-	645,173	645,173
Premium receivables*	-	-	-	1,780,681	1,780,681
Total	17,731,920	277,500	-	33,396,135	33,396,135
Financial Liabilities**					
Commission payable	-	-	-	15,429	15,429
Amount due to related parties	-	-	-	2,060,928	2,060,928
Claims payable	-	-	-	1,429,269	1,429,269
Other payables	-	-	-	1,941,530	1,941,530
Total	**-**	**-**	**-**	**5,447,156**	**5,447,156**

*Due to the short-term nature of these instruments, their carrying values approximate the fair value of the instruments.

**The financial liabilities are short-term in nature, and therefore the carrying amounts approximate their fair values.

Fair value of the unquoted ordinary shares has been estimated using the net asset value of the investments. Based on the published result of the investment, the directors compute the value of the investment based on the number of shares in issue and the value per share.

The price per share of the investee as at 31 December 2018 was 1.85 million (2017: Ushs 1.58 million) The share price was derived by dividing net assets of the investee, attributable to shareholders assessed at Ushs 24,252 million (2017: 20,567 million), by the number of shares in issues, 13,108 as at 31 December 2018 (2017: Ushs 12,991 shares).

The fair value of treasury bills and treasury bonds was obtained from published records obtained from the Central Bank (Bank of Uganda) as at 31 December 2018. The bills/ bonds are actively traded on a primary market, and are issued by the Government of Uganda, through the Central Bank.

31 December 2017	Level 1	Level 2	Level 3	Total Value	2017 Carrying Value
	UShs'000	UShs'000	UShs'000	UShs'000	UShs'000
Financial Assets					
Cash and bank balances	-	-	-	1,253,908	1,253,908
Statutory deposits	-	-	-	2,325,611	2,325,611
Investment in unquoted shares	-	242,299	-	242,299	242,299
Held to maturity investments	-	-	-	14,616,588	14,616,588
Investment in quoted shares	265,797	-	-	265,797	265,797
Reinsurance receivables	-	-	-	71,733	71,733
Other receivables	-	-	-	1,284,658	1,284,658
Premium receivables	-	-	-	1,905,535	1,905,535
Total	**265,797**	**16,942,199**	**4,758,133**	**21,966,129**	**21,966,129**
Financial Liabilities					
Insurance contract liabilities	-	-	-	9,043,625	9,043,625
Reinsurance payable	-	-	-	251,667	251,667
Commission payable	-	-	-	34,727	34,727
Amount due to related parties	-	-	-	1,350,498	1,350,498
Claims payable	-	-	-	1,056,180	1,056,180
Other payables	-	-	-	1,917,156	1,917,156
Total	**-**	**-**	**-**	**13,653,853**	**13,653,853**

Fair value of the unquoted ordinary shares has been estimated using the net asset value of the investments. Based on the published result of the investment, the directors compute the value of the investment based on the number of shares in issue and the value per share.

Fair value of quoted equities is derived from quoted market prices in active markets (Uganda Securities Exchange).

» Sensitivities to insurance risk

The following analysis shows the impact on profit before tax for reasonably possible movements in key assumptions, with all other assumptions held constant. Sensitivity information varies according to the current economic assumptions due to the impact of changes to both the intrinsic cost and time values of options.

	2018	2017
	Ushs'000	Ushs'000
Change in expenses:		
+10%	(1,159,870)	(902,747)
-10%	1,159,870	902,747

During the year ended 31 December 2018, actual claims were Ushs 10,323 million (2017: 10,655 million). Estimated claims for the year ended 31 December 2018 were Ushs 10,866 million (2017: Ushs 12,535 million).

Concentration:

All insurance policies were issued in Uganda.

» Significant accounting judgments, estimates and assumptions

The preparation of the company'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 future periods.

Estimates and assumptions

The major items subject to the application of estimates, assumptions and judgments include:

» Valuation of insurance contract liabilities

Classification

A contract is classified as insurance where Sanlam accepts significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary.

Significant insurance risk exists where it is expected that for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will significantly exceed the amount payable on early termination, before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Valuation

The sections below outline the valuation methodology for assets and liabilities:

The valuation bases and methodology used to calculate the policy liabilities of all material lines of long-term insurance business is set out below.

The valuation bases and methodology comply with the Insurance Act and the South African actuarial guidelines as set out in the standard of actuarial practice note SAP 104. Minimum liabilities are held based on a prospective calculation of policy liabilities, and where a retrospective basis is used, it is at least equal to the prospectively calculated liabilities. This serves as a liability adequacy test.

Assets are valued at their full balance sheet value. Assets pertaining to the Group Deposit Administration portfolio are segregated from other assets belonging to policyholders and shareholders.

Group life and group credit life business:

An unearned premium reserve is calculated. This represents the element of premiums already received where cover has not yet been provided. For group credit life business where specific policy data is not available, this is based on a straight line amortisation of the single premium received over an assumed average loan term. An incurred but not reported reserve is also held for both lines of business.

