

Liberty Life Assurance Kenya Limited
Annual Report and Financial Statements
for the year ended 31 December 2021

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

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Liberty Life Assurance Kenya Limited

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Corporate Information

Liberty Life Assurance Kenya Limited ("the Company") operates in eight towns and cities across Kenya with approximately 347 agents and 130 employees. The Company has provided insurance services to the nation since 1964 and continues to offer a range of life insurance, investment and pension products.

The Company is a wholly owned subsidiary of Liberty Kenya Holdings Plc which is listed at the Nairobi Securities Exchange.

Liberty Life Assurance Kenya Limited is proud to be associated with Heritage Insurance Company Kenya Limited, also a wholly owned subsidiary of Liberty Kenya Holdings Plc. Liberty Kenya Holdings Plc's parent is South African based Liberty Holdings Limited, which is part of Standard Bank Group Limited. Liberty Holdings Limited is a Pan African financial services company with operations in 30 African countries.

Our Vision

To be the trusted leader in life insurance in Kenya.

Mission

To be the trusted provider of customer experiences through own and partner solutions to enable the financial freedom of our customers and employees.

Our Purpose

Improving people's lives by making their financial freedom possible.

Our Company Values

Involvement: Our humanity and empathy.

Innovation: Our ingenuity and curiosity to do things better.

Integrity: Our fairness and honouring our word.

Insight: Our knowledge and understanding.

Action: We roll up our sleeves and always find a way to make things happen.

Directors

	First appointed
Peter Gethi	2009
Abel Munda	2005
Mike du Toit	2008
Stuart Wenman	2009
Rachel Mbai	2017
Catherine Mitchem	2017
Rajesh Shah	2018
Andrew Lonmon-Davis	2019

Company Secretary

Carol Kioni
PO Box 30390-00100
Nairobi

Liberty Life Assurance Kenya Limited

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Corporate Information

Registered office and principal place of business

Liberty House
Mamlaka Road
P.O. Box 30364 - 00100
Nairobi, Kenya

Independent auditor

PricewaterhouseCoopers LLP
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 –00100
Nairobi, Kenya

Bankers

Stanbic Bank Kenya Limited
Stanbic Centre
Chiromo road, Westlands
P.O. Box 30550 - 00100
Nairobi, Kenya

Citibank NA
Citibank House
Upper Hill Road
P.O. Box 30711 - 00100
Nairobi, Kenya

NCBA Bank Limited
Mamlaka Road
P.O. Box 44599
Nairobi, Kenya

Actuaries

QED Actuaries & Consultants (Pty) Ltd
1st Floor - The Bridle, Hunts End Office Park, 38
Wierda Road West, Sandton,

Johannesburg 2196, South Africa.

Tax consultants

Ernst and Young LLP
Kenya Re Towers
Off Ragati Road
P.O. Box 44286 - 00100
Nairobi, Kenya

Liberty Life Assurance Kenya Limited

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Chairman's Statement

I am pleased to present to you the annual report and financial statements for the year ended 31 December 2021.

1. Performance review

The year 2021 continued to present a challenge to the whole world with the COVID-19 pandemic as the virus kept on mutating, creating a lot of uncertainty and unpredictability. Despite the continued resurgence of the pandemic the global economy is projected to have grown by 5.6% in 2021, following a contraction of 3.3% in 2020 according to the IMF. The IMF projects an economic growth rate of 4.4% in 2022.

Economic activity in Kenya has continued to adapt to the pandemic and associated restrictions. A mix of containment measures, such as a night curfews, were in effect throughout most of 2021, while more economically disruptive measures such as lockdowns and travel restrictions were phased out thereby reducing the impact on economic activities. The vaccine rollout, which had a slow start due to supply constraints, has picked up with increase in vaccine supply and the government's increased campaign for citizens to take up vaccinations. Kenya's economy is projected to have grown by 5.6% in 2021 from negative 0.3% in 2020. The IMF projects Kenya's economy to grow by 6.0% in 2022.

Political activity in Kenya has picked up ahead of the general elections in August 2022. Whilst political tensions shall increase in the run up to the election, the focus of most investors will be economic recovery from the COVID-19 that has impacted the growth unlike any previous elections in Kenya.

The Year 2021 saw Kenya's Inflation rate close the year at 5.7% and is forecasted at 6.1% in 2022 on account of increase in the food index.

Liberty Life Assurance Kenya Limited, despite the challenges, remained resilient, delivering a robust top-line. Despite the impact of the pandemic on the economy, the insurance sector included, the Company's Gross Premiums recorded 4% growth, which is mainly attributable to greater contribution of new business. This demonstrates solid business fundamentals, with regard to the future of the business. The company recorded a loss of KShs 157 million (compared to a profit of KShs 174 million in 2020), on account of increased group risk claims mainly attributable to the COVID-19 impact.

The Board, working with the management, continued to implement measures to return the company to profitability through better risk management, increased business acquisition and retention. The economy is gradually opening following the lockdowns of previous years and this is financially empowering citizens to take up life insurance covers and reinstate policies that may have lapsed due to economic difficulties engendered by COVID. The improving economic environment should therefore lead to better performance by the Company in 2022 and beyond.

2. Business environment

The ongoing COVID 19 pandemic has caused massive disruption across the global economy. Many businesses are facing tough times trying to juggle the cost of running core functions and remaining resilient.

The coronavirus pandemic clearly exposes the vulnerability of our globally interconnected economies. An outbreak in one part of the world has caused significant disruption and challenges to economies, businesses, communities, and people worldwide.

The impact of the virus will change the insurance landscape permanently and redefine how business will operate across the globe. The effects of COVID-19 on insurance spans across different business facets and calls for insurers' deliberate strategies along workforce transformation, enterprise risk management, technology uptake and operational agility.

Liberty Life Assurance Kenya Limited, in response to the COVID-19 challenges, implemented several strategic initiatives that resulted into the enablement of remote working by staff, upgrade enhancement of cybersecurity capability, automation of manual processes and commencement of a process to adopt agile ways of working. We look forward to implementing solutions and initiatives aimed at making Liberty Life Assurance more responsive to changes in the business environment. During the year the board approved a new strategy for the Company following extensive research of the market environment. This strategy identified initiatives that will drive the Company forward through provision of solutions demanded by the marketplace in an agile manner. Technology and robust management of data will remain at the core of providing our customers with such solutions in a speedy and seamless fashion.

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Chairman's Statement

3. 2022 Economic Outlook

We are optimistic about our fortunes in 2022 as the economy continues to recover from the impact of COVID-19 pandemic.

Looking ahead, medium-term gross domestic product (GDP) is expected to grow by 6% in 2022 underpinned by private consumption, a pick-up in industrial activity and still strong performance in the services sector. Inflation is expected to remain within the government's target range while the current account deficit is projected to remain manageable.

Our commitment remains the delivery of relevant and innovative solutions that confer financial freedom to our customers, thus contributing towards national development. On behalf of the Liberty Life Assurance Kenya Limited Board and staff, I pledge to continue working with regulators and our other stakeholders to make this a reality.

My gratitude goes to our customers for their patronage, our staff for their unwavering efforts to deliver on our purpose, our shareholders and the rest of our stakeholder universe for their support. I also take this opportunity to appreciate my fellow Board members for all their input in steering this Company.



Peter Gethi
Chairman
11 March 2022

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Managing Director's Statement

At Liberty Life, we believe in taking a long-term view of our operations in order to give our customers the value they deserve. This is reflected in our continuous investment towards understanding what their needs are and subsequently designing and introducing solutions that address those needs. The COVID 19 crisis continued to have a significant impact on individuals, society, business, and the wider economy across the globe. The insurance industry has not escaped its impact as the year 2021 was characterised by increased group risk claims and customer withdrawals. As much as claims paid increased significantly in the year to an extent that we recorded a loss of KShs 157 million against a profit of Kshs 174 million in 2020, it gave us much pride to be living our purpose, which is to “improve people’s lives by enabling their financial freedom.” We touched so many lives at their most vulnerable moment when they had lost a loved one by processing their benefits expeditiously. Many families did not have to go through the stress of figuring out how to settle mortgage balances or other financial obligations because of the cover their principal breadwinner had with Liberty. Our total insurance premiums and contributions grew by 3.6%, while our total gross claims and benefits payment grew by 11%. Both total assets and policyholders’ funds grew by 4%.

We are a customer-centric organization that aspires to consistently deliver dependable, accessible, and personalized service to our customers. During the year we focused on consolidating our earlier efforts to revamp our distribution structure involving agency and brokers. Agency remains a key sales and distribution channel for the Company. We intend to deepen our strategic partnership with these distribution channels to ensure that we continue to deliver value to the business in a mutually satisfactory manner.

As a Company we have continued to design and deliver innovative financial products that speak to the needs of our customers. In 2021 we launched into the market another exciting product, The Soma Savings Plan, a very flexible and innovative education policy which addresses the needs of the customers as identified by our research. At the same time, Boresha Maisha, our flagship retirement solution continued to do well. During the year we discontinued our Income Builder product as it was no longer delivering the desired value to customers and revamped our Lifestest product to afford customers increased value.

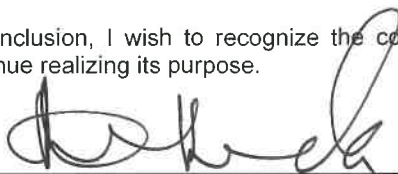
We have continuously refined our internal processes in line with global best practices. In the immediate term, we are keenly managing our costs through improved process efficiencies. We have ensured a faster turn-around times in our operations from the implementation of such initiatives as the Straight Through Processing (STP), a paperless customer on-boarding solution that came handy during the Covid-19 pandemic as we were able to seamlessly onboard our customers from the comfort of their homes/offices. Our customers are quite excited about this solution. We also continued to invest in digital technology affording our customers the opportunity to transact and engage with us digitally in respect of premium payments, statements generation and policy loans processing.

At the core of all this is provision of a great place to work for each of our 137 members of staff. A conducive work environment is one that is merit based and discrimination-free, that supports efforts by staff to deliver on our customer value proposition. During the year, in response to Covid-19 restrictions and lockdowns, we continued to successfully enable our staff to seamlessly work from home thus ensuring safety of their health and providing them with peace of mind.

Our sustainability agenda focused on investing in the communities we operate in remains on course. During the year, we continued with our Corporate Social Investment (CSI) initiatives anchored on the pillars of Education and Health. We will continue to integrate sustainability in the delivery of our CSI initiatives.

During the year we embarked on the implementation journey of our 2021-2025 strategic plan whose key focus is improving people’s lives by enabling their financial freedom. We will achieve this for our customers and employees by effectively leveraging on technology, innovation, and strategic partnerships.

In conclusion, I wish to recognize the contribution of each member of the Liberty Life family in enabling the company to continue realizing its purpose.



Abel Munda
Managing Director
11 March 2022

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Board of Directors and Senior Management

1. Directors

The Directors who held office during the year and to the date of this report were:

Peter Gethi	Chairman
Abel Munda	Managing Director
Mike du Toit**	Non Executive Director
Stuart Wenman **	Non Executive Director
Rachel Mbai	Non Executive Director
Catherine Mitchem	Non Executive Director
Rajesh Shah	Non Executive Director
Andrew Lonmon-Davis**	Non Executive Director

** South African

2. Company Secretary

Ms Caroline Kioni

3. Senior Management

Abel Munda	Managing Director
Ronald Nyamosi	General Manager - Finance and Administration
Anna Manyara	General Manager - Sales and Distribution
Musili Kivuitu	General Manager - Risk and Compliance
Mercy Kabangi	General Manager - Marketing and Communication
Felix Ochieng	General Manager - Human Resources
Mohamed Dalal	Chief Information Officer
Gloria Karissa	Head of Actuarial

Liberty Life Assurance Kenya Limited

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Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2021 which disclose the state of affairs of Liberty Life Assurance Kenya Limited.

1. Principal activities

The Company underwrites long-term insurance as defined in the Insurance Act. It also issues investment contracts to provide customers with solutions for their savings and retirement needs.

2. Company results and dividend

Loss for the year of KShs 157 million (2020: profit of KShs 174 million) has been added to retained earnings.

The Directors do not recommended a dividend for the year 2021 (2020: KShs Nil).

3. Directors

The names of the Directors who held office during the year and to the date of this report are set out on page 7. In accordance with the Company's Articles of Association, all directors unless retiring and being eligible, offer themselves for re-election.

4. Business overview

Despite the impact of the pandemic on the economy, the Company's Gross Premiums recorded a 4% growth, which was mainly attributable to good performance of new business. This demonstrates solid business fundamentals, with regard to the future of the business. The company recorded a loss of KShs 157 million (compared to a profit of KShs 174 million in 2020), on account of increased group risk claims mainly attributable to the Covid-19 impact. The Company's solvency position remained stable at 2.10 while total assets grew by 4% to KShs 25.3 billion.

The Board, working with the management, continue to implement measures to return the company to profitability through better risk management, increased business acquisition and retention. With the improving economic environment and the strategic initiatives being implemented by management, we look forward to better company performance in 2022 and beyond.

5. Relevant audit information

The directors in office at the date of this report confirm that:

- There is no relevant information of which the Company's auditor is unaware; and
- Every director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

6. Auditor

PricewaterhouseCoopers LLP were appointed during the year and continue in office in accordance with the Company's Articles of Association and Section 721 of the Kenyan Companies Act 2015.

7. Approval of the financial statements

The financial statements set out on pages 23 to 105 were approved and authorised for issue by the Board of directors on 11 March 2022.

By Order of the Board


Carol Kioni
11 March 2022

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of financial statements of Liberty Life Assurance Kenya Limited, set out on pages 23 to 105 which comprise the statement of financial position as at 31 December 2021 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: Determining that the basis of accounting described in Accounting policy 1 is an acceptable basis for preparing and presenting the financial statements; Preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015; and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of the profit or loss 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 and profit or loss of the company.


The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the company and of its profit or loss.

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 company will not be a going concern for at least the next twelve months from the date of this statement.

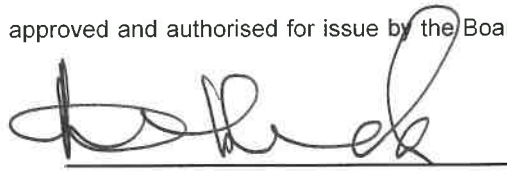
Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 11 March 2022.



Peter Gethi

11 March 2022



Abel Munda

11 March 2022

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Statement on Corporate Governance

Liberty Life Assurance Kenya Limited is committed to a transparent governance process that provides stakeholders with a high degree of confidence that the company is being managed ethically, within prudent risk parameters and in compliance with international best practice. The Board of Directors considers sound corporate governance as pivotal to delivering responsible and sustainable growth in the interests of all stakeholders.

At Liberty Life Assurance Kenya Limited we believe that good corporate governance is integral to the structures and processes that the Board has put in place to inform, advise, manage and supervise the activities of the company towards the achievement of its strategic objectives. Liberty Life Assurance Kenya Limited constantly monitors developments and trends in corporate governance. We are subject to various jurisdictional requirements, and therefore we conduct our operations in accordance with international principles of good corporate governance, ensuring compliance with the highest standards and best practice. The Board prescribes to the Commonwealth Association of Corporate Governance principles and has adopted the 15 recommended guidelines and associated best practice codes.

The Directors' exercise stewardship of the Company's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfying other stakeholders in the context of its corporate mission. They are concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging the efficient use of resources, accountability in the use of power and stewardship and, as far as possible, the alignment of interests of individuals, corporations and society as a whole.

The following section of the report includes descriptions of our company's corporate governance structures and procedures, along with an explanation of the work of the various Boards and how they have applied the principles of leadership, effectiveness, accountability and relations with shareholders.

1. Board of Directors

The Board of Directors consists of one executive and seven non-executive Directors who have been chosen for their business acumen and wide range of skills and experience. The Board has an appropriate mix of proficient Directors, approved by the Insurance Regulatory Authority, who are able to add value through independent judgement in the decision making process.

2. Board responsibilities

The Board has ultimate responsibility for the management, general affairs, direction, performance and long term success of our business as a whole. The responsibility of the Directors is collective, taking into account their combined roles as executives and non-executives. The Board has delegated the operational running of the Company to the Managing Director who although is responsible to the Board, is able to sub-delegate some of his powers at his discretion. Matters reserved for the Board include structural and constitutional issues, corporate governance, approval of dividends, approval of overall strategy for the Company and approval of significant transactions or arrangements in relation to mergers, acquisitions, joint ventures and disposals, capital expenditure, contracts and financing.

The Board has also established committees whose actions are regularly reported to and monitored by the Board.

3. Board meetings and attendance

The Board meets at least four times during the year to review the financial performance and operations of the company. Other Board meetings are held periodically to discuss topical matters and strategic issues. The Chairman presides over all meetings.

The following table reflects the attendance of Directors at seven Board meetings during 2021. A director if unable to attend a Board meeting, has the opportunity beforehand to discuss any agenda item with the Chairman. Attendance is expressed as the number of meetings attended out of the number eligible to attend.

Director	Attendance
Peter Gethi (Chairman)	7/7
Abel Munda (Managing Director)	7/7
Michael du Toit	7/7
Stuart Wenman	7/7
Catherine Mitchem	7/7
Rachel Mbai	7/7
Rajesh Shah	7/7
Andrew Lonmon-Davis	6/7

Liberty Life Assurance Kenya Limited

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Statement on Corporate Governance

4. Appointment of directors

Upon consideration and recommendation from the Nominating and Corporate Governance Committee for a candidate to be nominated as an independent Director, suitable candidates are appointed by the Board to fill the casual vacancies. They are thereafter elected as directors by the shareholders at an AGM. All existing Directors, unless they are retiring, submit themselves for re-election every year, and shareholders vote to re-appoint them by a simple majority vote.

5. Board evaluation

The Board remains focused on the need for continued improvements in its effectiveness and corporate governance performance and regularly conducts self-assessment evaluations along the lines of structure, process and effectiveness.

6. Board induction, training and support

All newly appointed Directors are taken through an induction programme immediately upon appointment. The Board undertakes an annual Board enhancement training, with sessions covering corporate governance principles, Board enhancements and updates on legislation in relation to the duties of directors amongst others. Any specific training needs or areas of Board improvement identified from the Board's self-evaluation process are also addressed regularly.

7. Remuneration

Liberty Life Assurance Kenya Limited has a clear policy on remuneration of Executive and Non-Executive directors at levels that are fair and reasonable in a competitive market for the skill, knowledge, experience, nature and size of the Board.

8. Conflict of interests

Liberty Life Assurance Kenya Limited attaches special importance to avoiding conflict of interest between the company and its Directors. The Board is responsible for ensuring that there are rules in place to avoid conflicts of interest by Board members. Conflicts of interest are understood not to include transactions and other activities between companies in the Liberty Life Assurance Kenya Limited and Liberty as a group.

Authorisation of situational conflicts is given by the Board to the relevant Director. The authorisation includes conditions relating to keeping Liberty Life Assurance Kenya Limited information confidential and to their exclusion from receiving and discussing relevant information at Board meetings. Situational conflicts are reviewed annually by the Board as part of the determination of Director Independence. In between those reviews, Directors have a duty to inform the Boards of any relevant changes to their situation. A Director may not vote on, or be counted in a quorum in relation to, any resolution of the Board in respect of any contract in which he or she has a material interest. The procedures that Liberty Life Assurance Kenya Limited has put in place to deal with conflicts of interest continue to operate effectively.