Group deposit administration business:

The total reserve held is the market value of the fund, which refers to the underlying assets of the deposit administration portfolio and is an accumulation of the net contributions at the actual investment returns earned, which can be positive or negative. It is reduced by benefit payments, terminations, charges and applicable taxes.

The total reserve is split into:

- A portion belonging to the members, referred to as the book value, which is the guaranteed benefit payable and is an accumulation of the net contributions at the bonus rates declared. The bonus rates declared would be subject to the minimum rate that has been promised to members. It is reduced by benefit payments, terminations and charges; and
- A bonus stabilization reserve (BSR), which is the difference between the market value (the total reserve) and the book value (member accounts).

Individual life business:

Individual life liabilities are valued prospectively, with negative reserves zeroised on a per-policy basis. The following reserves are held:

- The unit reserve, which relates to the savings component of Dreambuilder policies, and is calculated as the number of units multiplied by the unit price (less a surrender penalty for inactive policies);
- The bonus stabilisation reserve for the Dreambuilder product, which is an accumulation of past over-/ under-declarations of bonuses relative to the actual investment return earned on the funds; and
- The non-unit reserve, which relates to the remaining liabilities on the individual life book. Simplistically, this is calculated by projecting all future outgoes less all future income and discounting these reserving cash flows back to the valuation date.

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

The carrying value at the reporting date of life insurance contract liabilities is Ushs 14.4 billion (2017: Ushs 9.0 billion).

For medical contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

» Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the company and the tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

Government taxes

The company is subject to income tax and various other government taxes under the Ugandan tax laws. Significant estimates and judgements are required in determining the provision for taxes on certain transactions. For these transactions, 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 statement.

» Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. Net premiums

Gross premiums

	2018	2017
	Ushs '000	Ushs '000
Group life	4,750,762	2,690,131
Individual Life	7,940,830	6,921,858
Credit life	8,347,470	5,681,099
Medical	14,146,412	9,510,697
	35,185,474	24,803,785
Premiums ceded to reinsurers		
Group life	(1,680,595)	(245,110)
Medical	(5,088,601)	(78,155)
	(6,769,196)	(1,012,558)
Change in UPR	(293,012)	(689,293)
Total net premiums	28,123,266	**23,791,227**

6. Investment income

	2018	2017
	Ushs '000	Ushs '000
(a) Interest income using the EIR		
Interest income on fixed deposits	255,125	92,570
Interest income on government securities	2,831,153	1,558,631
Deposit administration premium funds (DAP funds) **	-	102,715
	3,086,278	1,753,916
(b) Other investment income		
Deposit administration premium funds (DAP funds) **	194,545	-
Dividend income	-	678
Bank interest	12	107,669
	194,557	108,347

**This is composed of interest earned on fixed deposits, and government securities.

7. Other operating income

	2018	2017
	Ushs '000	Ushs '000
Gain on sale of property and equipment	58,254	9,522
Foreign exchange gains on related party balance	16,831	15,387
Other operating income***	190,083	273,280
	265,168	298,189

***Other operating income mainly relates to reversal of credits on overdrawn accounts, that have since been closed.

8. Gross policy holders' benefits and claims

	2018	2017
	Ushs'000	Ushs'000
Group life	2,719,548	2,555,041
Individual Life	261,220	313,476
Maturities	72,431	-
Refunds	175,468	197,576
Surrenders	170,872	160,432
Medical	6,923,392	7,428,225
	10,322,931	10,654,750

9. Net change in insurance contract liabilities

	2018	2017
	Ushs '000	Ushs '000
Change in group credit Unearned Risk Reserve (URR)	3,482,565	992,944
Change in Incurred but Not Reported (IBNR) claims: Sancare and credit life	29,078	76,920
Change in group life Unearned Risk Reserve (URR)	880,892	(52,217)
Change in group life IBNR claims	142,277	44,394
Change in individual life reserve	28,749	155,328
Change in DAP reserve	765,576	453,872
	5,329,137	1,671,241

10. Finance costs

	2018	2017
	Ushs '000	Ushs '000
Interest expense	-	68,176
	-	68,176

10(a) Expected credit losses on debt instruments at amortized cost

During the year, the Company adopted IFRS 9 and credit losses have been computed on debt instruments, held at amortized cost in accordance with IFRS 9.

The table below shows the maximum exposure to credit risk from debt instruments at amortized cost, based on the Company's credit rating system and year-end stage classification, and the impairment provision recognized at year end:

	Stage 1	Stage 2	Stage 3	Impairment	Carrying amount
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Bank balances	1,526,313	-	-	(16,381)	1,509,932
Debt instruments at amortised cost (note 20)	6,070,254	-	-	(65,657)	6,004,597
Statutory deposits (note 18)	2,726,769	-	-	(28,525)	2,698,244
Staff debtors	46,034			-	46,034
Total	**10,369,370**	**-**	**-**	**(110,563)**	**10,258,807**

The movement in credit losses, during the year is further analyzed as follows:

	2018	2017
	Ushs'000	Ushs'000
At 1 January	-	-
Impact of adoption of IFRS 9 – day 1	130,910	-
Credit to profit or loss	(20,347)	-
At 31 December	110,563	-

The credit to profit or loss during the year is assessed as follows:

	Stage 1	Stage 2	Stage 3	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Bank balances	1,703	-	-	1,703
Debt instruments at amortised cost	(25,132)	-	-	(25,132)
Statutory deposits	3,082	-	-	3,082
Total	**(20,347)**	**-**	**-**	**(20,347)**

10(b) Operating and administration expenses

	2018 Ushs '000	2017 Ushs '000
Staff costs (note 10(b).1)	3,426,725	3,087,143
Auditors' remuneration	189,192	152,100
Depreciation (note 16)	137,191	125,455
Amortisation (note 17)	91,151	18,062
Directors' remuneration	81,959	97,262
Communication expenses	99,505	95,498
Rent	687,728	638,133
Printing and stationery	105,478	26,733
Travel	198,138	120,125
Insurance	20,381	25,555
Training levy	185,213	121,795
Investment costs	117,042	152,305
Marketing expenses	321,899	174,061
Professional and consultancy fees	354,447	164,541
Annual contribution to Insurance Regulatory Authority	505,911	376,198
Management and technical support	1,455,084	742,579
Information technology and systems related expenses	160,597	163,035
Other expenses	4,307,906	1,185,057
Bank charges	68,869	61,427
PCA service charges	303,542	205,333
Bad debts written off	1,260	321,007
Provision for premium debtors (IFRS 4)	94,886	974,061
	12,914,102	9,027,465

Investment costs

These relate to investment manager and custodial fees and withholding tax on investment incomes.

Other expenses

These are general operating expenses including expenses relating to worksite activities, maintenance and fuel for motor vehicles, maintenance of business locations (buildings) and fixed assets, courier and postage, utilities, general office expenses, reverse Value Added Tax on management fees and withholding tax on income received from government securities and fixed deposits.

PCA service charges

Payroll Consults Africa Ltd (PCA) is an IT company that deals with various governments and departments in Africa to expertly provide cost effective, secure and reliable payroll management services. Uganda government has contracted PCA to manage all deduction requests from Financial Institutions e.g. banks, microfinance institutions, and insurance companies, hire purchase companies etc., who intend to lend and recover funds directly from the civil servants' payroll on a monthly basis.

PCA service charges relate to a 2% fee paid to Payroll Consults Africa for individual life premium collections from various government departments.

Provision for premium debtors

The company provided for doubtful debts relating to premiums and agent debt that is due for 90 days and above (2017: 90 days).

Auditor's remuneration

This relates to both internal and external audit fees. Internal audit is carried out by the parent company, Sanlam Group, in South Africa.

11. Staff costs

	2018	2017
	Ushs'000	Ushs'000
Salaries and wages	2,791,000	2,800,243
Staff welfare	392,702	195,812
Staff training and development	21,289	21,860
Staff bonus	221,734	69,228
	3,426,725	**3,087,143**

The company had 52 permanent staff as at 31 December 2018 (2017: 50 employees). The company also hires temporary staff and interns from time to time as need arises.

Staff welfare expenses relate to costs borne by the company for the staff medical scheme. Staff bonus is a variable pay based on individual and company performance. The criteria for the bonus is set at the beginning of the year. The determination of the amount of bonus paid is based on individual performance which is assessed through a transparent and objective performance management process. The company's performance is based on annual reported results.

12. Profit before tax

Profit before tax is stated after charging:	2018	2017
	Ushs'000	Ushs'000
Depreciation of property and equipment	137,191	125,455
Amortisation of intangible assets	91,151	18,062
Auditors' remuneration	189,192	152,100
Staff costs	**3,426,725**	**3,087,143**

13. Income Tax

» Income tax charge

	2018	**2017**
	Shs'000	Shs'000
Withholding tax paid	**424,431**	287,782
Deferred income tax charge /(credit)	**113,820**	(250,510)
	538,251	**37,272**

The corporation tax rate is set at 30% of the profits for the year as adjusted for tax purposes in accordance with the Income Tax Act cap 340. The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2018	**2017**
	Shs'000	Shs'000
Profit before tax	**1,420,129**	591,137
Tax calculated at a tax rate of 30%	**472,644**	177,341
Tax effect on income subject to tax at 20%[1]	**(240,352)**	(385,006)
Tax effect of expenses not deductible for tax purposes[2]	**(4,086,653)**	537,979
Prior year over provision	**(6,149,651)**	(122,493)
Unrecognised movement on carry forward losses - deferred tax	**10,117,832**	(458,331)
WHT on government securities	**424,431**	287,782
Income tax charge	**538,251**	**37,272**

[1]Tax is withheld on Interest income on government securities (treasury bills and treasury bonds) at a rate of 20%. This is a final tax, and cannot be claimed on the filed returns.