9. Role of the Chairman vs. the Managing Director

The roles of the Chairman and the Managing Director are clearly defined and are not vested in the same person. The day-to-day executive management of the Company is delegated to the Managing Director whereas the running of the Board is the responsibility of the Chairman. The Managing Director directs the implementation of the Board decisions and instructions on the general management of the Company with the assistance of the Executive Management.

The roles of the Board and those of the Executive Management are separate and except for the office of the Chief Executive who acts both as a director and as a member of the Executive Management, the offices are not vested in the same persons. The Board is responsible for the long term strategic direction and profitable growth of the Company, while the Executive Management is responsible for the operational day to day running of the Company.

10. Board committees

The Board has established three Board Committees, the Audit and Risk Committee, the Investment Committee and the ICT Committee and are formally set up by Board resolutions with defined mandates. The Audit and Risk Committee has established a Joint Actuarial Committee as approved by Board resolution and with a defined mandate.

These committees are comprised of a balanced mix of non-executive directors, Executive management and Group consultants, with experts and service providers invited to meetings on occasions to provide specific expertise. All Committees are provided with sufficient resources to undertake their duties.

Liberty Life Assurance Kenya Limited

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Statement on Corporate Governance

11 Audit and risk committee

The Committee consists of five non-executive Directors. It has an approved mandate and is responsible for the monitoring of risk management, compliance and internal controls as established by the Board and executed by the management of the Company.

It regularly reviews the internal systems controls and effectiveness of financial and operational reporting through the establishment of an internal audit function. It ensures the function is independent, adequately resourced and proficient in its duties. The committee also acts as a liaison with the external auditor approving their scope of work, recommending their remuneration and reviewing their reports.

The Audit and Risk Committee reports to the Board on a quarterly basis and constantly evaluates the ability of the Company to continue as a going concern. The Managing Director, General Manager in charge of Finance and Administration, General Manager in charge of Risk and Compliance and the Head of Internal Audit regularly attend the Committee meetings to respond to issues raised by Committee members. The Company Secretary attends the Committee meetings and acts as Secretary to the Committee.

The attendance of Committee members at the eight meetings held in the year 2021 was as follows:

Name	Directorship Status	Attendance at meetings
Rajesh Shah (Chairman)	Non - Executive Director	8/8
Michael du Toit	Non - Executive Director	8/8
Stuart Wenman	Non - Executive Director	7/8
Rachael Mbai	Non - Executive Director	8/8
Andrew Lonmon-Davis	Non - Executive Director	6/8

12 Joint IT Committee

The Joint Information Technology Committee (JITC) is constituted as a committee of Liberty Life Assurance Kenya Limited (LLK) and The Heritage Insurance Kenya Limited (HIK) boards. Both Companies are wholly owned subsidiaries of Liberty Kenya Holdings Plc listed on the Nairobi stock exchange. The committee was constituted to evaluate LLK and HIK's effectiveness, efficiency, and acceptable use of Information and Communications Technology (ICT) while serving the needs of the business, approve policies and plans, monitor adherence to policies and performance against plans.

The Joint IT Committee comprises of two non-executive directors, the Managing Directors of LLK and HIK, Chief Information Officer, the Group Head of IT. Members of the management executive committees are invited to committee meetings as and when the agenda dictates

The members of the Committee, and their attendance at the three meetings held in the year 2021 was as follows:

Name	Directorship Status	Attendance at meetings
Catherine Mitchem (Chair)	Non - Executive Director	3/3
Rajesh Shah	Non - Executive Director	3/3
Abel Munda	Executive Director	2/3
Godfrey Kioi	Executive Director	3/3

13 Joint Actuarial Committee (JAC)

The Joint Actuarial Committee was formed as a subcommittee of the Audit and Risk Committee (ARC) and consists of two non-executive directors, the Company Managing Director and Managing Director of Heritage Kenya General Insurance. The General Manager in charge of Finance and Administration, Head of Actuarial and the Statutory Actuaries regularly attend the Committee meetings to respond to issues raised by Committee members. The Company Secretary attends the Committee meetings and acts as Secretary to the Committee.

The purpose of the JAC is to oversee finance and actuarial practices across Liberty and Heritage and ensure compliance with the relevant actuarial and finance guidelines.

The Joint Actuarial Committee reports to the Audit and Risk Committee on a quarterly basis. However, there are instances where a special committee meeting may be convened at the request of the chair.

Liberty Life Assurance Kenya Limited

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Statement on Corporate Governance

The attendance of the Committee members at the six meetings held during the year 2021 was as follows:

Name	Directorship Status	Attendance at meetings
Andrew Lonmon-Davis (Chair)	Non - Executive Director	6/6
Stuart Wenman	Non - Executive Director	6/6
Abel Munda	Executive Director	5/6
Godfrey Kioi	Executive Director	6/6

14. Investment committee

The primary function of the Investment Committee is to monitor performance of the Company's investment portfolio and to ensure that the appointed investment managers comply with the set benchmarks and performance standards. This Committee consists of three non-executive Directors and the Managing Director.

The Committee determines the overall investment strategy for the Company and monitors the performance of the fund managers in achieving the strategy. The company secretary attends the Committee meetings and acts as Secretary to the Committee.

The members of the Committee, and their attendance at the six meetings held in the year 2021 was as follows:

Name	Directorship Status	Attendance at meetings
Michael du Toit (Chairman)	Non-Executive Director	6/6
Abel Munda	Executive Director	6/6
Stuart Wenman	Non - Executive Director	6/6
Catherine Mitchem	Non - Executive Director	6/6
Andrew Lonmon-Davis	Non - Executive Director	6/6

15. Management and operational committees

For effective implementation of the strategic plan and operations, several management Committees have been constituted. The members of these Committees are mainly the executive management team and business unit leaders. These Committees report to the Managing Director and form the basis of development of strategic objectives and performance management for the Company.

Their main areas of focus are:

- Development and implementation of the strategic plan and budgets.
- Monitoring of financial and operational performance of the Company in line with budgets and international standards.
- Management and monitoring of key projects being undertaken.
- Implementation and management of ICT projects.
- Product innovation and development.

16. Internal control and risk management

Liberty Life Assurance Kenya Limited is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of products and services. Liberty Life Assurance Kenya Limited is mindful of achieving this objective in the interests of all stakeholders. It continues to explore opportunities to develop and grow its business sustainably, with strategic plans being subjected to careful consideration of the trade-off between risk and reward, taking into account the risk appetite limits.

The ultimate responsibility for risk management resides with the Board, which ensures that the Business executive is responsible and is held accountable for risk management. The Business executive is supported by risk specialists who instil risk management best practice among all staff.

The Company's governance structures and processes are aligned with enterprise-wide value and risk management principles. These structures and processes provide clarity of accountability for the management of risk.

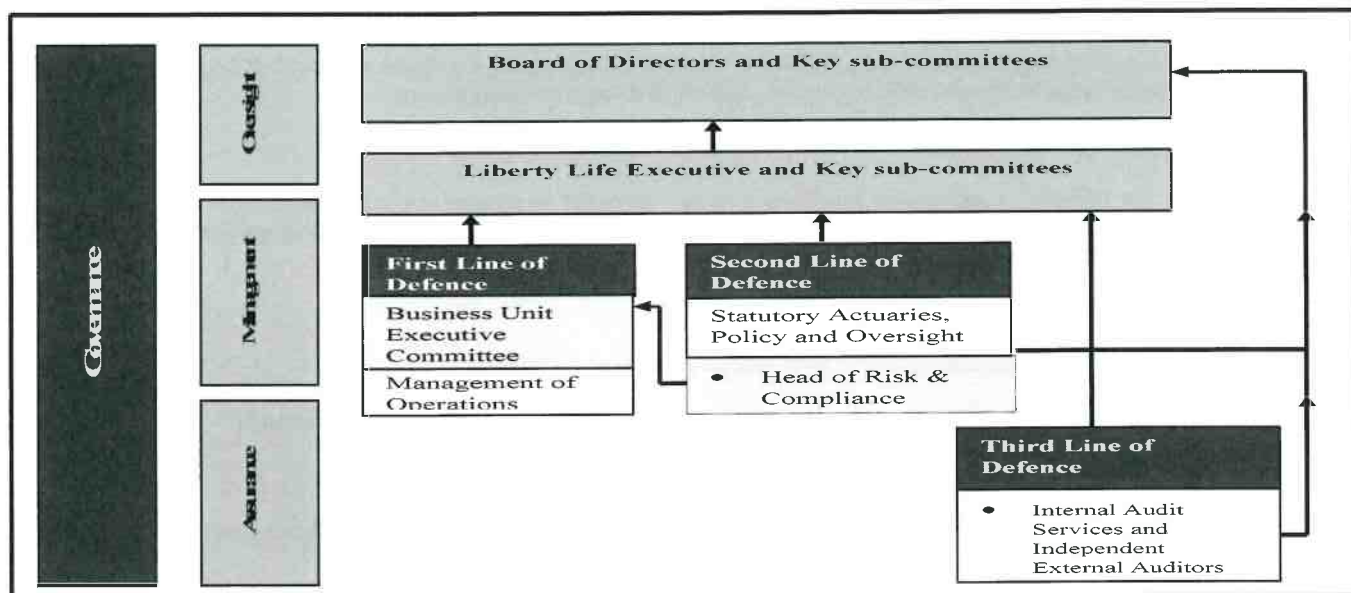
Liberty Life Assurance Kenya Limited

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Statement on Corporate Governance

17. Governance and the 'three lines of defence' model

The chart below depicts Liberty Life Assurance Kenya Limited risk management governance model:



The Company has adopted the 'three lines of defence' model for managing risk. This model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues. The model incorporates the oversight, management and assurance of risk management, essentially giving three independent views of risk in the organisation. The implementation of this model helps ensure that risk management is embedded in the culture of the organisation and provides assurance to the Board and senior management that risk management is effective.

Within this structure, the Company relies on the Board, its standing committees and the company executive committee to provide oversight on the operation of the Company's enterprise-wide value and risk management.

18. Roles and responsibilities within the governance model

The roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues have been defined as follows:

a) Oversight

Board of directors and sub-committees

The Board of directors and sub-committees of the Board provide an oversight function of the company's risk management activities. Their accountabilities, membership and related information are described in the following commentary.

b) Management committees

The Managing Director utilises the company executive committee and key management committees to manage the components of risk.

c) First line of defence - business unit management

Business unit management is accountable for:

- Managing day-to-day risk exposures by applying appropriate procedures, internal controls and company policies;
- The effectiveness of risk management and risk outcomes, and for allocating resources to execute risk management activities;
- Tracking risk events and losses, identifying issues and implementing remedial actions to address these issues; and
- Reporting and escalating material risks and issues to the relevant governance bodies as deemed appropriate.

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Statement on Corporate Governance

18. Roles and responsibility within the governance model (continued)

d) Second line of defence - Head of risk and compliance, statutory actuaries, policy and oversight functions

The individuals responsible for these positions are primarily responsible for verification and identification of key risks and provide the day-to-day interface between the Board's sub-committees and management. Their objective is to assist in the effective management of the risks identified within the Company. Various assurances are also provided by these functions and reported to the Board, regulators and other authorised stakeholder representatives.

e) Third line of defence - assurance

This comprises the company's assurance functions that are intended to provide an independent and balanced view of all aspects of risk management (both first and second line of defence) across the company to the various governance bodies within the organisation.

The company's key risk management objectives are to:

- Grow shareholder value by generating a long-term sustainable return on capital;
- Ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;
- Meet the statutory requirements regulated and monitored by the IRA and other regulators; and
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis.

The management of risks is currently focused on managing shareholder exposures within strategic limits, whilst ensuring sufficient allocation of capital on both a regulatory and economic capital basis.

The framework is based upon the following principles:

- Identification of risks
- Clarity of accountability and ownership of risks
- Risk appetite needs to be set making use of limits and controls and the risks need to be managed accordingly
- Risk quantification and measurement
- Risk monitoring and reporting
- Assessment of value creation on a risk adjusted basis

The Company enhances the risk management framework designed to achieve enterprise-wide value optimisation (value creation, value realisation and value protection) through the following six business capabilities:

- Capital funding and risk transfer
- Strategic planning and capital allocation
- Asset-liability and investment management
- Product development and pricing
- Performance management and incentivisation
- External communication and reporting risk management and mitigation

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Statement on Corporate Governance

19. Business ethics

The Board subscribes to the highest levels of professionalism and integrity in conducting Liberty Life Assurance Kenya Limited business and in dealing with stakeholders. All Liberty Life Assurance Kenya Limited employees and representatives are expected to act in a manner that inspires trust and confidence from the general public. All employees within the Company are required to sign the Company's Code of Conduct. The Code sets out the Company's commitment to ethical behaviour in the conduct of its business. Appropriate codes of conduct are driven by governance practice (code of ethics, corporate citizenship code etc.), statutory and regulatory requirements, service objectives (service level agreements, business protocols, business excellence models) and the corporate governance framework itself. Management are required to ensure there is compliance with the code.

20. Strategic drive

The Company embarked on the implementation of its 2021-2025 strategy which is anchored on customer centricity. The approved strategy is aimed at orientating the company operations, structures, service delivery and financial solutions around the customer with the ultimate objective of becoming a life partner of our customers by offering personalised solutions and services. Implementation of the strategic initiatives will be reviewed at each quarterly Board meeting to ensure the various checkpoints as detailed in the strategic plan are being achieved.

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Our Community engagements

Liberty Life Assurance Kenya Limited as a member of the Liberty Group, has a clear Corporate Social Investment (CSI) policy that spells out our corporate values, the role of the company, our internal assessment vis-à-vis our mission statement and our action plan and the management approach towards the various programmed projects. This policy is executed through a dedicated and passionate joint CSI team made up of staff.

Guided by the Liberty Africa CSI Guidelines (to which Liberty Life and Heritage Insurance are members), we are committed to supporting Education initiatives – 70%, Health initiatives – 20%, ad-hoc requests – 5% and Employee match fund – 5%.

1. Education pillar

Our initiatives are aligned to the Sustainable Development Goals (SDG) with our key pillar focused on Goal 4 – Quality Education. In line with this we have provided sponsorship opportunities for needy and bright students across 32 counties. This has also been extended through our continued partnership with the Starehe Boys and Girls Centres. The sponsorship covers tuition fees for secondary school and is extended to further cover tertiary education.

In 2021 the Scholarship Program helped a total of 146 students. There were 31 new students and 115 returning students among them. We awarded full secondary school scholarships to students from economically challenged backgrounds in Starehe Girls' Centre and Starehe Boys' Centre and Kajiado Primary School who were in need. In adapting with the times, we have expanded our scholarship offering to the beneficiaries currently in university by providing them with laptops in order to help them keep up with their studies remotely.

In addition to tuition fees, the students also benefit from the support extended towards their upkeep while in school on a need basis. Additionally, we have been running an annual mentorship program that is focused on equipping students with life skills and providing a safe space for the students to interact with their peers, learn and grow into responsible members of the community.

Since its inception the programme has sponsored a total of 350 students countrywide, we aim to continue growing this figure and enabling even more beneficiaries to achieve their dreams.

2. Adopt a school

Liberty Life Assurance Kenya Limited has been a partner to the Kajiado Township Primary School where various projects have been undertaken including a water project to provide the school with safe and clean drinking water, a school feeding programme and a library. In 2018, Liberty Life initiated full sponsorship for high school education to the top performing boy and girl pupil in the school. In 2021, we continued our partnership with the school through sponsorship of the top performing students in the school, covering their secondary education. This highly coveted annual sponsorship prize has led to a significant improvement in the overall students' performance.

3. Health pillar

In alignment to the SDG Goal 3 – Health and Well Being, we have supported various charitable causes through our partnership with the Faraja Cancer Trust where we have participated in the White-Water Rafting Challenge to raise funds as well as hosted a Cancer Awareness breakfast session in Eldoret which was followed by a free medical camp for the community.

During the onset of the COVID pandemic, we contributed funds towards the National COVID-19 Response funds drive through the Association of Kenya Insurers (AKI).

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Statement of Appointed/Statutory Actuary

We have conducted a review of the actuarial valuation of the life assurance business of Liberty Life Assurance Kenya Limited for the year ended 31 December 2021 as performed by the Company's Actuarial Function.

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

In completing the actuarial valuation, we have relied upon the financial statements of the Company as well as the data and unit values provided by the Company.

In our opinion, the life assurance business of the Company was financially sound and the actuarial value of the liabilities in aggregate for life insurance business did not exceed the amount of funds of the life insurance business as at 31 December 2021.



Ritin I Chauhan
Appointed Actuary
Fellow of the Actuarial Society of South Africa
Fellow of the Institute & Faculty of Actuaries
Fellow of the Actuarial Society of Kenya

QED Actuaries & Consultants (Pty) Ltd

11 March 2022



Independent auditor's report to the shareholders of Liberty Life Assurance Kenya Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Liberty Life Assurance Kenya Limited (the Company) set out on pages 23 to 105 which comprise the statement of financial position at 31 December 2021, the statements of comprehensive income, changes in equity, and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Liberty Life Assurance Kenya Limited at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key audit matters

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

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Independent auditor’s report to the shareholders of Liberty Life Assurance Kenya Limited (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Determination of insurance contract liabilities</i></p> <p>Insurance contract liabilities comprises outstanding claims and policyholder liabilities.</p> <p>The Company’s determination of liabilities involves the selection of appropriate assumptions in relation to mortality rates, morbidity, lapses and interest rates.</p> <p>Changes in these assumptions can lead to significant changes in actuarial liabilities. The methodology used can also have a material impact on the valuation of the liabilities.</p> <p>The valuation of insurance contract liabilities was considered a key audit matter as a change in the assumptions used in the valuation would have a material impact on the value of the liabilities.</p>	<ul style="list-style-type: none"> • Assessed the competence, capabilities and objectivity of the Company’s Statutory Actuary and verified their qualifications. • Traced the policyholder valuation input data and on a sample basis policyholder information used in the valuation model back to information contained in the administration and accounting systems. • Considered the methodology and assumptions used by the appointed actuary to compute the policyholders’ liabilities and assessed the valuation methods used against generally accepted actuarial practice and entity-specific historical information. • Checked that the policyholders’ liabilities reported in the financial statements were consistent with the results of the independent actuarial valuation.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Independent auditor's report to the shareholders of Liberty Life Assurance Kenya Limited (continued)

Report on the audit of the financial statements (continued)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

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 management's 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.



Independent auditor's report to the shareholders of Liberty Life Assurance Kenya Limited (continued)

Report on the audit of the financial statements (continued)

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

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

Report on other matters prescribed by the Companies Act, 2015

In our opinion the information given in the report of the directors on page 8 is consistent with the financial statements.