[2]Expenses not deductible or tax purposes include: provisions for unexpired insurance risk, provisions for incurred but not reported (IBNR) claims, ceded life insurance premiums, entertainment expenses, non-allowable motor vehicle expenses, fines/penalties and life insurance claims.

14. Share capital

Authorised Share Capital

	2018	2017
	Ushs'000	Ushs'000
23,305 ordinary shares of Ushs 1,000,000 each (2017: 23,305 of 1,000,000 each)	23,305,000	
20,205 ordinary shares of Ushs 1,000,000 each (2017: 20,205 of 1,000,000 each)		20,205,000

Movement in authorized Share Capital

	2018	2018	2017	2017
	Number	Ushs'000	Number	Ushs'000
At 1 January	20,205	20,205,000	20,205	20,205,000
Increase in authorised ordinary shares	3,100	3,100,000	-	-
	23,305	23,305,000	20,205	20,205,000

Ordinary shares, issued and fully paid

	2018	2017
	Ushs'000	Ushs'000
21,714 ordinary shares of Ushs 1,000,000 each	21,714,000	
18,690 ordinary shares of Ushs 1,000,000 each		18,690,000
	21,714,000	18,690,000

During the year, the directors passed a resolution to increase the nominal share capital of the company from Ushs 20,205 million to Ushs 23,305 million by the creation of an additional 3,100 ordinary shares of Ushs 1,000,000 each. The shares were allocated to Sanlam Emerging Markets.

3,024 additional shares of Ushs 1,000,000 per share, with a total of Ushs 3,024 million were issued during the year. Therefore, as at 31 December 2018, 21,714 of the allocated shared capital had been issued, and was fully paid.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and other general meetings of the company.

15. Share premium

	2018	2017
	Ushs'000	Ushs'000
Share premium	47,000	47,000
	47,000	47,000

16. Other reserves

	2018	2017
	Ushs'000	Ushs'000
Other reserves	49,250	49,250
	49,250	49,250

This relates to excess funds received from the parent company from the purchase of shares in Sanlam Life Insurance Uganda Limited.

17. Contingency reserve

	2018	2017
	Ushs '000	Ushs '000
At 1 January	906,089	658,051
Transfer during the year	310,562	248,038
At 31 December	**1,216,651**	**906,089**

For life business, the contingency reserve is set up under Section 5 (b) of the Insurance Act Regulations, 2002. Provisions for these reserves are taken at 1% of the premiums written.

18. Capital reserve

	2018	2017
	Ushs '000	Ushs '000
At 1 January	143,437	115,744
Transfer during the year	91,234	27,693
At 31 December	**234,671**	**143,437**

For life business, the capital reserve is set up under Ugandan insurance laws and regulations. Provisions for these reserves are taken at 5% of the profits after tax.

19. Property and equipment

	Furniture, fittings & Equipment	Computer equipment	Motor Vehicles	Leasehold Improvements	Total
	Ushs '000	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**
Cost:					
At 1 January 2017	**342,293**	**414,489**	**177,920**	**136,349**	**1,071,051**
Additions	125,873	79,934	38,650	14,243	**258,700**
Disposals	(9,608)	-	(37,000)	-	**(46,608)**
At 31 December 2017	**458,558**	**494,423**	**179,570**	**150,592**	**1,283,143**
Additions	31,405	61,625	23,000	-	**116,030**
Disposals	(77,995)	(42,121)	(28,300)	(35,520)	**(183,936)**
At 31 December 2018	**411,968**	**513,927**	**174,270**	**115,072**	**1,215,237**
Depreciation:					
At 1 January 2017	**156,963**	**339,980**	**160,739**	**23,455**	**681,137**
Charge for the year	37,759	54,004	19,179	14,513	**125,455**
Disposals	(2,930)	-	(37,000)	-	**(39,930)**
At 31 December 2017	**191,792**	**393,984**	**142,918**	**37,968**	**766,662**
Charge for the year	42,540	67,225	14,454	12,972	**137,191**
Disposals	(52,394)	(42,121)	(28,300)	(13,250)	**(136,065)**
At 31 December 2018	**181,938**	**419,088**	**129,072**	**37,690**	**767,788**
Net book Value					
At 31 December 2018	**230,030**	**94,839**	**45,198**	**77,382**	**447,449**
At 31 December 2017	**266,766**	**100,439**	**36,652**	**112,624**	**516,481**

20. Intangible assets

	2018	2017
Cost	**Ushs'000**	**Ushs '000**
At 1 January	**103,218**	**82,619**
Additions	**76,456**	**20,599**
At 31 December	**179,674**	**103,218**
Amortization		
At 1 January	**75,088**	**57,026**
Charge for the year	**91,151**	**18,062**
At 31 December	**166,239**	**75,088**
Net book Value	**13,435**	**28,130**

The intangible assets comprise of the Pastel accounting software and People Manager Payroll system. The intangible assets are amortised over the useful life of 3 years.

21. Statutory deposits

	2018 Ushs '000	2017 Ushs '000
At 1 January	**2,325,611**	**488,363**
Additional investment	690,238	2,493,936
Accrued interest	73,064	13,366
Maturities	(362,144)	(670,054)
Day 1 adjustment – expected credit losses	**(26,140)**	-
Charge for the year:	**(2,385)**	-
At 31 December	**2,698,244**	**2,325,611**

The company maintained a statutory deposit in treasury bills and bonds as required by the Insurance Act (Cap 213) for every insurer to maintain a security deposit of at least 10% of the prescribed paid up capital of the company. The deposit is part of the assets in respect of the capital of the insurer and is invested by the insurer in short term investments and securities. The deposit is only available to the insurer in case of a substantial loss arising from liabilities to claimants and the loss is such that it cannot be met from its available resources or in the event of closure or winding up of the insurance business. Interest is earned at an average coupon rate of 16% on treasury bonds. The carrying amount of statutory deposits as at 31 December 2018 approximates the fair value

22. Investment in unquoted shares

	2018 Ushs '000	2017 Ushs '000
At 1 January	**242,299**	**150,000**
Fair value gain	35,201	92,299
At 31 December	**277,500**	**242,299**

The company owns 150 shares valued at Ushs 1,850,000 each in Uganda Reinsurance Company Limited (2017: 150 shares of Ushs 1,615,000 each).
Fair value of the unquoted shares has been estimated using the net asset value of the investments. Based on the published results of the investment, the directors computed the value of the investment based on the number of shares and the value per share.

23. Debt instruments

	2018 Ushs '000	2017 Ushs '000
Held to maturity investments		
Treasury bonds	-	8,598,067
Treasury bills	-	3,385,978
Fixed deposit	-	2,632,543
		14,616,588
Debt instruments – at amortised cost		
Treasury bonds	3,464,345	-
Treasury bills	1,484,612	-
Fixed deposit	1,121,297	-
	6,070,254	-
Expected credit losses – day 1	**(65,657)**	**-**
	6,004,597	**-**

As at 1 January 2018, held to maturities investments were reclassified and are now accounted for as debt instruments, at amortised cost in accordance with IFRS 9. Credit losses were computed in accordance with the guidelines in the accounting policies. The movement in the expected credit losses is analysed as follows:

At 1 January:	**-**
Day 1 charge to equity:	90,789
Credit to profit or loss	(25,132)
At 31 December:	**65,657**

	2018	2017
	Ushs '000	Ushs '000
Debt instruments – at fair value through profit or loss		
Treasury bonds	12,255,049	-
Treasury bills	4,331,155	-
Fixed deposit	1,196,888	-
	17,783,092	-
Fair value loss – day 1	(85,412)	-
Net fair value movement charged to profit or loss	(277,917)	
	17,419,763	**-**

At 31 December, debt instruments – at amortised cost, and debt instruments at fair value through profit or loss are allocated as follows:

2018

	Policy holders	Share holders	Deposit administration	Sancare	Smoothed Bonus	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	**Ushs '000**
Classification	FVTPL	AC	FVTPL	AC	FVTPL	
Treasury bonds	9,771,228	2,866,725	1,166,377	561,446	997,115	15,362,891
Treasury bills	3,671,286	37,028	241,935	1,431,461	412,358	5,794,068
Fixed deposits	**699,169**	**762,235**	**440,281**	**345,702**	**20,014**	**2,267,401**
	14,141,683	**3,665,988**	**1,848,593**	**2,338,609**	**1,429,487**	**23,424,360**

AC – Amortized cost; FVTPL – Fair Value Through Profit or Loss

2017

	Policy holders	Share holders	Deposit administration	Sancare	Smoothed Bonus	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Treasury bonds	2,148,518	3,524,378	485,170	962,381	-	7,120,447
Treasury bills	1,034,725	1,188,366	200,506	2,440,001	-	4,863,598
Fixed deposits	1,727,338	125,300	259,989	505,664	14,252	2,632,543
	4,910,581	**4,838,044**	**945,665**	**3,908,046**	**14,252**	**14,616,588**

Under the Ugandan insurance laws and regulations, the company is required to maintain a deposit equivalent to 20% of the security (statutory) deposit with a commercial bank. The company held fixed deposits with various banks of Ushs 2.29 billion (2017: 2.63 billion) which is above the statutory requirement.

24. Investment in quoted shares

	2018	2017
	Ushs '000	Ushs '000
At 1 January	265,797	230,088
Net movement during the year	-	72,859
Fair value gains/(losses)	46,360	(37,150)
	312,157	265,797

At 31 December 2018, the financial assets, which measured at fair value through profit or losses were allocated as follows:

	2018	2017
	Ushs '000	Ushs '000
Policyholders	286,648	242,454
Shareholders	25,509	23,343
	312,157	265,797

The above investments relate to shares purchased in various companies that are listed on the Uganda Securities Exchange (USE).