Bernice Kimacia

**CPA Bernice Kimacia, Practicing Certificate Number 1457.
Engagement partner responsible for the audit**

**For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi**

24 March 2022

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Statement of Profit or Loss and Other Comprehensive Income

KShs '000	Notes	2021	2020
Insurance premium revenue	2	2 698 981	2 706 728
Reinsurance premium ceded	2	(342 502)	(200 528)
Net insurance premium revenue		2 356 479	2 506 200
Commission earned	16(a)	100 511	103 438
Revenue from contracts with customers	16(b)	392 437	147 467
Net investment income	3	2 028 852	2 169 195
Fair value adjustment to assets held at fair value through profit or loss	4	215 019	(733 944)
Total income		5 093 298	4 192 356
Claims and policyholder benefits under insurance contracts	5.1	(4 060 123)	(3 090 073)
Insurance claims recovered from reinsurers	5.1	265 510	8 766
Change in long-term policyholder assets and liabilities		965 187	1 263 760
Liabilities under insurance contracts	16	(62 532)	330 352
Investment contracts with discretionary participation features	16	863 792	960 793
Applicable to reinsurers	16	163 927	(27 385)
Fair value adjustment to policyholders' liabilities under investment contracts	16(b)	(854 886)	(520 967)
Acquisition costs	6	(596 000)	(611 188)
Marketing and other operating expenses	7	(1 009 111)	(965 808)
Finance costs	21	(2 971)	(3 829)
(Loss)/profit before income tax		(199 096)	273 017
Income tax expense	8.1	41 781	(98 921)
(Loss)/profit after tax		(157 315)	174 096
Other Comprehensive Income			
<i>Items that will not be reclassified to profit or loss:</i>			
Net loss on revaluation of land and buildings		-	(36 871)
Change in long-term policyholder insurance liabilities - effect of shadow accounting		-	36 929
Net gains on revaluation	10	-	58
Less: Deferred income tax on revaluation	19	-	(14)
Other comprehensive income for the year net of taxation		-	44
Total comprehensive (loss)/income		(157 315)	174 140

The annual report and financial statements on pages 23 to 105, were approved and authorised for issue by the board of directors on the 11 March 2022.

The notes on pages 27 to 105 form an integral part of the annual report and financial statements.

Liberty Life Assurance Kenya Limited


Annual Report and Financial Statements for the year ended 31 December 2021

Statement of Financial Position as at 31 December 2021

KShs '000	Notes	2021	2020
Assets			
Property and equipment	13.2	840 535	774 063
Investment property	12.1	445 213	521 600
Right-of-use assets	13.2,3	15 478	24 577
Intangible assets	11	126 422	121 553
Non-current assets held for sale	12.3	625 263	633 250
Deferred acquisition costs		47 752	37 891
Reinsurance assets	16	166 831	2 904
Current tax receivable	8.3	50 625	52 794
Financial investments	14.1	16 596 864	18 166 915
Loans and receivables	14.2	1 412 342	1 447 426
Due from related parties	24(g)	28 913	46 270
Insurance receivables	15	76 906	117 673
Prepayments and other receivables	18	249 085	131 941
Deposits with financial institutions	17	4 326 153	2 118 338
Cash and bank balances	17	290 567	265 315
Total Assets		25 298 949	24 462 510
Liabilities			
Deferred taxation	19	1 050 272	1 117 705
Long-term policyholder liabilities	16(a)	20 375 023	19 557 711
Insurance contracts	16	6 791 125	6 728 593
Investment contracts with discretionary participation features	16	3 065 073	3 928 865
Financial liabilities under investment contracts	16(b)	10 518 825	8 900 253
Lease liabilities	21	19 187	26 132
Creditors arising from reinsurance arrangements		-	1 299
Employee benefits	22	61 408	74 542
Due to related parties	24(g)	21 473	24 549
Insurance and other payables	20	1 012 770	744 441
Total Liabilities		22 540 133	21 546 379
Equity			
Ordinary shareholders' equity		2 758 816	2 916 131
Share capital	9	612 340	612 340
Retained loss		(304 170)	(304 170)
Statutory reserves	10	2 065 699	2 223 014
Revaluation reserve	10	384 947	384 947
Total Equity and Liabilities		25 298 949	24 462 510

The annual report and financial statements on pages 23 to 105, were approved and authorised for issue by the board of directors on the 11 March 2022.

The notes on pages 27 to 105 form an integral part of the annual report and financial statements.


Peter Gethi
Abel Munda


Rajesh Shah

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Statement of Changes in Equity

KShs '000	Share capital	Statutory reserves	Revaluation reserve	Retained loss	Total
Balance at 01 January 2020	612 340	2 048 918	384 903	(304 170)	2 741 991
Profit for the year	-	-	-	174 096	174 096
Other comprehensive income	-	-	44	-	44
Total comprehensive income	-	-	44	174 096	174 140
Transfer to/(from) statutory reserve	-	174 096	-	(174 096)	-
Total contributions with owners of the company	-	174 096	-	(174 096)	-
Balance at 01 January 2021	612 340	2 223 014	384 947	(304 170)	2 916 131
Loss for the year	-	-	-	(157 315)	(157 315)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss	-	-	-	(157 315)	(157 315)
Transfer to/(from) statutory reserve	-	(157 315)	-	157 315	-
Total contributions with owners of the company	-	(157 315)	-	157 315	-
Balance at 31 December 2021	612 340	2 065 699	384 947	(304 170)	2 758 816

The annual report and financial statements on pages 23 to 105, were approved and authorised for issue by the board of directors on the 11 March 2022.

The notes on pages 27 to 105 form an integral part of the annual report and financial statements.

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Statement of Cash Flows

KShs '000	Note(s)	2021	2020
Cash flows from operating activities			
Cash (used in)/generated from operations	23	(1 526 980)	(1 424 613)
Interest income on financial assets using the effective interest rate method		1 864 068	1 887 378
Interest expense on lease liabilities		(2 971)	(3 828)
Tax paid	8	(23 483)	(69 661)
Disposal of financial instruments		14 745 357	10 364 110
Purchases of financial instruments		(15 290 951)	(9 836 522)
Net cash from operating activities		(234 960)	916 864
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(14 246)	(51 208)
Sale of property, plant and equipment	13	-	608
Purchase of other intangible assets	11	(66 588)	(59 032)
Retirement of intangible assets	11	10 443	-
Dividends received		97 855	144 161
Net cash from investing activities		27 464	34 529
Cash flows from financing activities			
Payment on lease liabilities		(9 916)	(10 553)
Total cash movement for the year		(217 412)	940 840
Cash at the beginning of the year		2 353 773	1 412 934
Total cash at end of the year	17	2 136 361	2 353 774

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Notes to the Financial Statements

1 Key judgements in applying assumptions on application of accounting policies

Key assumptions can materially affect the reported amounts of assets and liabilities (see note 16). The assumptions require complex management judgements and are therefore continually evaluated. They are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following key assumptions are considered material assumptions applied in preparing these annual financial statements.

Classification and measurement of financial instruments

IFRS 9 requires an entity to assess its business model to determine the classification of financial assets. A business model refers to how an entity manages its financial assets in order to generate cash flows. Management applies judgement to determine the level at which the business model assessment is applied. Impairment amounts have been disclosed under note 3 and note 14.

Liberty Life is an insurance company offering a range of life insurance, investment and pension products. It utilises and renews available capital resources sustainably to create value by providing solutions to individuals or companies of individuals to meet their insurance risks and investment needs.

The financial assets held by the company are managed with the objective of realising cash flows through provision of insurance, investment and pension products to realise those fair values.

Properties at fair value

Investment and owner-occupied properties are measured at fair value by external valuation appraisers taking into account characteristics of the properties that market participants would take into account when pricing the property at measurement date. The key assumptions in the determination of the fair value are the exit capitalisation and discount rates. Other inputs considered relate to existing tenant terms, location, vacancy levels and restrictions, if any, on the sale or use of the asset. Determination of fair value also considers the current use of the property in terms of its highest and best use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible. Carrying amounts of investment property and sensitivity analysis have been disclosed under note 12.

Policyholder insurance and investment contracts with discretionary participation features

Policyholder assets and liabilities under long-term insurance contracts and related reinsurance assets and liabilities.

Liability and asset determination: Policyholder assets and liabilities under insurance contracts include provisions for the net present value of expected future benefits and expected future costs, less expected future premiums; and for claims incurred and not reported (IBNR). An IBNR provision is an estimate of the ultimate cost of claims where the loss event has occurred prior to financial position date, but which have not been reported at that date. Reinsurance assets and liabilities under insurance contracts include provisions for the net present value of expected future reinsurance premiums and expected future reinsurance recoveries.

The key assumptions applied, and analysis of their sensitivity have been detailed in the insurance risk and sensitivity analysis components of the risk disclosures section of this report.

Policyholder liabilities – investment contracts with discretionary participation features (DPF) carrying amounts of policyholders liabilities with discretionary features have been disclosed under note 16.

Liability determination: The full liability represents the total fair value of the matching asset portfolio and an estimate of the cost of any guarantees provided. Current policyholder obligations are estimated by calculating a net present value of expected future cash flows allowing for assumed future bonus rates. The difference between the fair value of the matching asset portfolio and the estimate of the current policyholder obligations is the bonus stabilisation reserve. A significant component making up the liability is a book of business called “deposit administration”. The product features include annual declaration of vesting investment bonuses. This feature brings the policies into the definition of investment contracts with discretionary participation features.

Insurance contract liabilities

The company determines its liabilities on its long-term insurance contracts on a realistic basis, namely the gross premium valuation (GPV) method. The GPV method makes explicit assumptions on expected future debts, investment returns lapses, expenses and bonuses as well as margins for uncertainty on these assumptions. Assumptions used are based on recent experience investigations conducted by the company while taking into consideration prior year assumptions and the outlook of future experience carrying amounts of insurance contract liabilities have been disclosed under note 16.

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Notes to the Financial Statements

1. Key judgements in applying assumptions on application of accounting policies (continued)

Mortality

An appropriate base table of standard mortality is applied in the valuation of all contract types and classes of business. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as HIV/Aids could result in future mortality being significantly worse than in the past for the age companies in which the company has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the company is exposed to longevity risk.

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

Morbidity

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

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations considering past as well as expected future trends. The withdrawal rates are analysed by product type and policy duration. These withdrawal rates vary considerably by duration, policy term and company. Typically, the rates are higher for risk type products versus investment type products and are higher at early durations.

Sensitivity analysis is included under risk note 12 of this report.

COVID-19 reserves

The COVID-19 pandemic impacted Liberty Life Kenya by presenting both risks and opportunities to the long term and short-term operations of the Company. Some of the significant impacts of COVID-19 were expected to be the worsening in mortality claims, reduced new business levels, reduced market investment returns and higher lapses for products with an investment component thus reducing funds under management and increasing the per policy expenses, etc.

During the year 2021 there was a significant increase in the mortality claims that were mainly attributed to effects of the pandemic. A review of the COVID-19 reserve was therefore undertaken by comparing the actual experience since the pandemic started at the beginning of 2020 and the expected experience based on the initial modelling of the COVID-19 reserve. The emerging experience was then adjusted for expected price increases and for projected vaccination impacts on the mortality rate to determine the adjusted factors to use to reproject the reserve. A forward-looking view was then taken based on various scenarios to determine the reserve. This resulted in an increase in the reserve from KES 113m in 2020 to KES 121m in 2021.

Income taxes

The company is subject to income taxes. Significant judgment is required in determining the company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of receivables

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

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Notes to the Financial Statements

1. Key judgements in applying assumptions on application of accounting policies (continued)

The statement about cashflows from policyholder liabilities needs to be reinstated here as these cashflows are disclosed under operating activities and not investing activities in Statement of cashflows.

Following the COVID-19 pandemic in the early part of 2020 and its resurgence in 2021, the directors and management were required to apply significant key judgement to the potential future impact that COVID-19 will have on company performance and the associated IFRS measurement of various assets and liabilities as at 31 December 2021. The assets, where measurement judgement has been significant, have been identified as insurance receivables where directors and management revised provisioning criteria in order to quantify the best estimate of the likely expected credit losses, based on all relevant and reliable data that are currently available, whilst recognising that the range of outcome is large.

2. Net insurance premiums

KShs '000	2021	2020
Insurance premium revenue	2 698 981	2 706 728
Reinsurance premium ceded	(342 502)	(200 528)
Net insurance premium revenue	2 356 479	2 506 200
Life Assurance Business		
Ordinary Life	1 402 710	1 447 239
Pension	243 247	303 506
Group Life	1 179 132	953 957
Unearned Premium Reserves	(126 108)	2 026
Gross Earned Premiums	2 698 981	2 706 728
Less: Reinsurance Premiums		
Ordinary Life	(7 073)	(4 714)
Group Life	(335 429)	(195 814)
Reinsurance Premiums	(342 502)	(200 528)
Net Earned Premiums	2 356 479	2 506 200

3. Net investment income

KShs '000	2021	2020
i) Investment income		
Rental income from investment property	119 362	159 734
Interest on government securities	1 493 790	1 593 134
Interest from corporate bonds	-	29 587
Realised investment gains	77 381	98 615
Interest on call deposits	227 265	127 854
Interest on staff mortgages and policy loans	143 012	136 803
Dividend income	97 855	144 161
Foreign exchange gain	12 470	13 458
Gross investment income	2 171 135	2 303 346
ii) Investment expenses		
Fund management and custodial expenses	(108 189)	(86 322)
Investment property expenses	(26 492)	(32 828)
Impairment of financial assets	(7 602)	(15 001)
Total Investment expenses	(142 283)	(134 151)
Net investment income	2 028 852	2 169 195

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4. Fair value adjustments to assets held at fair value through profit or loss

KShs '000	2021	2020
Fair value loss on investment property	(7 987)	(53 879)
Fair value gain / (loss) on financial assets	223 006	(680 065)
Total fair value adjustments to assets held at fair value through profit or loss	215 019	(733 944)

5. Claims and policyholder benefits

5.1. Claims and policyholder benefits under insurance contracts

KShs '000	2021	2020
Insurance claims and policyholder benefits	4 060 123	3 090 073
Insurance claims recovered from reinsurers	(265 510)	(8 766)
Total claims and policyholder benefits	3 794 613	3 081 307
Comprising:		
Long-term insurance: Retail	1 679 994	1 418 533
Death and disability claims	70 136	35 716
Policy maturity claims	961 683	720 728
Policy surrender claims	648 175	662 089
Long-term insurance: Corporate	2 114 619	1 662 774
Death and disability claims	1 074 429	438 404
Scheme terminations and member withdrawals	1 040 190	1 224 370
Total claims and policyholder benefits	3 794 613	3 081 307

5.2. Claims and policyholder benefits under insurance and investments contracts

KShs '000	2021	2020
Insurance claims and policyholder benefits	4 060 123	3 090 073
Fund outflows under long-term investment contracts	1 266 676	1 549 972
Total claims and policyholder benefits	5 326 799	4 640 045
Insurance claims recovered from reinsurers	(265 510)	(8 766)
Net claims and policyholder benefits	5 061 289	4 631 279
Comprising:		
Long-term insurance: Retail	2 380 826	2 268 758
Death and disability claims	70 136	35 716
Policy maturity claims	961 678	952 887
Policy surrender claims	1 349 012	1 280 155
Long-term insurance: Corporate	2 680 463	2 362 521
Death and disability claims	808 923	447 171
Scheme terminations and member withdrawals	1 819 328	1 890 749
Annuity payments	52 212	24 601
Total claims and policyholder benefits	5 061 289	4 631 279

6. Acquisition costs

KShs '000	2021	2020
Commission expense	385 226	403 629
Pension fund contribution	13 684	18 509
Allowance expenses	57 686	68 093
Group life and medical expenses	23 593	23 972
Channel development incentives	36 380	36 670
Sales campaign & promotion expenses	10 905	8 875
Welfare expenses	9 076	8 214
Premium tax	38 552	32 197
Rental expenses	11 748	1 436
Communication expenses	7 523	4 999
Other direct acquisition costs	1 627	4 594
Total acquisition costs	596 000	611 188

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7. Marketing and other operating expenses

KShs '000	2021	2020
Employee costs (note 7.1)	516 423	567 965
Office costs	133 567	84 778
Amortisation and impairment of intangible assets	52 919	57 934
Depreciation owned assets (note 13.2.2)	24 161	27 644
Training	9 224	7 692
Audit fees	8 120	14 163
Other professional fees	27 557	41 420
Directors fees	18 010	18 013
Management support costs	111 364	69 791
Premium collection charges	23 490	22 235
System costs	79 000	48 040
Sponsorship and awards	5 276	6 133
	1 009 111	965 808

7.1. Staff costs

KShs '000	2021	2020
Salaries and wages	395 967	389 180
Staff medical costs	285	271
Other retirement contributions	39 835	36 230
Annual staff bonus - current year	35 936	41 536
Annual staff - prior year	-	34 592
Group life and permanent health	9 184	11 248
Medical aid contributions	32 815	31 994
Other staff emoluments	2 401	22 914
Total staff costs	516 423	567 965

Number of staff

Permanent salaried staff and commission-remunerated agents	477	521
--	-----	-----

8. Income tax

8.1. Sources of taxation

KShs '000	2021	2020
	41 781	(98 921)
Current year taxation	25 652	24 308
Current deferred taxation (Note 19)	(67 433)	74 613
Total taxation	41 781	(98 921)
Charged through profit or loss	41 781	(98 921)

8.2. Taxation rate reconciliation

KShs '000	2021	2020
Profit before taxation per statement of comprehensive income	(199 096)	273 013
Tax calculated at domestic tax rate 30% (2020: 25%)	(59 729)	68 254
Tax effect of:		
Expenses not deductible for tax purposes	17 948	30 667
Income tax (credit)/expense	(41 781)	98 921

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8. Income tax (continued)

8.3 Current tax receivable movement

KShs '000	2021	2020
As at 1 January	52 794	7 441
Instalment tax paid	23 483	69 661
Current tax charge for the year	(25 652)	(24 308)
As at 31 December	50 625	52 794
Comprising		
Current tax receivable	50 625	52 794

9. Share capital

KShs '000	2021	2020
Issued share capital		
Ordinary	612 340	612 340
Total issued share capital	612 340	612 340

The total authorised number of ordinary shares is 30 617 000 with a par value of KShs 20 per share. As at 31 December 2021 all issued shares had been fully paid up.

All ordinary shares rank equally with regard to the company's residual asset, are entitled to receive dividends declared from time to time and are entitled to one vote per share at general meetings of the company.

10. Reserves

10.1 Statutory reserve

KShs'000	2021	2020
At start of year	2 223 015	2 048 919
(Deficit)/surplus	(224 749)	248 709
Deferred tax	67 433	(74 613)
	2 065 699	2 223 015

The statutory reserve relates to the surplus on the long term business which is not distributable as dividends as per the requirements of the Insurance Act.

10.2 Revaluation reserve

FShs '000	2021	2020
At start of year	384 947	384 903
Net gain on revaluation of land and buildings	-	58
Deferred income tax amount (note 19)	-	(14)
	384 947	384 947

Revaluation reserves comprise the revaluation surplus on buildings and freehold land (included within property and equipment) which is a non-distributable reserve.

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11. Intangible assets

Summary of net carrying value

KShs '000	2021	2020
Cost at the beginning of the year	615 147	556 115
Additions	66 588	59 032
Retirement	(10 443)	-
Cost at the end of the year	671 292	615 147
Accumulated amortisation at the beginning of the year	(493 594)	(435 660)
Depreciation on retired asset	1 643	-
Amortisation	(52 919)	(57 934)
Accumulated amortisation and impairment at the end of the year	(544 870)	(493 594)
Net carrying amount at the end of the year	126 422	121 553

12. Investment property

12.1. Summary of all properties

KShs '000	Notes	2021	2020
Investment properties	12.2	445 213	521 600
Owner-occupied properties	13.2.1	770 787	694 400
Total property		1 216 000	1 216 000

Details of property investments are recorded in registers, which may be inspected by members or their duly authorised agents, at the company's registered office.

Investment and owner-occupied properties fair values were obtained from independent valuers who derived the values by determining sustainable net rental income, to which an appropriate exit capitalisation rate is applied. Exit capitalisation rates are adjusted for occupancy levels, age of the building, location and expected future benefit of recent alterations.

The exit capitalisation rates applied at 31 December 2021 are between 6.5% to 10% (2020: between 6.3% to 9.5%). This compares to the ten-year government yield of 9.17% (2020: 9.17%). The non-observable adjustments included in the valuation can therefore be referenced to the variance to the ten-year government rate.

KShs'000	Total	1% Increase	1% decrease
2021			
Properties below 6.8% capitalisation rate	-	-	-
Properties between 6.8% - 8.5% capitalisation rate	1 216 000	1 088 180	1 378 362
Properties between 8.5% - 10% capitalisation rate	-	-	-
	1 216 000	1 088 180	1 378 362

KShs'000	Total	1% Increase	1% decrease
2020			
Properties below 6.8% capitalisation rate	-	-	-
Properties between 6.8% - 8.5% capitalisation rate	1 216 000	1 216 000	1 216 000
Properties between 8.5% - 10% capitalisation rate	-	-	-
	1 216 000	1 216 000	1 216 000

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12. Investment property (continued)

12.2. Investment properties

KShs '000	2021	2020
Fair value at the beginning of the year	521 600	548 729
Fair value adjustments		(27 129)
Reclassifications to owner-occupied properties *	(76 387)	
Fair value at the end the of the year	445 213	521 600

* The reclassification is in respect of the vacant space left behind after Stanlib moved out of Liberty house building at end of 2020. This space has been reclassified from Investment property to owner occupied.

12.3. Non current assets held for sale

The company made a decision not to continue holding Karen Road property and Heritage Court property as investment properties due to their poor investment returns and therefore changed the classification of the properties to Non-current asset held for sale. The two properties are actively being marketed for sale. Previously the assets were classified as investment properties. The following conditions have been met:

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

KShs '000	2021	2020
Balance at the beginning of the year	633 250	660 000
Fair value adjustment	(7 987)	(26 750)
Fair value at the end the of the year	625 263	633 250

The assets held for sale generated a gross rental income of KShs 11 676 857 (2020: KShs 9 911 634). The total expenses incurred to manage the assets held for sale was KShs 7 057 947 (2020: KShs 7 086 519).

13. Property and Equipment and right-of-use assets

13.1. Summary

KShs '000	Notes	2021	2020
Property and equipment	13.2	840 535	774 063
Right-of-use assets	13.2.3	15 478	24 577
Total property and equipment and right-of-use assets		856 013	798 640

13.2. Movement analysis of property and equipment and right-of-use assets

KShs '000	2021	2020
Cost at the beginning of the year	1 534 911	1 521 182
Additions	14 246	51 208
Revaluation gains/(loss)	-	(36 871)
Disposals	-	(608)
Reclassification **	76 387	-
Cost at the end of the year	1 625 544	1 534 911
Accumulated depreciation at the beginning of the year	(760 848)	(733 204)
Depreciation	(24 161)	(27 644)
Accumulated depreciation at the end of the year	(785 009)	(760 848)
Net carrying amount at the end of the year	840 535	774 063

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13. Property and Equipment and right-of-use assets (continued)

** The reclassification is in respect of the vacant space left behind after Stanlib moved out of Liberty house building at end of 2020. This space has been reclassified from Investment property to owner occupied.

13.2.1. Owner occupied property

KShs '000	2021	2020
Balance at the beginning of the year	694 400	731 271
Revaluation gain/(loss)	-	(36 871)
Reclassification **	76 387	-
Carrying amount at the end of the year	770 787	694 400

** The reclassification is in respect of the vacant space left behind after Stanlib moved out of Liberty house building at end of 2020. This space has been reclassified from Investment property to owner occupied.

13.2.2. Other Property and Equipment

KShs '000	Balance at the beginning of the year	Additions	Disposals	Depreciation	Balance at the end of the year
2021					
Cost – movement					
Motor vehicles	41 015	-	-	-	41 015
Computer equipment	242 343	10 268	-	-	252 611
Fixtures, furniture and fittings	455 258	1 318	-	-	456 576
Leasehold improvements	88 166	2 660	-	-	90 826
Total cost	826 782	14 246			841 028
Accumulated depreciation – movement					
Motor vehicles	(35 465)	-	-	(3 063)	(38 528)
Computer equipment	(197 312)	-	-	(15 971)	(213 283)
Fixtures, furniture and fittings	(428 605)	-	-	(4 769)	(433 374)
Leasehold improvements	(85 737)	-	-	(358)	(86 095)
Total accumulated depreciation	(747 119)			(24 161)	(771 280)
Carrying amount at the end of the year	79 663	14 246		(24 161)	69 748

KShs '000	Balance at the beginning of the year	Additions	Disposals	Depreciation	Balance at the end of the year
2020					
Cost – movement					
Motor vehicles	36 565	4 450	-	-	41 015
Computer equipment	212 125	30 218	-	-	242 343
Fixtures, furniture and fittings	439 799	16 540	(1 081)	-	455 258
Leasehold improvements	88 166	-	-	-	88 166
Total cost	776 655	51 208	(1 081)		826 782
Accumulated depreciation – movement					
Motor vehicles	(29 279)	-	-	(6 186)	(35 465)
Computer equipment	(182 276)	-	-	(15 036)	(197 312)
Fixtures, furniture and fittings	(424 915)	-	473	(4 163)	(428 605)
Leasehold improvements	(83 478)	-	-	(2 259)	(85 737)
Total accumulated depreciation	(719 948)		473	(27 644)	(747 119)
Carrying amount at the end of year	56 707	51 208	(608)	(27 644)	79 663

Included in Property and Equipment and Right-Of-Use assets as at 31 December 2021 are fully depreciated assets with a cost of KShs1 072 601 021 (2020: KShs 662 644 295). The notional annual depreciation charge on these assets would have been KShs 84 547 158 (2020: KShs 92 395 312).

No assets have been pledged as collateral.

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13. Property and Equipment and right-of-use assets (continued)

13.2.3. Right-of-use assets

KShs '000	Balance at the beginning of the year	Additions	Disposals	Depreciation	Balance at the end of the year
2021					
Cost – movement					
Land and buildings	39 891	-	(6 844)	-	33 047
Total cost	39 891		(6 844)		33 047
Accumulated depreciation – movement					
Land and buildings	(15 314)	-	-	(2 255)	(17 569)
Total accumulated depreciation	(15 314)			(2 255)	(17 569)
Net carrying amount at the end of the year	24 577		(6 844)	(2 255)	15 478

KShs '000	Recognised on 1 January	Additions	Disposals	Depreciation	Balance at the end of the year
2020					
Cost – movement					
Land and buildings	38 804	1 087	-	-	39 891
Total cost	38 804	1 087			39 891
Accumulated depreciation – movement					
Land and buildings	(10 490)	-	-	(4 824)	(15 314)
Total accumulated depreciation	(10 490)			(4 824)	(15 314)
Net carrying amount at the end of the year	28 314	1 087		(4 824)	24 577

14. Financial investments

14.1 Financial investments

KShs '000	2021	2020
Financial investments	16 596 864	18 166 915
Equity and long-term debt instruments held at fair value through profit or loss	15 157 756	14 016 870
Listed equities	3 297 419	3 115 655
Government securities	11 860 337	10 901 215
Treasury bills held at amortised cost	1 439 108	4 150 045
Treasury bills	1 439 108	4 150 045

KShs '000	2021	2020
a) Equities and long-term debt securities		
Equity securities:		
Listed equities	3 297 419	3 115 655
Listed debt securities:		
Government securities	11 860 337	10 901 215
Total	15 157 756	14 016 870

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14. Financial investments (continued)

Movements in fair value through Profit or Loss assets during the year are as follows:

KShs '000	2021	2020
i) Equity securities:		
At start of year	3 115 655	4 041 095
Additions	1 655 772	38 354
Disposals	(1 754 753)	(253 637)
Fair value gain/(loss)	280 745	(710 157)
As at 31 December	3 297 419	3 115 655
ii) Listed debt securities:		
Government securities and corporate bonds		
At start of year	10 901 215	10 894 958
Additions	7 262 326	3 267 318
Disposals	(6 544 077)	(3 478 504)
Accrued interest	292 594	187 351
Fair value gain/(loss)	(51 721)	30 092
As at 31 December	11 860 337	10 901 215
Maturity analysis:		
< 1 year	1 097 636	639 251
1 - 5 years	7 187 368	2 548 238
5 - 10 years	3 317 092	4 978 237
> 10 years	258 241	2 735 489
Total	11 860 337	10 901 215
b) Treasury bills held at amortised cost		
Treasury bills	1 439 108	4 150 045
i) Treasury bills		
At start of year	4 150 045	4 215 017
Additions	2 849 357	5 364 557
Disposals	(5 620 153)	(5 523 385)
Accrued interest	59 859	93 856
As at 31 December	1 439 108	4 150 045
Maturity analysis		
< 3 months	507 806	1 011 396
4 - 6 months	339 037	1 396 421
7 - 9 months	193 941	488 287
10 - 12 months	398 324	1 253 941
At end of year	1 439 108	4 150 045
14.2 Financial assets held at amortised cost		
Loans and receivables		
Mortgage loans	407 656	399 731
Policy loans	937 649	977 237
Staff loans	67 037	70 458
As at 31 December	1 412 342	1 447 426

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14. Financial investments (continued)

Movements in loans and receivables during the year are as follows:

KShs'000	2021	2020
At start of year		
Loan advanced	1 447 426	1 535 134
Repayments	577 550	125 017
Accrued interest	(318 568)	(97 189)
Impairment	(286 464)	(100 535)
	(7 602)	(15 001)
As at 31 December	1 412 342	1 447 426
i) Mortgage loans		
At start of year		
Loan advanced	399 731	371 482
Repayments	57 807	40 889
Accrued interest	(62 757)	(23 686)
	12 875	11 046
As at 31 December	407 656	399 731
ii) Policy loans		
At start of year		
Loan advanced	977 237	1 055 100
Repayments	461 450	61 368
Other movements including accrued interest	(214 038)	(27 649)
	(287 000)	(111 582)
As at 31 December	937 649	977 237
iii) Staff loans		
At start of year		
Loan advanced	70 458	108 552
Repayments	45 954	22 760
Impairment	(41 773)	(45 853)
	(7 602)	(15 001)
Total	67 037	70 458

Cash flow movements in financial instruments:

Disposals of financial instruments

Equities	(1 754 753)	(253 637)
Government securities and corporate bonds	(6 544 077)	(3 478 504)
Treasury bills	(5 119 272)	(6 530 631)
Mortgage loans	(62 757)	(23 686)
Policy loans	(214 038)	(27 649)
Staff loans	(41 773)	(45 853)
Deposits with financial institutions	(16 473 122)	(16 142 475)
Total Amount	(30 209 792)	(26 502 435)

Purchase of financial instruments

Equities	1 655 772	38 354
Government securities and corporate bonds	7 262 326	3 267 318
Treasury bills	2 849 357	5 364 557
Mortgage loans	57 807	40 889
Policy loans	473 789	61 368
Staff loans	45 954	22 760
Deposits with financial institutions	18 422 722	17 129 599
Total Amount	30 767 727	25 924 845

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15. Insurance receivables

The company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for Insurance receivables at amortised cost.

		2021			2020		
	ECL Rate %	Gross carrying amount	Impairment allowance	Net carrying amount	Gross carrying amount	Impairment allowance	Net carrying amount
Current	- %	76 906	-	76 906	117 673	-	117 673
1 - 30 days past due	100 %	19 488	(19 488)	-	4 168	(4 168)	-
31 - 60 days past due	100 %	22 272	(22 272)	-	5 686	(5 686)	-
61 - 90 days past due	100 %	13 920	(13 920)	-	5 082	(5 082)	-
More than 90 days past due	100 %	17 828	(17 828)	-	8 758	(8 758)	-
	-	150 414	(73 508)	76 906	141 367	(23 694)	117 673

Movement in impairment losses on insurance receivables

Insurance contracts	150 414	141 366
Opening impairment loss allowance	(23 692)	(9 796)
Charge to profit or loss	(50 399)	(13 897)
Provision for impairment loss allowance - Closing	(73 508)	(23 692)
Receivables arising out of direct insurance arrangements (Net)	76 323	117 673

Insurance receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on insurance receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

16. Long-term policyholder liabilities and reinsurance assets

KShs'000	Policyholder liabilities		Investment contracts with DPF ⁽¹⁾
	insurance contract liabilities	Reinsurance assets	
2021			
Balance at the beginning of the year	6 728 593	(2 904)	3 928 865
Inflows	3 497 828	(342 502)	590 137
Premiums	2 455 734	(342 502)	243 247
Investment returns	1 042 094	-	346 890
Unwinding of discount rate	319 654	-	-
Investments	722 440	-	346 890
Outflows	(3 778 330)	366 021	(1 407 295)
Claims and policyholder benefits under insurance contracts	(2 801 404)	265 510	(1 258 719)
Acquisition costs associated with insurance contracts	(430 447)	100 511	(28 086)
General marketing and administration expenses	(595 051)	-	(93 251)
Taxation	48 572	-	(27 239)
Net income from insurance operations	343 034	(187 446)	(46 634)
Assumption and modelling changes	9 386	-	-
Discretionary and compulsory margins and other variances	333 648	(187 446)	(46 634)
New business	-	-	-
Balance at the end of the year	6 791 125	(166 831)	3 065 073

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16. Long-term policyholder liabilities and reinsurance assets (continued)

KShs'000	Policyholder liabilities insurance contract liabilities	Reinsurance assets	Investment contracts with DPF ⁽¹⁾
2020			
Balance at the beginning of the year	7 095 874	(30 289)	4 889 658
Inflows	2 948 589	(200 528)	415 366
Premiums	2 403 223	(200 528)	303 506
Investment returns	545 366	-	111 860
Unwinding of discount rate	342 041	-	-
Investments	203 325	-	111 860
Outflows	(2 956 919)	112 204	(1 385 231)
Claims and policyholder benefits under insurance contracts	(1 838 376)	8 766	(1 251 697)
Acquisition costs associated with insurance contracts	(447 298)	103 438	(28 318)
General marketing and administration expenses	(587 150)	-	(104 665)
Taxation	(84 095)	-	(551)
Net income from insurance operations	(359 951)	115 709	9 072
Assumption and modelling changes	72 184	-	-
Discretionary and compulsory margins and other variances	(563 294)	115 709	9 072
New business	131 159	-	-
Balance at the end of the year	6 728 593	(2 904)	3 928 865

⁽¹⁾ The Company cannot reliably measure the fair value of the investment contracts with discretionary participation features (DPF). The DPF is a contractual right that gives investors in these contracts the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the investment DPF fund.

These supplementary returns are subject to the discretion of the Company, and applied in line with the Principles and Practices of Financial Management (PPFM).

Given the discretionary nature of these investments returns and the absence of an exchange market in these contracts, there is no generally recognised methodology available to determine fair value. These instruments are issued by the Company and the intention is to hold the instruments to full contract term.

Process used to decide on assumptions and changes in assumptions

Assumptions used in the valuation of policyholder and reinsurance contracts are set by references to local guidance by the Insurance Regulatory Authority, The Actuarial Society of Kenya, taxation legislation and where applicable to the Actuarial Society of South Africa guidance. Economic assumptions are set by reference to local economic conditions at the valuation date with local information being augmented by economic indicators in other relevant markets where appropriate. Margins are allowed for as prescribed by local guidance and regulations.

Mortality and Morbidity

The Company uses the KE 2007-2010 ordinary life tables as the base mortality assumption. The appropriateness of the mortality assumption is checked by carrying out investigations into mortality and morbidity experience at least once a year for all classes of business. The period of investigation extends over at least the latest three full years. The results of the investigation are an input used to set the valuation assumptions, which are applied as an adjustment to the respective base table.

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal investigations are performed at least once a year for all classes of business. The period of investigation extends over at least the latest two full years. Assumptions are set as the best estimate taking into account all relevant information. The withdrawal rates are analysed by product type and policy duration as rates vary considerably by these two factors. Typically, the assumptions are higher for risk type products than for investment type products and are higher at early durations. The surrender values assumed are as per the terms and conditions and any other regulatory restrictions in place at the financial position date.

Liberty Life Assurance Kenya Limited

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16. Long-term policyholder liabilities and reinsurance assets (continued)

Investment return and discount rate

The best estimate future investment returns are set for the main asset classes as follows:

- Treasury Bonds – the derived yield from the NSE yield curve, at a duration of 9 years, at the balance sheet date 12.49% (2020: 12.33%);
- Equities – Treasury Bond rate plus 3.5 percentage points as an adjustment for risk 15.98% (2020: 15.19%);
- Property – Treasury Bond rate plus 1 percentage point as an adjustment for risk 13.48% (2020: 12.69%); and
- Cash – Treasury Bond rate less 1.5 percentage points 10.98% (2020: 10.19%).

The overall investment return for a block of business is based on the investment return assumptions allowing for the current mix of assets supporting the liabilities. The pre-taxation discount rate is set at the same rate. The rate averaged across these blocks of business is 13.10% per annum in 2021 (2020: 12.30% per annum). Where appropriate the investment return assumption is adjusted to make allowance for investment expenses and taxation.

Expenses

An expense analysis is performed on the actual expenses incurred to, split between acquisition and maintenance expenses, in the calendar year preceding the balance sheet date. This analysis is used to calculate the acquisition costs incurred. The budget in respect of the following year approved by the Board is used to set the maintenance expense assumption.

Expense inflation

The expense inflation assumption is set taking into consideration, market implied inflation, the expected future development of the number of in force policies, as well as the expected future profile of maintenance expenses. The inflation rate is set at the effective 9-year treasury bond yield curve rate less 3.00% when the treasury bond rate is above 8.50%. The expense inflation rate is set at 60% of the treasury bond rate when this is below 5.25%. At treasury bond rates between 5.25% and 7.25% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate inflation assumption of 9.5% at 31 December 2021 (2020: 8.7%).

Changes in assumptions

Modelling and other changes were made to realign valuation assumptions with expected future experience. These changes resulted in an increase in the net of reinsurance policyholder liabilities of KShs 9,4 million in 2021 compared to a net increase of KShs 73 million in 2020.