31 December 2018

	Stanbic Bank Uganda Limited	The New Vision Group	Bank of Baroda Limited	Dfcu Bank Limited	Umeme Limited	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Policy holders						
At 1 January	3,270	8,755	14,125	187,304	29,000	242,454
Fair value changes	450	(2,994)	3,375	49,163	(5,800)	44,194
At 31 December	3,720	5,761	17,500	236,467	23,200	286,648
Shareholders						
At 1 January	2,180	2,060	6,780	8,323	4,000	23,343
Fair value changes	300	(704)	1,620	1,750	(800)	2,166
At 31 December	2,480	1,356	8,400	10,073	3,200	25,509

31 December 2017

Policy holders						
At 1 January	3,000	9,265	15,500	144,606	35,525	207,896
Net movement during the year	-	-	-	69,488	-	69,488
Fair value changes	270	(510)	(1,375)	(26,790)	(6,525)	(34,930)
At 31 December	3,270	8,755	14,125	187,304	29,000	242,454
Shareholders						
At 1 January	2,560	2,424	9,300	7,879	6,300	28,463
Net movement during the year	-	-	-	3,371	-	3,371
Fair value changes	(560)	(244)	(1,860)	(2,207)	(1,400)	(6,271)
At 31 December	2,180	2,060	6,780	8,323	4,000	23,343
Total	5,450	10,815	20,905	195,627	33,000	265,797

The trading prices at the last date of trading for the years ended 31 December 2018 and 2017 were as follows:

Share price	Stanbic Bank Uganda Limited	The New Vision Group	Bank of Baroda Limited	dfcu Bank Limited	Umeme Limited
	Ushs	Ushs	Ushs	Ushs	Ushs
31-Dec-18	31.00	339	140	823	320
31-Dec-17	**27.25**	**515**	**113**	**680**	**400**

25. Related party transactions

The following are the key related parties:

Name	Nature of relationship 2018	Nature of relationship 2017
Sanlam Emerging Markets Limited	98.6% shareholder	98.4% shareholder
Hannington Karuhanga	1.4% share holder	1.6% share holder
Sanlam Kenya Limited	Common ownership	Common ownership
Sanlam General Insurance Uganda Limited	Common ownership	Common ownership
Sanlam Investments East Africa Limited	Common ownership	Common ownership
Sanlam Limited	Ultimate holding company	Ultimate holding company

Balances with related parties

The following were the balances with related parties at 31 December.

	2018	2017
	Ushs '000	Ushs '000
Amounts due to related parties		
Sanlam Emerging Markets	2,060,928	998,509
Sanlam Investments East Africa Limited	-	16,908
Sanlam General Insurance Uganda Limited	-	335,081
	2,060,928	1,350,498

Other related party transactions	2018	2017
	Ushs '000	Ushs '000
Sanlam Investments East Africa Limited	31,501	35,044
Sanlam General Insurance Uganda Limited	20,380	25,555
	51,881	60,599

Other related party transactions related to premium paid to Sanlam General Insurance Uganda Limited relating to insurance of assets, and group personal accident and investment fees paid to Sanlam Investments East Africa Limited for managing T-bills, T-bonds and fixed deposits of Sanlam Life Insurance Uganda Limited

Terms and conditions of transactions with related parties
Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables.

For the year ended 31 December 2018, the company has not recorded any impairment of receivables relating to amounts owed by related parties (2017: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Key management compensation

	2018	2017
	Ushs '000	Ushs '000
Directors' fees	81,958	97,262
Salaries and short-term employee benefits	782,525	1,168,854
Performance bonus	233,809	137,062
	1,098,292	**1,403,178**

Management fees

	2018	2017
	Ushs '000	Ushs '000
Actuarial fees	389,453	273,631
Product development costs	77,907	22,764
Bancassurance fees	1,975	32,278
Human resource support fees	-	1,235
Training and technical support	985,749	166,794
	1,455,084	**496,702**

Management fees are charged by the parent company (Sanlam Emerging Markets Limited).

26. Reinsurance balances

Reinsurance receivables

	2018	2017
	Ushs '000	Ushs '000
At 1 January	71,733	90,351
Receivable arising during the year	8,520,048	9,974
Payments received during the year	(3,145,449)	(28,592)
At 31 December	5,446,332	71,733

The above re-insurance receivables relates to the medical business.

Reinsurance payable

	2018	2017
	Ushs '000	Ushs '000
At 1 January	251,667	170,780
Reinsurance ceded during the year	2,932,915	1,012,558
Claims ceded to reinsurers	(2,488,196)	(273,820)
Profit commission receivable from reinsurers	4,860,126	(2,440)
Less: Payments made during the year	(1,526,607)	(655,411)
At 31 December	4,029,905	251,667

The above re-insurance payable relates to both the medical business and the life business.

27. Deferred tax

Deferred tax is calculated on all temporary differences under the statement of financial position liability method using a principal rate of 30%.