Change in net of reinsurance policyholder liabilities due to assumption and modelling changes

KShs '000	2021	2020
Mortality and morbidity valuation assumptions	-	(20 528)
Economic valuation assumptions	(23 603)	21 417
Change in renewal expense assumption	20 952	(122 394)
COVID-19 Reserve Modelling Impact	7 726	113 363
Balance of modelling and other changes	4 311	81 326
Total increase in net of reinsurance policyholder liabilities	9 386	73 184

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Notes to the Financial Statements

16. Long-term policyholder liabilities and reinsurance assets (continued)

16(a). Movement in insurance liabilities

KShs'000	Long-term policyholder liabilities				Total
	Insurance contract	Investment contracts	Insurance contract with DPF	Reinsurance liabilities	
2021					
Investment-linked (excluding discretionary participation features (DPF))	-	10 020 541	-	-	10 020 541
Business with DPF	5 419 092	-	3 065 073	-	8 484 165
Non-participating annuities (including disability income in claim)	241 961	498 284	-	-	740 245
Retail pure risk (excluding disability income annuities in claim)	864 803	-	-	-	864 803
Institutional risk (excluding group disability income annuities in claim)	265 269	-	-	-	265 269
Total long-term policyholder and reinsurance liabilities	6 791 125	10 518 825	3 065 073	-	20 375 023
2020					
Investment-linked (excluding discretionary participation features (DPF))	-	8 900 253	-	-	8 900 253
Business with DPF	-	-	3 928 865	-	3 928 865
Non-participating annuities (including disability income in claim)	256 388	-	-	-	256 388
Retail pure risk (excluding disability income annuities in claim)	6 246 293	-	-	-	6 246 293
Institutional risk (excluding group disability income annuities in claim)	225 912	-	-	-	225 912
Total long-term policyholder and reinsurance liabilities	6 728 593	8 900 253	3 928 865	-	19 557 711

16(b). Financial liabilities under investment contracts

KShs '000	2021	2020
16.b.i Long-term liabilities under investment contracts		
Balance at the beginning of the year	8 900 253	7 713 693
Fund inflows from investment contracts	2 422 799	2 363 032
Net fair value adjustment	854 886	520 967
Fund outflows under investment contracts	(1 266 676)	(1 549 972)
Service fee income	(392 437)	(147 467)
Balance at the end of the year	10 518 825	8 900 253
Net income/(loss) from investment contracts	(32 147)	(203 074)
Service fee income	392 437	147 467
Shareholder taxation on transfer of net income	28 166	62 842
Acquisition costs	(137 467)	(135 509)
General marketing and administration expenses	(315 283)	(277 874)

16(c) Revenue from contracts with customers

	392 437	146 467
Fund inflow from investment contracts	2 422 799	2 362 032
Net fair value adjustment	854 886	520 967
Fund outflows from investment contracts	(1 266 676)	(1 549 972)
Change in actuarial reserves	(1 618 572)	(1 186 560)

Revenue from contracts with customers relates to income earned from investment products issued by the company based on assets under management and investment income generated.

Liberty Life Assurance Kenya Limited

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Notes to the Financial Statements

17. Cash and cash equivalents

Cash and cash equivalents comprise the following:

KShs '000	2021	2020
Cash and bank balances	290 567	265 315
Deposits with financial institutions	4 326 153	2 118 338
Total cash and cash equivalents	4 616 720	2 383 653

17.i Deposits with financial institutions

0-90 days	1 337 988	1 077 062
91 - 365 days	2 988 165	1 041 276
Total amount	4 326 153	2 118 338

17.ii Cash and cash equivalents

Deposits with financial institutions	1 337 988	1 077 062
Treasury bills	507 806	1 011 396
Cash and cash balances	290 567	265 315
Total amount	2 136 361	2 353 773

Impairments on cash and cash equivalents held at amortised cost are measured on a 12-month expected credit loss basis and reflects the short-term maturities of the exposures. The company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. Impairment losses for cash and cash equivalents held at amortised cost were assessed and considered immaterial.

18. Other receivables

KShs'000	2021	2020
Prepayments	70 185	37 274
Rent receivable	31 472	51 217
Bonds guarantee	54 091	18 567
Accrued interest	86 880	-
Other receivables	6 457	24 883
Total amount	249 085	131 941

19. Deferred tax liabilities

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% (2020: 30%). Deferred tax liabilities are attributable to the following items:

KShs '000	01 January 2021	(Credit)/ charge to profit or loss	As 31 December 2021
Statutory reserve	952 721	(67 433)	885 287
Revaluation reserve	164 984	-	164 984
	1 117 705	(67 433)	1 050 272

KShs '000	01 January 2020	(Credit)/ charge to profit or loss	As 31 December 2020
Statutory reserve	878 108	74 613	952 721
Revaluation reserve	164 970	14	164 984
	1 043 078	74 627	1 117 705

Liberty Life Assurance Kenya Limited

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20. Other payables

KShs '000	2021	2020
Accrued expenses	185 102	263 123
Policyholder maturities	146 571	137 570
Provision for unearned premiums	341 099	159 913
Outstanding claims	339 998	183 835
Total other payables	1 012 770	744 441

21. Lease liabilities

KShs '000	2021	2020
Recognised on 1 January	(26 132)	(29 513)
Lease liability incurred during the year	-	(3 344)
Repayments	9 916	10 554
Interest on lease liabilities	(2 971)	(3 829)
Carrying amount at 31 December	(19 187)	(26 132)
Maturity analysis of lease liabilities		
1 - 2 years	6 622	3 642
2 - 5 years	12 565	22 490
	19 187	26 132

It is company policy to lease certain property and equipment under finance leases.

The Company has no restrictions or covenants imposed by its leases, neither are there arranged sale and leaseback transactions.

The average lease term was 5.5 years and the average effective borrowing rate was 14% (2020: 14%). Interest rates are fixed at the contract date. All leases have fixed repayments and include additional charges for contingent rent based on a percentage of sales.

The company's obligations under finance leases are secured by the lessor's charge over the leased assets.

22. Employee benefits

22.1. Short-term employee benefits

KShs '000	Leave pay		Short-term incentive schemes		Total	
	2021	2020	2021	2020	2021	2020
Balance at the beginning of the year	20 265	16 937	54 277	20 979	74 542	37 916
Additional provision raised	4 699	11 004	43 877	46 911	48 577	57 915
Utilised during the year	(7 434)	(7 676)	(54 277)	(48 204)	(61 711)	(55 880)
Prior year under provision	-	-	-	34 591	-	34 591
Balance at the end of the year	17 530	20 265	43 877	54 277	61 408	74 542

All outflows of economic benefits in respect of the short-term employee benefits are expected to occur within one year.

Leave pay

In terms of the Company policy, employees are entitled to accumulate a maximum of 25 days compulsory leave. Compulsory leave has to be taken within 18 months of earning it, failing which it is forfeited.

Short-term incentive schemes (cash-settled)

In terms of the Company policy, all permanent employees are eligible to receive a short-term incentive bonus in terms of the various Board approved short-term incentive schemes. These schemes recognise both individual and financial performance (both of the respective business unit and group).

Liberty Life Assurance Kenya Limited

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Notes to the Financial Statements

22. Employee benefits (continued)

22.2. Details of funds

The Company operates the following retirement and post-retirement medical schemes for the benefit of its employees.

Defined contribution schemes:

Liberty Defined Contribution Pension Fund

Liberty Life operates a funded defined contribution pension scheme. The Liberty Defined Contribution Pension Fund offers a benefit to employees based on the accumulated contributions and investment returns at retirement.

22.3. Transactions between group companies and the funds

22.3.1. The contributions which the company has made on behalf of employees during the year is KShs 45 047 686 (2020: 36 230 000).

22.3.2. Summary of the Liberty Defined Contribution Pension Fund

KShs '000	2021	2020
Liberty Defined Contribution Pension Fund		
Balance at the beginning of the year	659 777	584 471
Premiums	90 551	104 986
Fair value adjustments	40 058	38 551
Withdrawals	(87 908)	(68 231)
Balance at the end of the year	702 478	659 777

22.3.3. The various funds detailed above have contracted Liberty Life Assurance Kenya Limited to manage the funds.

Liberty Life Assurance Kenya Limited

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Notes to the Financial Statements

23. Cash utilised by operations

Reconciliation of profit before income tax to cash generated from operations

KShs '000	2021	2020
Reconciliation of total earnings to cash utilised by operations		
(Loss)/profit before taxation	(199 096)	273 017
Adjustments for:		
Interest income on assets held at amortised cost	3 (370 278)	(264 657)
Interest income on government securities	3 (1 493 790)	(1 593 134)
Interest income on corporate bonds	3 -	(29 587)
Interest expense on lease liabilities	21 2 971	3 828
Depreciation property, plant and equipment	13.2.2 24 161	27 644
Depreciation right-of-use asset	13.2.3 2 255	4 824
Amortisation of intangible assets	11 51 276	57 934
Fair value loss on investment property	4 7 987	53 879
Foreign exchange gain	3 (12 470)	(13 458)
Impairment of financial assets	3 7 602	15 001
Dividend income	3 (97 855)	(144 161)
Fund management fees	3 -	27 129
Other net investment income	3 (285 068)	513 737
Adjustments for non-cash items:		
Insurance contract liabilities	62 532	(367 281)
Movement in investment with DPF contracts	(863 792)	(960 793)
Movement in investment contracts	1 618 572	1 186 560
Other payables	252 119	(165 064)
Creditors arising from reinsurance	(1 299)	(18 814)
Deferred acquisition costs	(9 860)	5 353
Reinsurance receivables	(163 927)	27 385
Insurance receivables	40 767	(56 987)
Other assets	(99 787)	(6 968)
Cash utilised by operations	(1 526 980)	(1 424 613)

Liberty Life Assurance Kenya Limited

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Notes to the Financial Statements

24. Related party disclosures

The Company is controlled by Liberty Kenya Holdings Plc incorporated in the Republic of Kenya. The parent of Liberty Kenya Holdings Plc is Liberty Holdings Limited incorporated in South Africa. The ultimate parent of Liberty Holdings Limited is Standard Bank Group Limited, which is incorporated in South Africa. The company is related to Heritage Insurance Kenya Limited, Liberty life Uganda and Liberty general Uganda through common shareholding. The company is also related to Stanbic Kenya through Standard bank Group Limited which is the ultimate shareholder. In the normal course of business the Company transacts business with its related entities at arm's length. Details of related party transactions are covered in the subsequent sections within this note.

A. Investment in related parties

A1. Financial instrument investments

Stanbic term deposits and Corporate bonds

KShs '000	2021	2020
Summary of holdings and movements		
Holdings at the beginning of the year	298 737	191 874
Stanbic Bank Kenya Limited - term deposits	298 737	106 471
Stanbic Bank Kenya Limited - corporate bonds	-	85 403
Purchases	2 376 613	192 266
Stanbic bank Kenya Limited-term deposits	2 376 613	192 266
Sales	(2 434 352)	(85 403)
Stanbic Bank Kenya Limited-term deposits	(2 434 352)	-
Stanbic Bank Kenya Limited-corporate bonds	-	(85 403)
Fair value adjustments	-	-
Holdings at the end of the year	240 998	298 737
Stanbic Bank Kenya Limited - term deposits	(240 998)	298 737

A.2. Financial instrument investments

The Company has invested in stanbic bank Kenya Limited shares which are traded on the Nairobi stock exchange.

Stanbic equity investments

KShs '000	2021	2020
Summary of holdings and movements		
Holdings at the beginning of the year	32 202	200 412
Stanbic Bank Kenya Limited-listed equities	32 202	38 330
STANLIB Fahari-Reit	-	162 082
Purchases	8 551	-
Stanbic Bank Kenya Limited-listed equities	8 551	-
Sales	-	(35 447)
Stanbic Bank Kenya limited-listed equities	-	3 229
STANLIB Fahari I-Reit	-	(38 676)
Fair value adjustments	3 531	(64 422)
Stanbic Bank Kenya Limited-listed equities	3 531	(9 357)
STANLIB Fahari I-Reit	-	(55 065)
Holdings at the end of the year	44 284	100 543
Stanbic Kenya Holdings Plc	44 284	32 202
STANLIB Fahari-Reit	-	68 341

Liberty Life Assurance Kenya Limited

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Notes to the Financial Statements

24. Related party disclosures (continued)

B. Banking arrangements

Liberty Life Assurance Kenya Limited utilizes the banking services provided by Stanbic bank Kenya Limited.

Summary of cash balances, interest earned and bank charges

KShs '000	2021	2020
Summary of holdings and movements		
Holdings at the beginning of the year	282 429	331 002
Stanbic Bank Kenya Limited	282 429	331 002
Net movements during the year	100 503	(48 573)
Stanbic Bank Kenya Limited	100 503	(48 573)
Total	382 932	282 429

C. Income received from related party investments

Liberty Life Assurance Kenya Limited earns income from investments held with related parties detailed under (A) above. The Company also receives rental income from both Heritage Kenya Limited and Stanbic in respect of the office space they have leased out. Income received from related party investments are as disclosed below:

KShs '000	2021	2020
Stanbic Bank Kenya Limited		
Dividend received	1 255	2 197
Interest on corporate bonds	-	12 752
Rental income	615	615
STANLIB Kenya Limited		
Rental income	-	9 562
Heritage Insurance Company Kenya Limited		
Rental income	31 098	36 587
	32 968	61 713

D. Bancassurance

Liberty Life Assurance Kenya Limited has a bancassurance business agreement with Stanbic Bank Kenya Limited for the sale and promotion of Life assurance products through the Stanbic Kenya's distribution capability. Premium income in respect of this business in 2021 amounted to KShs 473 million (2020: KShs 618 million). In terms of agreements, Liberty Life Assurance company pays profit share to Stanbic Bank. The amounts to be paid are in most cases dependent on source and type of business. The total combined net profit share amounts accrued as payable to the Stanbic Bank for the year to 31 December 2021 is KShs 80 million (2020: KShs 154 million).

E. Management Services

Liberty Life Assurance Kenya Limited contracts certain management and administration services from Liberty Holdings Limited. Fees paid for services received during the year were KShs 111 million (2020: KSh 70 million).

F. Custodial & Fund management services

Liberty Life Assurance Kenya Limited utilizes custodial services provided by Stanbic. The custody services fees paid during the year was KShs 32.9 million (2020: KShs 26.3 million).

KShs '000	2021	2020
Stanbic Bank Kenya Limited		
Custodial fees	32 990	26 345
	32 990	26 345

Liberty pays commission to Stanbic for insurance policies sold through the bank's various distribution channels. The commission paid for the year to 31 December 2021 is KShs 42 million (2020: KShs 39 million).

Liberty Life Assurance Kenya Limited

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Notes to the Financial Statements

24. Related party disclosures (continued)

G. Outstanding balances with related parties

KShs '000	2021	2020
i) Receivable from:		
Heritage Insurance Company Kenya Limited	6 801	-
Liberty Assurance Uganda Limited	3 134	-
Heritage Insurance Company Tanzania Limited	-	3 930
Liberty Kenya Holdings Plc	16 278	37 543
Liberty General Insurance Uganda Ltd	2 700	2 592
Chartis Insurance Malawi	-	2 205
	28 913	46 270
ii) Payables to:		
Heritage Insurance Company Kenya Limited	-	6 204
Liberty Holdings Limited (South Africa)	21 473	18 345
	21 473	24 549

During the year there were no provisions for doubtful debts arising out of outstanding balances due from related parties nor were there expenses recognized in respect of bad or doubtful debts due from related parties.

H. Key management personnel

Key management personnel have been defined as follows:

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent that specific transactions have occurred between the group and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant full details of all relationships and terms of the transaction are provided.

Key management compensation

KShs '000	2021	2020
Salaries and other short-term employment benefits	121 592	124 939
	121 592	124 939

Directors' remuneration

KShs '000	2021	2020
Fees for services as a director	18 010	18 013
Other emoluments (included in key management compensation above)	34 820	34 227
	52 830	52 240

I. Entities significantly influenced or controlled by key management

Insurance products	Aggregate insured cover		Premiums received	
	2020	2020	2021	2020
KShs '000				
Life assurance	9 000	10 300	440	445

Liberty Life Assurance Kenya Limited

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24. Related party disclosures (continued)

Investment products	Fund value	
	2021	2020
KShs '000		
Balance at the beginning of the year	5 757	4 616
Premiums received	1 175	1 436
Investment return credited net of charges	110	232
Commission and other transaction fees	(18)	(69)
Claims and withdrawals	-	(458)
Balance at the end of the year	7 024	5 757

25. Contingent liabilities and commitments

Liberty Life Assurance Kenya Limited has agents who are paid direct commissions. These agents are charged withholding tax at a rate of 10% for commission paid which is an industry wide practice. Kenya Revenue Tax Authority (KRA) in 2019 indicated that the agents are treated as normal employees of Liberty Life Assurance Kenya Limited and PAYE should be calculated and paid. Subsequently KRA raised a preliminary assessment by KRA giving an unpaid tax amounting to KShs 158 million. Management disputed this figure and appealed the matter at Tax Appeals Tribunal (TAT). By a Judgment delivered on 30th April 2021, the Tax Appeals Tribunal upheld the Company's Appeal thereby setting aside KRA's Objection decision of 12th June 2019 which demanded P.A.Y.E tax of KShs 158 257 154.00 for the years 2013 to 2017. KRA has since appealed the TAT decision and as at the date of this report, the appeal case was yet to be determined.

In 2019, Unclaimed Financial Assets Authority (UFAA) conducted compliance audit of holders of unclaimed financial assets for Liberty Kenya Holding Plc. Preliminary findings indicated that Liberty Life Assurance Kenya Ltd has unclaimed financial assets of KShs 136 million (inclusive of penalties and interest) that have not been remitted to UFAA. Management challenged the finding and requested for final close out meeting to iron the contentious issues. As at the date of this report, final close out meeting is yet to be held to conclude the matter.

The Company, as is the case with the insurance industry in general, is subjected to litigation arising in the normal course of insurance business. The Directors are of the opinion that such litigation will not have a material effect on the financial position or profits of the Company.

26. Subsequent events

There were no events after 31 December 2021 that would have a material effect, adjusting or non-adjusting, on the financial statements.

Liberty Life Assurance Kenya Limited

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Risk management

1. Enterprise risk management (ERM) at a glance

Liberty Life Assurance Kenya Limited (the company) offers a comprehensive range of financial products and services to the retail and corporate markets, distributing tailored risk, insurance, investment and retirement products through its network. The company is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of these products and services. The company is mindful of achieving this objective in the interests of all stakeholders. The company continues to explore opportunities to develop and grow its business organically, with strategic plans being subject to careful consideration of the trade-off between risk and reward, considering the risk appetite limits approved by the Board. The Board oversees all risk activities and has ultimate responsibility.



(a) Overview

Liberty has adopted an Enterprise Risk Management (ERM) approach which enables the company to consider the potential impact of risks on stakeholders. Liberty's risk management framework is substantially based on the ERM principles embodied in the Insurance Regulatory Authority's Risk Based Capital (RBC) framework.

Liberty's risk processes consider both internal and external environments, and their impact on customers, shareholders and other stakeholders.

Liberty's significant risk categories are strategic, insurance, market, credit, liquidity, operational, business conduct and compliance and legal. Risks are controlled at the level of individual exposures and at portfolio level.

The company's strategic plans are subject to consideration of the trade-off between risk and reward, taking into account the risk appetite and risk target statements approved by the Board.

Systems to quantify insurance, market, credit and liquidity risks are in place. Operational, business conduct and compliance and legal risks are addressed through qualitative assessment and analysis of exposures, incidents and effectiveness of mitigating controls. Information in respect of the management of each of these risk categories is contained in the strategic and business risk section and also the compliance and legal risk section.