The net deferred tax asset at 31 December 2018 is attributable to the following items;

	2018	2017
	Shs '000	Shs '000
At start of year	(538,945)	(288,435)
Charge / (credit to P&L)	113,820	(250,510)
At end of year	(425,125)	(538,945)

The recognized deferred tax asset is attributable to the movement in temporary differences between calculations of certain items for accounting and for taxation purposes as detailed below:

31 December 2018

	01/01/2018	**Charged/ (credited) to P/L**	**31/12/2018**
	Shs'000	Shs'000	Shs'000
Accelerated tax depreciation	166,407	(34,224)	132,183
Bad debt provisions	(1,281,898)	338,527	(943,371)
Provision for long term incentive	(350,035)	(108,992)	(459,027)
Provision for bonus	(216,641)	(138,089)	(354,730)
Provision for staff leave	(277,744)	158,242	(119,502)
Unrealised forex loss	15,625	-	15,625
Fair value gain on debt instruments	-	(277,917)	(277,917)
Fair value gain on quoted/unquoted shares	147,803	441,853	589,656
Taxable differences	**(1,796,483)**	**379,400**	**(1,417,083)**
Net deferred tax liability/ (asset) at 30%	**(538,945)**	**113,820**	**(425,125)**

31 December 2017

	01/01/2017	**Charged/ (credited) to P/L**	**31/12/2017**
	Shs'000	Shs'000	Shs'000
Deferred tax liabilities			
Accelerated tax depreciation	135,421	30,986	166,407
Short term timing differences	(1,189,524)	(921,169)	(2,110,693)
Fair value gain on quoted/unquoted shares	92,654	55,149	147,803
Taxable differences	**(961,449)**	**(835,034)**	**(1,796,483)**
Net deferred tax liability/ (asset) at 30%	**(288,435)**	**(250,510)**	**(538,945)**

Unrecognised deferred tax asset

At 31 December 2018, a deferred tax asset of Ushs 13,607 million (2017: Ushs 3,489 million) arising from cumulative tax losses was not recognised in these financial statements because the company is not certain of future taxable profits against which the temporary differences will be utilised.

31 December 2018

	01/01/2018	**Unrecognised movement to P/L**	**31/12/2018**
	Shs'000	Shs'000	Shs'000
Deferred tax asset			
Tax losses carried forward	(11,631,940)	(33,726,108)	(45,358,048)
Deferred tax asset at 30%	**(3,489,582)**	**(10,117,832)**	**(13,607,414)**

31 December 2017

	01/01/2017	**Unrecognised movement to P/L**	**31/12/2017**
	Shs'000	Shs'000	Shs'000
Deferred tax asset			
Tax losses carried forward	(13,159,710)	1,527,770	(11,631,940)
	(13,159,710)	1,527,770	(11,631,340)
Deferred tax asset at 30%	**(3,947,913)**	**458,331**	**(3,489,582)**

28. Other receivables

	2018	**2017**
	Ushs '000	**Ushs '000**
Staff advances	**46,034**	**45,932**
Withholding tax recoverable	**10,191**	**29,915**
Prepayments	**374,612**	**281,487**
	430,837	**357,334**
Other receivables	**215,596**	**1,196,037**
Direct write offs - agent debtors	**(1,260)**	**(268,713)**
	645,173	**1,284,658**

The movement in provision for bad and doubtful debts (other receivables) is analysed below:

	2018	**2017**
	Ushs'000	**Ushs'000**
At 1 January	**268,713**	**-**
Recoveries	**(267,453)**	**-**
Impairment provision during the year	**-**	**268,713**
At 31 December	**1,260 1167167,706**	**268,713**

Premium receivables

	2018	2017
	Ushs'000	Ushs'000
Gross premium receivables	2,556,345	2,923,384
Provision for bad and doubtful debts	(775,664)	(1,017,849)
Net carrying value	**1,780,681**	**1,905,535**

The movement in provision for bad and doubtful debts (premium receivables) is analysed below:

	2018	2017
	Ushs'000	Ushs'000
At 1 January	**1,017,849**	312,501
Recoveries	**(242,093)**	-
Impairment provision during the year	**-**	705,348
Bank	**775,756**	**1,017,849**

Rights arising from insurance contracts are excluded from the scope of IFRS 9, therefore premium receivables have been impaired in accordance with the company's policies.

29. Cash and cash equivalents

	2018	2017
	Ushs '000	Ushs '000
Bank	**1,517,848**	1,249,746
Cash at hand	**8,464**	4,091
Cash in Transit	**-**	71
	1,526,312	1,253,908
Impairment - expected credit losses	**(16,380)**	-
	1,509,932	**-**

The Company holds no collateral in respect to the bank balances. Bank balances are short-term deposits made for varying periods depending on the cash requirements of the Company, and earn interest at the applicable market deposit rates. Cash and cash equivalents for the purpose of the statement of cash flows include the above cash and bank balances. Of the total credit losses, Ushs 14,678 arose on 1 January 2018 and has been charged directly to equity.