Liberty Life Assurance Kenya Limited

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Risk management

The management of concentration risk is critical across many of the significant risk categories. Information on the key concentration risks follows in the concentration risk section.

The sensitivity analysis section provides information on the sensitivity of IFRS earnings to selected risk events, while the Capital Management subsection indicates the company's ability to cover its regulatory capital requirements.

Liberty's capital requirements, as measured internally and in terms of regulatory requirements, are well covered.

The Board ensures that the business unit executive is responsible and held accountable for risk management within all operations. Liberty's risk management system is functioning effectively, and the company continues to be managed within the risk appetite.

(b) Risk strategy

Liberty's approach to risk management places consideration of risk as a focal point in business activities. It enables the business to make informed riskbased decisions and manage expected returns by selecting the risks it is willing to assume. Liberty's risk strategy is integrally linked with the business strategy, with risk mitigating actions designed to improve the prospects of achieving the business goals.

Risk strategy	Business strategy link
<p>Liberty's risk philosophy is to ensure the sustainable growth of its business, by encouraging profitable risk-taking and ensuring that it operates within the risk appetite.</p> <p>Liberty's risk preferences are classified according to:</p> <ul style="list-style-type: none">risks that the company actively seeks as a result of being in the business of underwriting and managing risks (i.e. insurance, market, credit and liquidity risks), all of which are viewed as value-enhancing; andrisks that are not actively sought but arise as a consequence of being in business and will be managed to an acceptable level to protect value (i.e. operational, strategic and business, business conduct and compliance and legal risks).	<p>Liberty's strategic plan is based on strategic objectives and concentrates on the growth of the core business.</p> <p>The strategic objectives provide clear direction for management, with detailed strategies being constructed around each. Risk preferences are considered in the formulation of these detailed strategies, and in any supporting operational capabilities that are built.</p> <p>Impacts of decisions taken during the formulation and execution of these detailed strategies are considered against the planned risk profile, and form part of the broader feedback loop of business decision-making (with particular attention paid to the extent that a decision may push the company outside risk appetite).</p>

All other risks are avoided as far as possible.

(c) Risk appetite and risk target

Definition

Risk appetite is defined as the maximum amount of risk that the company is prepared to accept in pursuit of its business objectives. As such, risk appetite defines the company's willingness and capacity to accept high or low levels of exposure to specific risks or groups of risks.

Liberty's risk management system includes the setting of a risk target range, defined as the amount of risk the company aims to take within which to optimise returns. The risk target range is set at a level within the company's risk appetite that allows for the achievement of long-term targeted returns and targeted enterprise value while keeping the possibility of risk appetite breaches at acceptable levels.

Liberty Life Assurance Kenya Limited

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Risk management

Determining risk appetite

The setting of the level of risk appetite is based on stakeholder input and fundamentally driven by the requirement to deliver very high levels of financial security for customers through appropriate maintenance of the company's ongoing solvency. The dual and at times conflicting objectives of creating shareholders' equity and minimising risks are controlled through these limits.

Consideration is also given to the strategic, working capital and regulatory capital requirements of the company.

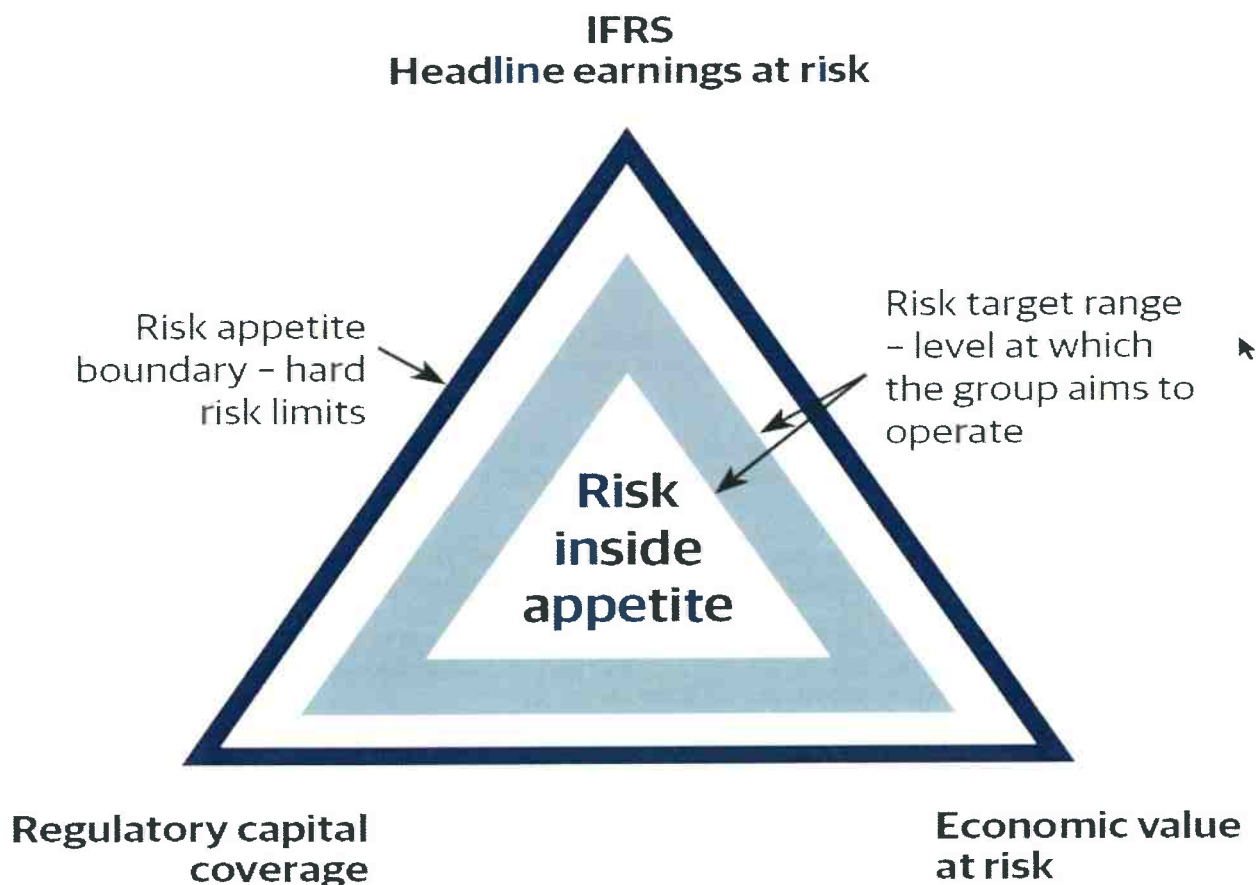
Management is tasked with conducting Liberty's business at the targeted risk levels to ensure that the planned optimisation of returns is achieved. Insufficient risk taking, where value enhancing opportunities exist, is also considered to be undesirable.

Risk dimensions and measurement

The company's risk appetite statement is regularly reviewed to ensure its appropriateness to business objectives. Risk appetite is measured across the following risk dimensions:

- IFRS headline earnings at risk: This is a measure of the fall in IFRS headline earnings over the next year expected in a moderate stress event (i.e. '1 in 10' year event) relative to forecast IFRS headline earnings over the next year.
- Regulatory capital coverage: This is a measure of the number of times the excess assets available on the regulatory basis covers the regulatory minimum capital requirement. This minimum multiple is determined using a risk-based approach and is reviewed for its continued appropriateness annually.
- Economic value at risk: This is an internal risk measure assessing the loss in the economic value of in-force business at a point in time as a result of an extreme stress event (i.e. '1 in 200' year event) expressed as a proportion of the current economic value of the company. On the economic basis, assets and liabilities are measured as the amounts for which they can be exchanged, transferred or settled between knowledgeable willing parties in an arm's length transaction.

Liberty's risk profile is monitored continuously with full bottom up assessments being performed quarterly and reported to management and to the Board. Consideration is given to the risk profile relative to risk limits in determining whether specific management actions are required.



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Risk management

Risk management framework

Effective application of the ERM framework is achieved through processes and operational requirements which have been translated into a comprehensive series of risk management policies, procedures and guidelines. These reflect the overall commitment to risk management, stipulating the required direction and the parties responsible for implementation. Policies with regulatory requirements for Board approval, policies for each of the main risk categories as well as the overarching risk management framework are all approved by the Board. Other procedures, standards and guidelines are approved by the appropriate management structure.

Governance of the risk management system

The Board is ultimately accountable for the effective governance of risk management. It is the responsibility of the Board to ensure that clearly defined risk management roles and responsibilities are in place at the company's operational committees. The Board delegates its oversight and management responsibilities in terms of the three lines of defence governance model. This requires operating management (first line) to operate with risk in mind, with risk professionals overseeing all risk types and providing input from the corporate centre (second line) and the third line providing assurance on the adequacy and effectiveness of the ERM framework.

Please refer to the risk management structure on page 13.

The following governance committees are involved in the control of the risk management system:

- The Board monitors and provides oversight on "people" risks (such as those that arise from major business-wide change), customer fairness related risks, technology and information assets and processes, including: infrastructure, applications, information security (including cyber security), disaster recovery, IT investments and IT projects. The Board ensures the integration of technology and information risks into the company's risk management system. The Executive committee is responsible for ensuring appropriate IT process governance and prioritisation of project delivery.
- The audit and risk committee (ARC) is responsible for providing the Boards with oversight relating to risk and control matters, and reviews Liberty's risk and control philosophy, strategy, frameworks, policies and processes and effectiveness of the risk management system. The ARC is also responsible for reviewing compliance with risk policies and for the overall risk profile of Liberty. The committee also has primary responsibility for risks relating to the production of financial statements and for compliance and legal risks.
- The Investment committee is delegated authority by the Board to manage the company's financial position. This committee is also responsible for providing recommendations to the ARC regarding all risk and control related issues that require escalation to the Board.
- The Joint IT committee and the Executive committee are responsible for ensuring appropriate IT process governance and prioritisation of project delivery.

Understanding Liberty's risks

Risk identification and assessment process

Liberty has a clearly defined business strategy, making it possible to identify events that would hinder the business from achieving its objectives as well as identifying opportunities that might assist the business in advancing towards or achieving its objectives.

Current and emerging risks that could threaten the business model, strategy and sustainability are identified and assessed through a top-down risk identification and assessment process. In addition, risks identified through the strategic planning processes provide a bottom-up view.

Other regular risk identification exercises are conducted at an initiative/project, process or product level. These may be based on the approved strategic objectives or on critical processes identified by the company.

Risks identified and assessed within the functions are aggregated at company level to ensure that the company understands where to focus their time and attention. The risk function monitors the risk identification and assessment process and reports on risk status and management's response each quarter to the ARC.

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Risk management

Stress testing

In support of risk identification, assessment and measurement, comprehensive scenario analysis is undertaken to identify severe but plausible scenarios. Stress testing then assesses the company's sensitivity to these scenarios which:

- alerts management of potential adverse unexpected outcomes related to a variety of risks;
- assesses the company's ability to maintain minimum specified levels of capital based on the Board approved risk appetite;
- assesses the company's resilience to adverse events by identifying areas of potential vulnerability e.g. business continuity in the event of a severe pandemic;
- increases understanding of the company's risk profile through a forward-looking assessment of the company's risk exposure under stressed conditions;
- validates assumptions in respect of the company's risk appetite;
- ensures adequate focus on the management actions that are appropriate to avoid undue risk, and to enable faster reaction to a change in circumstances.

A range of scenarios, covering different levels of severity and plausibility, are considered as part of the stress testing system. Scenarios are forward-looking over the same period as the business planning horizon and focus on both macro-economic and insurance-driven events.

Risk mitigation

Where Liberty accepts a risk within its strategy, it may still want to limit its exposure to an acceptable level via various mitigants such as underwriting, financial controls, and asset allocations.

Once the level of risk Liberty is willing to take has been set by the Board and the risks have been assessed, management is better able to determine the mitigation strategy deemed to be the most effective. The risk function considers risks both gross and net of risk mitigation in the oversight of the risk management system.

Mitigants used depend on the risk type. The mitigants are subject to oversight by the second line of defence, and controls are audited by the third line. Risk mitigation methods for specific risks are covered in later sections.

Risk response, monitoring and reporting

The monitoring of risk exposures and key controls is inherently part of the ERM process, as is the reporting of emerging and significant risks for each function and the company as a whole. Where significant breaches are reported, progress made against action plans is monitored.

Risk information is reported quarterly to the ARC to ensure that decision making is based on an understanding of the potential impact on risk. The company's risk exposure relative to risk appetite and risk target on each risk measure is reported to the ARC.

If the company is operating outside the risk target range, appropriate actions to return to within the range are considered. If the company is outside of risk appetite, immediate corrective action is taken. Risk response decisions are developed as part of the ERM process and formal accountability is assigned to provide a greater level of assurance to the Board.

Liberty's top risks

The top risks process is a top-down risk identification and assessment process, which provides the business with another lens with which to identify the risks that could prevent the organisation from achieving its business objectives. Top risks are defined as elevated, material risks potentially materialising within a relatively short time frame and are currently on the minds of the Board of directors and executives. This spans all risks faced across the business and may include strategic as well as operational risks.

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Risk management

Risk Type	Comments	Mitigating Actions
New and Renewal Business	<p>Productivity of agents – Agents productivity has not improved to the set targets as per the strategy, agency revamp and business targets resulting in non-achievement of their performance targets and budgets</p> <p>Movement in the Life book – The attrition rate of the in-force book has seen a continued decline as more policies are lapsing, surrendering and maturing than those that are new or reinstatements.</p>	<ul style="list-style-type: none"> • Distribution of orphaned book and activity tracker for orphaned policies generated. • Resale against maturing book. • Revamp agency model to enhance agents' production • Roll out products in line with the product road map to improve CVP. • Develop and implement appropriate sales incentives to grow case count and average premium. • Implement effective customer retention strategy for both retail and corporate clients. • Implement STP for remaining products • Non-productive agents and agency managers being performance managed out • Digital strategy being implemented
Expense risk	<p>Due to the increased shift in portfolios to unit linked, shareholder is having to carry the expense burden given the expense allocation limits for unit-linked products. Weak tracking of benefits realization for key expense management initiatives resulting in increased rather than reduced cost.</p>	<ul style="list-style-type: none"> • Focus on top line growth to improve expense ratio • Realization of benefits from key projects to reduce costs • Identify new initiatives to improve cost management, including digitalization of the business
Information Technology risk	<p>IT systems in use have had risks identified in functionality, data integrity and integration. Vendor management as well as IT and Operations functions capability to ensure risks are mitigated has been weak. There are also increasing cyber risks due to increased remote working solutions due to COVID 19 response.</p>	<ul style="list-style-type: none"> • COMPEN system replacement project initiated. Identification of a suitable systems for replacement ongoing. • Dedicated IT security review and tools continue to be implemented to match maturity assessment and changing risk profile • Engagement with Liberty Group and Stanbic increased to align IT capability
Liquidity risk	<p>Inefficient ALM process that resulted in large movements in BM portfolio due to inaccuracy of cashflow modelling process and liability assessment</p>	<ul style="list-style-type: none"> • In-depth review of ALM process and development of an effective cashflow monitoring process • COMPEN system fix to enable accurate extraction of liabilities • Proactive fund manager engagement to ensure rebalancing actions are implemented

Risk strategy	Business strategy link
<p>Non-compelling customer and adviser value proposition</p> <ul style="list-style-type: none"> • Strategic and business risk • Insurance risk 	<p>Management is focusing on:</p> <ul style="list-style-type: none"> • enhancing the customer and adviser experience at points of delivery; • enhancing intermediary experience through servicing and tools; and • building loyalty and increasing customer confidence in our brand. • Management have undertaken to do a comprehensive consumer survey to identify priority customer segments.

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Risk management

Risk strategy	Business strategy link
<p>Erosion of the company brand Classification:</p> <ul style="list-style-type: none">• Strategic and business risk <p>Not identifying the right opportunities and executing on building operations of value for Liberty's chosen markets Classification:</p> <ul style="list-style-type: none">• Strategic and business risk	<p>The company continues to identify opportunities to showcase its brand identity in line with its strategic focus and purpose.</p>
<p>Poor investment performance relative to customer expectations Classification:</p> <ul style="list-style-type: none">• Strategic and business risk• Business conduct risk	<ul style="list-style-type: none">• The Company continues to enhance investment capabilities• Investment propositions offered are being reviewed and simplified.• There is focus on attracting and outsourcing top investment professionals, ensuring that the right mandates are in place and in monitoring performance.
<p>Substantial complexity due to inadequate legacy management and an inadequate control environment for new initiatives Classification:</p> <ul style="list-style-type: none">• Strategic and business risk• Operational risk	<p>Complexity reduction is included as a key consideration for all initiatives from a strategic perspective. Over time this will be embedded as a culture across the business. Management has rationalised several products and systems in recent years reducing the associated operational complexity and risk.</p>
<p>Disruption to the insurance business model and inability to adapt in an agile manner Classification:</p> <ul style="list-style-type: none">• Strategic and business risk• Insurance risk	<p>The Company continues to drive initiatives that will ensure it remains future fit and operates effectively in the evolving external operating environment.</p>
<p>Instability in the socio-political & economic environment aggravated by the advent of the Covid-19 pandemic. Classification:</p> <ul style="list-style-type: none">• Insurance risk• Market risk• Credit risk• Operational risk	<p>The Company maintains a strong capital position and manages its asset/liability matching position within risk limits. In addition, the Group and Company performed stress tests during the course of 2020 which included a scenario of negative economic impact in Kenya as well as a scenario involving distressed financial markets to prepare for the potential impacts on the business.</p>
<p>Changes in the operating environment as a result of the changing regulatory landscape Classification:</p> <ul style="list-style-type: none">• Strategic and business risk• Compliance and legal risk	<p>The Company continues to develop strategic responses to new and emerging regulation.</p>
<p>Data risk Classification:</p> <ul style="list-style-type: none">• Operational risk• Compliance and legal risk	<p>The Company has established a robust data and information management capability and continues to enhance governance in this regard.</p>
<p>Inadequate cyber security and resilience Classification:</p> <ul style="list-style-type: none">• Operational risk• Compliance and legal risk	<p>Investments continued to be made to enhance the Company's cyber security and update plans based on changes to the threat landscape and technology enhancements.</p>

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Risk management

Risk strategy	Business strategy link
<p>Weaknesses in operational, IT, financial and accounting processes may lead to incorrect decision making and/or reporting</p> <p>Classification:</p> <ul style="list-style-type: none">Operational risk	<p>Simplification and automation initiatives as well as enhancements which increased the granularity of financial controls have contributed to mitigating this risk. Management has driven a number of initiatives in 2020 to enhance risk practices and risk culture by embedding risk management in business processes. Ongoing alignment to the broader Group IT architecture continues.</p>

Capital management

Capital management strategy

The capital management strategy seeks to ensure that the company is adequately capitalised to support the risks assumed by the company in accordance with the company's risk appetite. It further seeks to fund working capital and strategic requirements, thereby protecting policyholder and customer interests while optimising shareholder risk adjusted returns and delivering in accordance with the company's dividend policy.

Due to varying requirements of different stakeholders, the company reports and manages capital on several different bases. The capital management process ensures that the company's available capital exceeds the capital required both currently and going forward and to ensure that the company always has unfettered access to capital to meet its requirements.

Company

The company's objective in capital management is to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may limit the amount of dividends paid to shareholders, issue new shares, raise loans or sell assets to reduce debt.

Company

The Board of directors of the company is responsible for monitoring and ensuring compliance with the regulatory framework as established by the Insurance Regulatory Authority.

The company is primarily regulated by the Insurance Act, 1987, Companies Act, 2015, and the Retirement Benefit Authority Act, 1997 and related regulations and guidelines issued by these regulators.

The objectives when managing capital are to:

- comply with the Insurance (Capital Adequacy) guidelines, 2017;
- safeguard the companies' ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders; and
- provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk

The Insurance Act requires Long-term insurance businesses to maintain solvency ratio of 200% and above by 1st January 2021. The Insurance Act requires Life Companies to hold minimum paid up capital of KShs 400 million by the 1st January 2021.

Available capital is the amount by which the value of the assets exceeds the value of liabilities, both measured on a prescribed basis. The company ensures that available capital is of suitable quality and is accessible when required.

The capital buffer is the amount by which available capital exceeds the solvency capital requirement of the company. The capital buffer is managed to support risk target levels, strategic initiative requirements and the dividend policy of the company. The company's dividend policy takes cognisance of capital requirements.

The company's capital position is reported quarterly to the Board. The Board considers reports from the statutory actuary and appointed actuary before dividends are declared.

Available capital

The company is largely funded through ordinary share equity which is the highest quality of capital available to protect policyholders

Liberty Life Assurance Kenya Limited

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Risk management

Available capital and solvency capital requirements.

The following table summarises the available capital (or “own funds”) and the solvency capital requirements (“SCR”) for Liberty Life Assurance Kenya Limited.

	Long Term business	
Liberty Life Assurance Kenya Limited	2021 KShs'000	2020 KShs'000
Available capital (or “own funds”)	2 130 479	2 466 221
Risk-based capital requirement	1 012 489	1 149 340
Solvency ratio (times)	2.10	2.15
Target SCR coverage ratio (times)	2.5-3.5	2.5-3.5
Capital Adequacy Ratio (CAR)	2021 KShs '000	2020 KShs '000
Credit Risk Capital	445 182	583 337
Market Risk Capital	564 400	639 445
Insurance Risk Capital	213 427	180 206
Operations Risk Capital	224 957	265 232
Risk Based Capital	974 814	1 149 340
Total Capital Available (TCA)	2 130 479	2 466 221
Absolute Amount Minimum	400 000	400 000
Volume of Business Minimum	1 012 489	966 523
Risk Based Capital Minimum	974 814	1 149 340
Minimum Required Capital	1 012 489	1 149 340
Minimum Required Capital	1 012 489	1 149 340
Capital Adequacy Ratio (%)	210 %	215 %
Solvency ratio (times)	2.10	2.15

The Company's solvency is computed in accordance with the Insurance Regulatory Authority Risk Based Capital model. In the year under review, the Company's solvency ratio was 210% (2020: 215%).

2. Strategic and business risk

Strategic risk is the possibility of adverse outcomes, including reputational damage, resulting from adopting a particular strategy and/or having a weak competitive position. This may arise from errors in business structures, capital allocation, government action and misunderstandings of economic growth and inflation.

Business risk is the risk that future experience will differ from expectations due to unanticipated concentrations of risk or new business levels being different from expected (as measured by volume or mix).

Management regularly monitors strategic and business risks and seeks to respond appropriately and manage them against Liberty's appetite for risk.

Liberty has a clearly defined business strategy, making it possible to identify events that would hinder the business from achieving its objectives as well as opportunities that might assist the business in advancing towards or achieving its objectives.

Risks that impact the ability of the business to meet commercial goals are identified through analysis of the external and internal environment.

Current and emerging risks that could threaten the business model, strategy and sustainability are identified and assessed through a top-down risk identification and assessment process. In addition, risks identified through the strategic planning processes provide a bottom-up view.

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Risk management

Strategic and business risk (continued)

The aggregated risk profile, which considers both risks identified via the top-down and bottom-up processes, is monitored and reviewed by the Boards with actions driven by management structures.

3. Insurance risk

Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts. This could be due to variations in mortality, morbidity, policyholder behaviour or expense experience in the case of life products, and claims incidence, claim frequency and severity or expense experience in the case of short-term insurance products. These could have adverse impacts on the company's earnings and capital if different from those assumed.

The insurance risks with the greatest impact on the financial position and comprehensive income are covered in more detail in the policyholder behaviour risk section up to the expenses and new business risks section.

Ownership and accountability

The management and staff in the company accepting insurance risk are responsible for the day-to-day identification, analysis, pricing, monitoring and management of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through pre-defined escalation procedures.

The statutory actuary, where applicable, and the head of risk provide independent oversight of compliance with the company's risk management policies and procedures and the effectiveness of the company's insurance risk management processes.

There are committees in place responsible for managing all aspects of insurance risk. These committees are:

- Audit and risk committee;
- Joint actuarial committee supporting the audit and risk committee.

The functions of the various committees responsible for managing insurance risk include:

- recommending insurance risk related policies for approval and ensuring compliance therewith;
- ensuring that insurance risk is appropriately controlled by monitoring insurance risk triggers against agreed limits and/or procedures;
- gaining assurance that material insurance risks are being monitored and that the level of risk taken is always in line with the risk appetite statement;
- considering any new insurance risks introduced through new product development or strategic development and how these risks should be managed;
- monitoring, ratifying and/or escalating to the company Board all material insurance risk-related breaches/excesses, highlighting the corrective action undertaken to resolve the issue;
- monitoring insurance risk capital requirements as they apply to the management of the company balance sheets; and
- approving the reinsurance, underwriting and claims management strategies and overseeing the implementation of those strategies.

The appointed actuary, where applicable, provides oversight of the insurance risks undertaken by the company by:

- providing an opinion at least annually on the financial soundness of the company;
- overseeing the setting of assumptions used to provide best estimate liabilities plus compulsory and discretionary margins (as described in the accounting policies) in accordance with the assumption setting and reserving policies;
- providing an opinion on the actuarial soundness of premium rates in use for new business, and on the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks; and
- reviewing the appropriateness of risk mitigation measures in place and proposed such as in the reinsurance arrangements, the investment strategy and in new products or product enhancements.

Risk identification, assessment, measurement and management

Risk management takes place prior to the acceptance of risks through the product development and pricing processes and at the point of sale. Risks continue to be managed through the measurement, monitoring and treatment of risks once the risks are contracted.

Risk management through product development, pricing and at the point of sale

The product development and pricing process defines the terms and conditions on which the company is willing to accept risks. Once a policy has been sold, the company is placed on risk for the duration of the contract and the company cannot unilaterally change the terms and conditions of the policy except where the policy allows for rate reviews. It is for these reasons that risks need to be carefully assessed and appropriately mitigated before a product is launched and before new policies are accepted onto the company's balance sheet. The product development and approval process ensures:

- risks inherent in new products are identified and quantified;

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Risk management

Risk management through product development, pricing and at the point of sale (continued)

- sensitivity tests are performed to enhance understanding of the risks and appropriateness of mitigating actions;
- pricing is adequate for the risk undertaken;
- product design takes account of various factors including size and timing of fees and charges, appropriate levels of minimum premiums, commission structures (designed to avoid the creation of incentives for mis-selling) and policy terms and conditions;-
- the company makes use of reinsurance to reduce its exposures to some insurance risks;
- customers' needs and expectations will be met by the product;
- the controls required to provide the product within risk appetite are identified and established; and
- post-implementation reviews are performed to ensure that intended outcomes are realised and to determine if any further action is required.

Risk management post-implementation of products and of in-force policies

The ongoing management of insurance risk, once the risk has been contracted, includes the management of costs; premium adjustments where permitted and appropriate; management strategies and training of sales staff to encourage customers to retain their policies; and careful follow up on policyholder benefits.

Experience investigations are conducted at least annually on all significant insurance risks to ascertain the extent of deviations from assumptions and their financial impacts. If the investigations indicate that these deviations are likely to persist in future, the assumptions will be adjusted accordingly for the subsequent measurement of policyholder contract values. Furthermore, any deviations that are likely to persist are also used to inform the product development and pricing of new and existing products.

Insurance risks are assessed and reviewed against the company's risk appetite and risk target. Mitigating actions are developed for any risks that fall outside of management's assessment of risk appetite in order to reduce the level of risk to within the approved tolerance limits.

IFRS sensitivities for the primary insurance risks are provided in the sensitivity section.

Reporting

The company prepares quarterly reports that include information on insurance risk. The reports are presented to the audit and risk committee for review and discussion. Major insurance risks are incorporated into a report by the head of risk on the company's overall risk which is submitted to the ARC. In addition, the joint actuarial committee reviews actuarial methodology and assumptions to support the ARC. Where it is deemed necessary, material insurance risk exposures are escalated to the Board.

In respect of insurance risks, the reports contain the results of experience investigations conducted along with other indicators of actual experience. These reports also raise any issues identified and track the effectiveness of any mitigation plans put in place.

The statutory actuary prepares a Financial Condition Report (FCR) every year as part of their reporting to the Insurance Regulatory Authority and the Board. In this report, insurance risk assessments and outcomes are extensively covered and offer the Board an additional assurance on the adequacy of key controls in place.

Policyholder behaviour risk

This is the risk of policyholders' behaviour within the insurance entities deviating from what is expected, mainly due to:

- regulatory and legislative changes (including taxation);
- changes in economic conditions;
- competitor behaviour;
- policy conditions and practices;
- changes in policyholders' circumstances; and
- policyholders' perceptions.

The primary policyholder behaviour risk is termination risk. This generally arises when policyholders discontinue or reduce contributions, surrender or lapse their policies at a rate that is not in line with expectations. This behaviour results in a loss of future charges that are designed to recoup expenses and commission incurred early in the life of the contract and to provide a profit margin or return on capital. An increase in terminations generally gives rise to a loss, as the loss of these future charges generally exceeds the charges that the company applies to the policyholder benefits in these events. However, with certain products the general principle does not always apply.

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Risk management

Policyholder behaviour risk (continued)

In the measurement of policyholder contract values, margins as described in the accounting policies or prudential standards are added to the best estimate termination rates.

Policyholder behaviour risk, in particular surrender and lapse risk, remains significant with the experience being volatile and linked in part to the economic cycle. This risk is managed through frequent monitoring of experience and actively driving retention initiatives in areas exhibiting deteriorating experience. Focusing on being customer centric, including listening to customers to understand the drivers of the experience, enables appropriate actions to be taken.

The termination experience of each intermediary's business is monitored, and appropriate action is taken when required.

Underwriting risks

The primary purpose of underwriting is to ensure that an appropriate premium is charged for each risk and that cover is not offered to uninsurable risks. Underwriting risks are the risks that future demographic or claims incidence experience will exceed the allowance for expected demographic or claims incidence experience, as determined through provisions, pricing, risk measures and value measures. Underwriting risks include, amongst others, mortality and morbidity risks and longevity risks.

The company views these underwriting risks as risks that are core to the business. Liberty uses its specialist skills (with assistance from reinsurers where considered necessary) to enhance risk selection for the assessment, pricing and management of these risks to generate favourable shareholder returns. These risks are diversified by exposure across many different lives, geographies, and product types and will generally be retained if they are within risk appetite.

Liberty is exposed to the risk that its risk selection capabilities fall behind those of its competitors. Liberty continues to acquire and retain specialist skills and to actively drive specific risk selection initiatives to counteract this risk.

Mortality and morbidity risk

Mortality risk is the risk of mortality (death) claims being higher than anticipated.

Morbidity risk is the risk of policyholder health related (disablement and dread disease) claims being higher than expected.

The company has the following processes and procedures in place to manage mortality and morbidity risk:

a. Pricing

Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claim experience. Premium rates and product designs are updated when required. For corporate schemes, specific attention is paid to industry so that rates quoted can reflect the impact of the industry on mortality risk. Industry loadings tend to be lowest for administration type work and highest for heavy industrial work.

Prior to taking on individual risk policies, appropriate underwriting processes are conducted, which influence pricing on the policy prior to acceptance.

Actual claims experience is monitored on a monthly basis so that deteriorating experience can be identified in a timely manner. Product pricing and the measurement of the liabilities are changed if the deteriorating experience is expected to continue and cannot be mitigated. Detailed mortality and morbidity investigations are conducted on a bi-annual basis for key products.

b. Terms and conditions

The policy terms and conditions contain exclusions for non-standard and unpredictable risks that may result in severe financial loss.

Terms are built into the policy contracts that permit risk premiums to be reviewed on expiry of a guarantee period. In particular, for institutional risk business, the risk premiums are reviewable annually. Delays in implementing premium increases and market or regulatory restraints over the extent of the increases may reduce their mitigating effects.

c. Underwriting

Underwriting guidelines concerning authority limits and procedures to be followed are in place.

All individual business applications for risk cover are underwritten. For other smaller sums assured, the underwriting process is largely automated. For individual and institutional business, larger sums assured in excess of specified limits are reviewed by experienced underwriters and evaluated against established processes. For institutional risk business, these specified limits are scheme specific based on the size of the scheme and distribution of sums assured. Medical tests are required for individual members of institutional schemes if the sum assured are above the free cover limit provided. However, the annually reviewable terms on institutional business enable premiums to keep pace with emerging claim experience.

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Risk management

Mortality and morbidity risk (continued)

For individual business specific medical testing is carried out based on the assessment of the risk and sum assured being above the free cover limit provided.

Part of the underwriting process involves assessing the health condition and family medical history of applicants. Terms and conditions are varied accordingly.

Non-standard risks such as hazardous pursuits, hazardous occupations and medical conditions are assessed at underwriting stage. The expertise of reinsurers is used in the rating of non-standard risks.

Financial underwriting is used where necessary to determine insurable interest.

For institutional risk business, the exposure by entity and industry class are considered at underwriting stage to ensure that concentration risk remains within risk appetite.

d. Claims management

For mortality, claims are validated against policy terms and conditions. For morbidity, experienced claims assessors determine the merits of the claim in relation to the policy terms and conditions. In the case of disability annuitants, claim management ensures the continued eligibility for monthly income and includes interventions that may result in the full or partial medical recovery of the claimant. The actual disability experience is highly dependent on the quality of the claim assessments.

e. Reinsurance

Reinsurance is used by the company to reduce exposure to a particular line of business; a particular individual; a single event; and to benefit from the risk management support services and technical expertise offered by reinsurers.

Regular reviews, which consider risk appetite, are conducted on reinsurance arrangements for new and existing business. The levels of reinsurance purchased for new business written in 2021 were broadly similar to those in recent years. The terms of the reinsurance arrangement in place for the long-term individual risk business allows for reinsurance terms e.g. reinsurance retention limits to be reviewed annually for the business in force. In some instances where underlying policyholder benefits are annually renewable, for example institutional business, reinsurance is annually renewable.

Existing reinsurance arrangements include proportional reinsurance (quota share and surplus type arrangements) on both a treaty and facultative basis and catastrophe reinsurance which is renewed annually.

Catastrophe reinsurance is in place to reduce the risk of many claims arising from the same event. For corporate schemes, catastrophe reinsurance is considered particularly useful to reduce the risk of multiple claims from a single event, as many lives may be in the same place at the same time. Various events are excluded from the catastrophe reinsurance (e.g. epidemics and radioactive contamination).

f. Allowance in policyholder liabilities and capital requirements

In the measurement of policyholder liabilities, margins as described in the accounting policies or prudential standards are added to the best estimate mortality and morbidity rates.

In the calculation of solvency capital requirements, allowance is made for the following risks in respect of mortality and morbidity:

- the risk that the actual level of mortality and morbidity experience is different from that expected; and
- the risk that mortality or morbidity catastrophe events (including epidemic type events) occur.

Mortality and morbidity risk give rise to significant capital requirements in particular due to potential catastrophic events. Since it is difficult to obtain reinsurance for certain catastrophic events, such as epidemics or pandemics on reasonable terms, the mortality and morbidity capital requirements are likely to remain significant.

Liberty continues to monitor and gain insight from its experience to drive appropriate management action in underwriting, claims, pricing and react in a timely fashion to ensure appropriate risk selection.

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Risk management

Longevity risk

Longevity risk is the risk of annuitant mortality being lower than expected, that is annuitants living longer than expected.

For life annuities, the loss arises as a result of the company having undertaken to make regular payments to annuitant policyholders for their remaining lives, and possibly to the annuitant policyholders' spouses for their remaining lives. The most significant risks on these liabilities are continued medical advances and improvements in social conditions that lead to longevity improvements being better than expected.

The company manages the longevity risk by:

- annually monitoring the actual longevity experience and identifying trends over time;
- annually verifying annuitants are still alive.

Retrenchment risk

The company underwrites retrenchment risk cover products and is therefore on risk for retrenchment. This is the risk of the future incidence on retrenchment benefits being higher than expected, and retrenchment income claimants re-employment rates being lower than expected resulting in claims being paid for longer periods. This risk is at its highest during difficult economic conditions such as the COVID-19 induced adverse economic impacts that were experienced in 2020 and 2021 resulting in more people being unemployed than usual. The company mitigates this risk by adequately pricing for it and designing retrenchment products benefit structures in a way that allows the company to manage the retrenchment risk appropriately such as limiting the maximum period over which the benefit is payable before the policyholder is re-employed.

Expense and new business risks

Expense risk is the risk of changes in future expense expectations from those assumed in the calculation of expected financial outcomes e.g. the actual cost per policy or expense ratio differs from that assumed in the pricing or valuation basis.

New business risk is the risk of the value of new insurance business deviating from that expected in calculating expected financial outcomes. This can arise from actual volume, mix and/or quality of new business deviating from that expected. New business strain is included in this risk type.

Allowance is made for expected future maintenance expenses in the measurement of long-term policyholder contract values using a cost per policy methodology. These expected expenses are dependent on estimates of the number of in-force and new business policies. As a result, the risk of expense loss arises due to expenses increasing by more than expected as well as from the number of in-force and/or new business policies being less than expected.

The company manages the expense and new business risk by:

- regularly monitoring actual expenses against budgeted expenses;
- regularly monitoring new business volumes and mix;
- regularly monitoring withdrawal rates including lapses; and
- implementing cost control measures in the event of expenses exceeding budget or of significant unplanned reductions in the number of in-force policies.

In the measurement of policyholder liabilities, a margin as described in the accounting policies is added to the best estimate expenses. In the calculation of capital requirements, allowance is made for the following risks in respect of expenses:

- the risk that the actual level of expenses is different from expected; and
- the risk that the rate at which the company's expenses increase is greater than assumed relative to the rate of inflation. The risk that inflation is higher than expected is treated as a market risk.

Even though expense risk does not give rise to large capital requirements, the management of expense risk is core to the business. The expenses that the company expects to incur on policies are allowed for in product pricing. If the expenses expected to be incurred are considerably higher than those of other insurers offering competing products, the ability of the company to sell business on a profitable basis will be impaired. This not only has capital implications but can also affect the company's ability to function as a going concern in the long-term.

4. Market risk

Definition

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in equity prices, interest rates, foreign currency exchange rates and inflation as well as any changes in the implied volatility assumptions associated with these variables.