30. Insurance contract liabilities

	2018	2017
	Ushs'000	**Ushs'000**
Reserves		
Group credit Unearned Risk Reserve (URR)	8,034,543	5,076,919
Incurred but Not Reported (IBNR) claims: credit life	405,706	376,628
Group life Unearned Risk Reserve (URR)	2,001,031	927,892
Group life IBNR claims	394,651	444,621
Dream builder unit reserve	1,066,923	1,038,174
Individual life reserve	606,059	81,118
Deposit Administrative Reserve	1,863,849	1,098,273
Actuarial reserve for the year	**14,372,762**	**9,043,625**

The Company determines its liabilities on the insurance contracts based on assumptions in relation to average loan duration for the credit life business, reserving loss ratios for the group and credit life business, average investment return for the Deposit Administration business and unit maintenance and acquisition costs for individual life unit expenses.

The liabilities are determined on the advice of the consulting actuary and actuarial valuations are carried out on an annual basis.

The latest actuarial valuation of the insurance contract liabilities was carried out as at 31 December 2018 by Edwin Splinter, an actuary with Sanlam Group (South Africa) using the net Premium Valuation method. This method is generally accepted in the actuarial industry as an appropriate method to place a realistic value on the liabilities of a life insurance company. The expected future cash flows are determined using best estimate assumptions with allowance for provision of risk margin for adverse deviation from the expected experience, and with due regard to significant recent experience.

By setting appropriate assumptions this method determines liabilities which are consistent with the value of assets included in the accounts.

The more significant valuation assumptions are summarised below;

- Average loan duration – The average loan term was assumed to be 36 months for all loan facilities in accordance with the schemes experience that that has shown that loans are foreclosed in an average period not exceeding 2 years.

- Reserving loss ratios – A loss ratio of 80% was applied to the UPR for Group Credit and Group Life policies to cater for the policy handling charges like commission expense and overhead acquisition costs.

- Average investment return – An average investment return (net of management charges and withholding tax) of 7.5%–8% was used to calculate the Group Deposit Administration reserve for the December 2018 valuation.

- Unit maintenance and acquisition costs. The expected unit maintenance expenses were determined to be Ushs 133,258 (2017: Ushs 75,857) and the unit acquisition expenses to be Ushs 419,880 (2017: Ushs 171,071) within the next 2 years. This is consistent with experience in similar countries.

As at 31 December 2018, an internal review was carried out by the actuarial team which sits in South Africa.

31. Other payables

	2018	2017
	Ushs '000	**Ushs '000**
Accrued expenses	374,888	176,766
Bonus payable	354,730	216,641
Provision for long term incentives	578,527	350,033
Supplier control account	54,794	284,819
Withholding tax payable(WHT)	100,006	22,922
Value added tax payable (VAT)	24,037	22,858
Others	454,548	843,117
	1,941,530	**1,917,156**

Other liabilities are non-interest bearing and are normally settled on 30-60 days terms.

Deferred acquisition costs

	2018	2017
	Ushs '000	**Ushs '000**
At 1 January	**1,192,933**	**1,744,360**
Increase/(decrease) arising from current year commissions:	**247,834**	**(551,427)**
At 31 December	**1,440,767**	**1,192,933**

Deferred acquisition costs relate to advance commission payments made to agents and their leaders.

Provision for unearned premium

	2018	2017
	Ushs '000	Ushs '000
Provision for un earned premium	4,106,986	3,417,693
Increase in provision	293,012	689,293
	4,399,998	4,106,986

This relates to premiums for the medical business (Sancare) for which insurance cover has not yet been provided to the clients. It relates to medical policies running beyond the reporting period.

Commission payable

	2018	2017
	Ushs '000	Ushs '000
Commission payable	15,429	34,727
	15,429	34,727

Claims payable-Medical

	2018	2017
	Ushs '000	Ushs '000
Claims payable	1,429,269	1,056,180
	1,429,269	1,056,180

Commitments and contingencies

Uganda Insurance Association (representing players in the insurance industry) has appealed against the Tax Arbitration Tribunal decision that agents are employees of insurance companies and that their emoluments should be subject to the appropriate PAYE rates and not the 6% withholding tax as it had been communicated. The exposure to the Company could not be assessed since the case has not yet been concluded. The company is also a defendant in a suit lodged by an ex-employee with a claim of Ushs 361 million, for which the Company lawyers have assessed that the Company has high chance of success in the suit and therefore, no provision has been made in the financial statements.

Leases

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

	2018	2017
	Ushs '000	Ushs '000
Within one year	671,933	372,964
1 to 5 years	15,795	78,258
More than 5 years	-	-
	687,728	451,222

Subsequent events

The Company has evaluated the subsequent events through the date of signing these financial statements and there were no significant events to be reported during the period.

Country of incorporation

Sanlam Life Insurance Uganda Limited is incorporated in Uganda under the Companies Act of Uganda as a company limited by shares and domiciled in Uganda.

Presentation currency

These financial statements are presented in Uganda shillings rounded off to the nearest thousands (UShs '000).

Ultimate controlling party

The ultimate controlling party of the entity is Sanlam Limited, a company incorporated in the republic of South Africa.