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Risk management

Ownership and accountability

The company's market risk policy establishes a set of governing principles for the identification, measurement, monitoring, management and reporting of market risk across the company. It supports the overarching risk management framework with respect to market risk.

The investment committee, which is a sub-committee of the Board, is charged with ensuring that market risk remains within approved risk limits.

External asset managers are responsible for managing investment asset portfolios and must manage investment risks within their mandates. Oversight of investment performance risk is provided by the investment committee through the monitoring of asset managers and the setting of appropriate policyholder fund mandates.

The Head of Risk provides independent oversight of the adequacy and effectiveness of market risk management processes across the company and reports material risks to the ARC.

Risk identification, assessment and measurement

Identification of market risk is fundamental to the company's approach to managing market risk.

In the case of market risks which arise from an insurance/investment product, identification and measurement requires an evaluation of the product's design, whether it is an existing product or a new product proposal, to ensure a thorough understanding of the market risk implications of the product.

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

Once identified and measured, an assessment of the risk is performed. Risk assessment considers:

- The extent to which the company wishes to maintain the market risk exposure on a long-term strategic basis. This includes market risks arising from assets supporting the shareholder capital;
- The extent to which the company does not wish to maintain exposure on a long-term strategic basis (as the risk is not expected to provide an adequate return on capital over time) and the extent to which the risk may be mitigated (either through improved product design or through open market activity); and
- The extent to which the company does not wish to maintain the exposure but, due to the nature of the risk, is unable to adequately and/or economically mitigate these risks through hedging. Whilst these risks cannot necessarily be hedged, they are identified, measured, monitored and managed as far as possible.

Risk management

The company's shareholders are exposed to market risk arising predominantly from:

- The long-term policyholder asset/liability mismatch risk. This occurs if the company's assets do not move in the same direction or by the same magnitude as the obligations arising under its insurance and investment contracts, despite the controls and hedging strategies employed;
- Financial assets forming the company's capital base (also referred to as shareholders' equity); and
- Financial assets held to back liabilities other than long-term policyholder liabilities.

The market risk associated with assets backing long-term policyholder investment-linked liabilities, including discretionary participation feature (DPF) liabilities, is largely borne by the policyholder. However, poor performance on policyholder funds adversely affects asset related fee income. It may also lead to reputational damage and subsequently to increased policyholder withdrawals and a reduction in new business volumes.

Assets comprising Shareholder capital

A portfolio comprising shareholder assets and investment exposures expected to remain on the balance sheet over the long term in order to support solvency requirements are managed for the benefit of the shareholders, within a clearly defined investment mandate.

The Board through the investment committee, approves the long-term strategic asset allocation of the portfolio. The strategic asset allocation is defined on a through-the-cycle basis and aims to maximise after-tax returns for a level of risk consistent with the company's risk appetite.

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Risk management

Asset/liability management (ALM)

The company monitors a number of market risk exposures, arising from asset/liability mismatches and reduces exposures to which it does not wish to be exposed on a long-term strategic basis. This is done within the company risk appetite.

Alignment of market risk exposure to risk appetite statement

The maximum amount of risk assumed within the company is defined by the company's risk appetite.

Market risk targets are set within risk appetite. These targets guide the setting of market risk limits for the ALM Portfolio. During 2021, the company remained within market risk limits.

Risk reporting

On a quarterly basis, the investment committee reviews market risk reports and assesses the adequacy and effectiveness of market risk management processes across the company, highlighting material exposures to the board.

Summary of company assets subject to market risk

The following table summarises the company's exposure to financial, property and insurance assets. This exposure has been split into the relevant market risk categories and then attributed to the main effective "holders" of the risk defined as follows:

- Long-term policyholder investment-linked (including investment with DPF) liabilities – liabilities that are determined with reference to specific assets and where a significant portion of the market risk is borne by the respective policyholders. The company would be exposed to reputational risk if returns are poor.
- Other policyholder liabilities – liabilities where shareholders bear the market risk but have largely hedged the risk via suitable matching assets. e.g. annuities and negative shilling reserves.
- Residual liabilities and shareholders interests; this shows the residual assets left once assets have been allocated to cover the liabilities mentioned above. Shareholders would be exposed to the market risk on these assets.

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Risk management

Risk category KShs '000	Attributable to				
	Total assets	Long-term policyholder investment- linked (including DPF) liabilities	Other policyholder liabilities ⁽⁴⁾	Non- controlling interests	Residual liabilities and shareholders' interests
2021					
Assets subject to market risk only	5 143 414	2 788 573	2 236 421	-	118 420
Equity price	3 297 419	1 984 998	1 312 421	-	-
Property price ⁽¹⁾	1 845 995	803 575	924 000	-	118 420
Assets subject to market and credit risk	19 577 544	10 792 177	4 186 364	-	4 599 003
Interest rate	19 410 713	10 792 177	4 019 533	-	4 599 003
Reinsurance assets ⁽³⁾	166 831	-	166 831	-	-
Other assets not included in the asset class table	577 991	3 147	368 340	-	206 504
Total	25 298 949	13 583 897	6 791 125	-	4 923 927
Percentage (%)	100 %	54 %	27 %	- %	19 %

Risk category KShs '000	Attributable to				
	Total assets	Long-term policyholder investment- linked (including DPF) liabilities	Other policyholder liabilities ⁽⁴⁾	Non- controlling interests	Residual liabilities and shareholders' interests
2020					
Assets subject to market risk only	4 964 905	2 539 184	2 300 721	-	125 000
Equity price	3 115 655	2 030 934	1 084 721	-	-
Property price ⁽¹⁾	1 849 250	508 250	1 216 000	-	125 000
Assets subject to market and credit risk	18 900 244	10 285 094	4 138 043	-	4 477 107
Interest rate	18 897 340	10 285 094	4 135 139	-	4 477 107
Reinsurance assets ⁽³⁾	2 904	-	2 904	-	-
Other assets not included in the asset class table	597 361	4 840	289 829	-	302 692
Total	24 462 510	12 829 118	6 728 593	-	4 904 799
Percentage (%)	100 %	52 %	28 %	-	20 %

(1) Equity price risk is included in property price risk where the invested entity only has exposure to investment properties.

(2) Reinsurance assets are claims against reinsurers outstanding at the reporting date. They are not subject to market risk other than time value of money (interest rate) for the periods to settlement.

(3) Negative exposure to the various risk categories can occur in 'Other policy holder liabilities' since the present value of future inflows can exceed the present value of future benefits and expenses resulting in a negative liability. The group offsets these negative liabilities against policyholder investment-linked liabilities. The policyholder market risk exposure, however, remains unchanged. Hence, shareholders bear all the risks of shorting assets backing the policyholder investment-linked liabilities by the amount of these negative liabilities.

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Risk management

A breakdown of the residual amount where group shareholders assume any market risk on the backing assets, except where offset applies, follows:

KShs '000	2021	2020
Deferred taxation	1 050 272	1 117 705
Lease liabilities	19 187	26 132
Employee benefits	61 408	74 542
Related party balances	21 473	24 549
Creditors arising from reinsurance arrangements	-	1 299
Insurance and other payables	1 012 771	744 441
Ordinary shareholders' equity	2 758 816	2 916 131
	4 923 927	4 904 799

Market risk by product type

The relevant market risks associated with the various policyholder products are discussed by product type below:

Investment-linked (excluding insurance contracts with Discretionary Participation Features (DPF)) products

Investment-linked products provide the policyholder with benefits which are dependent on the investment return on a portfolio of assets from the date of premium payment. As a result, a significant portion of the market risk on these products is borne by the company's policyholders.

- For IFRS defined investment contracts, the company typically holds the assets on which the unit prices are based. In such a scenario, there is virtually no mismatch.
- In respect of IFRS defined insurance contracts with investment-linked components, the liability is reduced by the corresponding negative shilling reserve. Some market risk is consequently retained by the company on this business, to the extent that the negative shilling reserve does not move in line with the investment-linked liabilities. This risk is managed as part of the ALM.
- Management fees charged on this business are determined as a percentage of the fair value of the underlying assets, which are subject to market risk. As a result, the management fees tend to fluctuate but, by design, will always be positive.
- Timing delays may occur between the receipt of premiums from policyholders and the date that the funds are actually invested for the benefit of the policyholder. Such delays may result in either a profit or loss for the shareholder as the policyholder is guaranteed the implied performance of the referenced investments from the date of premium payment.

Guarantees on investment-linked business

Significant exposure to market risk arises from guarantees on investment-linked business. These product features are embedded in various products. IFRS, as well as Actuarial Practice, require these guarantees to be separately identified and measured as embedded derivatives on a market consistent basis.

The policyholder liabilities in respect of minimum investment return guarantees including the policyholder bonuses amounted to KShs 3 065 397 154 (2020: KShs 3 928 866 000). The products under this category are Boresha Maisha Guaranteed, Deposit Administration and retail products.

Non-participating annuities

Non-participating annuities provide benefit payments that are fixed and guaranteed. These liabilities are backed almost entirely by fixed income securities. The company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

The investment committee manages interest rate risk on non-participating annuity business in the policyholder portfolio.

Long-term insurance contracts with DPFs

The company has a number of portfolios of long-term insurance contracts with DPFs, which are backed by segregated pools of assets.

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Risk management

Long-term insurance contracts with DPFs (continued)

Bonuses are declared on this business taking a number of factors into account, including the previously declared bonus rates, policyholder reasonable expectations, expenses, actual investment returns on the underlying assets, expectations of future investment returns and the extent to which the value of assets exceeds the value of benefits allowing for both the guaranteed benefits and projected future bonuses at the most recently declared rates, among other factors. Once declared, a portion of the bonus, depending on the type of contract, forms part of the guaranteed benefits. The bonuses declared are in accordance with the Principles and Practices of Financial Management (PPFM) documents.

The company recognises the full value of the backing assets as a liability. The guaranteed portion of the liability is sensitive to interest rates. The company bears equity risk to the extent that equities are held to back the guaranteed portion of liabilities. The company bears interest rate risk to the extent that the assets backing the guaranteed portion of the liability are not a match for these fixed and guaranteed payments. However, the company's market risk can be passed on to the policyholder to the extent that the assets in the portfolio exceed the value of the guaranteed portion of liabilities.

In the case where the value of the asset is less than the value of the prospective/retrospective liability, a negative Bonus Stabilisation Reserve (BSR) will be calculated (as the difference between assets and the policyholder liability). The total liability will then be equal to the sum of the prospective/retrospective liability plus the value of the BSR, which will be equal to the backing asset. However, the extent of the negative BSR is subject to limits per group policy and regulations.

Pure risk products (excluding annuities)

Pure risk products are predominantly recurring premium policies that provide benefits that are fixed and guaranteed at inception of the contract. The liabilities on these products are normally negative. These liabilities are sensitive to interest rates and their exposure is included as part of the policyholder portfolio.

Market risk by asset or liability class for financial instruments

Interest rate risk

The tables below show financial instrument assets and liabilities directly and primarily exposed to interest rate risk. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary mutual funds and investment policies are not provided.

Accounts receivable and accounts payable are not included in the analysis below as settlement is generally expected within 90 days. The effect of interest rate risk on these balances is considered insignificant given the short-term duration of the underlying cash flows.

The company's net exposure to interest rate yield curve risk is provided in the sensitivities analysis section.

Amount by maturity date KShs '000			2021			2020
	Fixed	Floating	Total	Fixed	Floating	Total
Within 1 year	6 862 898	-	6 862 898	6 907 635	-	6 907 635
1 – 5 years	7 187 368	-	7 187 368	2 548 238	-	2 548 238
6 – 10 years	3 599 560	-	3 599 560	5 267 722	-	5 267 722
11 – 20 years	1 388 115	-	1 388 115	3 893 429	-	3 893 429
Over 20 years	-	-	-	-	-	-
Variable	-	-	-	-	-	-
Total	19 037 941	-	19 037 941	18 617 024	-	18 617 024

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Risk management

Currency risk

The majority of the company's assets are Kenya shilling denominated. There is a small percentage of bank balances held in USD.

Property market risk

The company is exposed to tenant default, depressed rental markets and unlet space within its investment property portfolio affecting property values and rental income.

Diversification benefits

The company's risk profile, and hence its capital requirements, benefits from the fact that various risks are not 100% correlated and as a result, it is unlikely that they crystallise simultaneously. In measuring and monitoring the risk profile, and associated capital requirements, allowance is made for this diversification benefit. Risk preferences may be adjusted from time-to-time to optimise the diversification benefit. Despite this, individual risks and the appropriateness of various models employed continue to be carefully monitored in recognition of the fact that correlations tend to converge to 100% in times of significant stress.

5. Credit risk

Credit risk refers to the risk of loss or of adverse change in the financial position resulting, directly or indirectly, from fluctuations in the credit standing of counterparties and any debtors to which shareholders and policyholders are exposed. Credit risk is measured as a function of probability of default (PD), exposure at default (EAD) and the recovery rates (RR) post a default, where default refers to failure by a debtor to make the required payments on debt obligation.

Taking of credit risk

Liberty has a strong credit risk sanctioning and monitoring capability. This capability enables Liberty to accept the risks inherent in the credit book. These credit risks are partially a function of Liberty's core business activities, but also as part of a deliberate decision by Liberty to add credit risk exposures to diversify the risks on the balance sheet and to generate attractive risk-adjusted returns for shareholders.

Looking forward, the consequences of the COVID-19 pandemic has increased the possibility of credit losses.

Management and measurement

The Board has delegated credit risk management to the investment committee.

Day-to-day management of credit risk has been mandated to external asset managers. The investment committee is made up of professionals with experience from the banking sector as well as representatives from the company in order to ensure a robust credit process and independent decision-making.

Credit risk is subject to a robust credit analysis, review and approval process. After origination, exposures are closely monitored and steps taken to mitigate risks if a deterioration becomes evident.

The investment committee exercises oversight on the activities of the asset managers managing credit risk for Liberty under mandate.

Regardless of whether the credit risk taken is for the risk and reward of the shareholders or policyholders, Liberty recognises the need for credit to be originated and managed within a prudent and disciplined risk management framework. Where credit risk is for the risk and reward of policyholders, Liberty is still exposed to indirect consequences of the credit loss such as possible reputational damage, legal disputes and portfolio outflows.

The company's risk function is responsible for oversight of all material credit risk. It establishes and defines the overall framework for the consistent governance, identification, measurement, monitoring, management and reporting of credit risk. Group risk also tracks concentrations and trends that may arise in the credit portfolio.

Significant shareholder and policyholder credit exposures are reported to the Board.

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Risk management

Characteristics of credit risk exposures

Through the investment activities of mandated asset managers, Liberty largely constrains its credit risk exposures to more liquid credit instruments, with considerable bias to sovereign debt instruments.

Overall, the credit risk exposures at 31 December 2021 remains heavily weighted towards Kenyan counterparties including government and top tier Kenyan banks.

Rating methodology

For the purposes of this report, standard rating classifications used by external ratings agencies have been applied.

Rating scale

Where applicable, internal ratings are mapped to equivalent external rating agencies' (Moody's, Standard and Poor's) rating scales. These external, globally recognisable rating categories are defined below.

Investment grade

A– and above Strong to extremely strong capacity to meet financial commitments.

BBB Adequate capacity to meet financial commitments, but vulnerable to severe adverse economic conditions.

Non-investment grade

BB Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.

Below BB Vulnerable to adverse business, financial and economic conditions.

The above ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Not rated

The company is not restricted to investing purely in rated instruments, or where counterparties are rated, and accordingly invests in assets that offer appropriate returns after an assessment of credit risk. For most material investments in unrated instruments, or through unrated counterparties, internal ratings were undertaken. However, at any one time there will always be some unrated exposures, generally entered into through asset managers, where the internal ratings methodology has not been applied. This does not imply that the potential default risk is higher or lower than for rated assets.

Exposure to prepayments, insurance and other receivables is predominantly not rated due to the large number of counterparties and the short period of credit exposure. This credit exposure is managed by the company's subsidiary management.

The loans reflected as not rated relate to loans granted by Liberty to policyholders, which are secured by their policies.

There were no outstanding contractual amount outstanding on the company financial assets that were written off during the year that are subject to enforcement activity.

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Risk management

Credit exposure

The following table provides information regarding the aggregated credit risk exposure of the company to debt instruments categorised by credit ratings (if available) at 31 December.

KShs '000	A- and above	BBB+	BBB-	BB+	BO	BB- and below	Not rated	Pooled funds	Total
2021									
Debt instruments	13 299 445	-	-	-	-	-	1 412 342	-	14 711 787
Listed government bonds	13 299 445	-	-	-	-	-	-	-	13 299 445
Loans	-	-	-	-	-	-	1 412 342	-	1 412 342
Reinsurance assets	166 831	-	-	-	-	-	-	-	166 831
Prepayments and other receivables	-	-	-	-	-	-	249 085	-	249 085
Deposits with financial institutions	4 326 153	-	-	-	-	-	-	-	4 326 153
Cash balances	-	-	-	290 567	-	-	-	-	290 567
Total assets bearing credit risk	17 792 429	-	-	290 567	-	-	1 661 427	-	19 744 423
2020									
Debt instruments	14 965 800	-	-	-	-	-	1 462 427	-	16 428 227
Listed government bonds	14 965 800	-	-	-	-	-	-	-	14 965 800
Loans	-	-	-	-	-	-	1 462 427	-	1 462 427
Reinsurance assets	2 904	-	-	-	-	-	-	-	2 904
Prepayments and other receivables	-	-	-	-	-	-	131 941	-	131 941
Deposits with financial institutions	-	-	-	-	-	-	-	-	2 118 338
Cash balances	-	-	-	265 315	-	-	-	-	265 315
Total assets bearing credit risk	14 968 704	-	-	265 315	-	-	1 594 368	-	18 946 725

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Risk management

Reinsurance assets

Reinsurance is used to manage insurance risk and consequently the company is exposed to the credit risk of the reinsurers. The company acknowledges the existence of reinsurance domestication / localisation laws in Kenya whereby local reinsurers must be used and exhausted first with international reinsurers only being used subject to obtaining regulatory exemption for special risks that cannot be reinsured locally. In Kenya there are minimum regulatory compulsory cessions to named local reinsurers. These requirements to an extent restrict the company to use only the approved reinsurers in these markets to the extent required by the regulations. The company complies with all these reinsurance laws and regulations.

A detailed credit analysis is conducted prior to the appointment of reinsurers. Cognisance is also taken of the potential future claims on reinsurers in the assessment process. Financial strength, performance, track record, relative size, ranking within the industry and credit ratings of reinsurers are considered when determining the allocation of business to reinsurers. In addition, efforts are made to appropriately diversify exposure by using several reinsurers. A review of these reinsurers is done at least annually supported by a reinsurance broker appointed to provide value-add services.

Insurance and other receivables

The company has formalised procedures in place to collect or recover amounts receivable. In the event of default, these procedures include use of debt collection services and listing with credit reference bureaus. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

Investment debtors are protected by the security of the underlying investment not being transferred to the purchaser prior to payment. Established broker relationships and protection afforded through the rules and directives of the Nairobi Securities Exchange further reduce credit risk.

Capital requirements

The capital requirements allow for credit risk by increasing the current risk spreads on the assets proportionally by a specified amount assumed to occur in a severe credit risk event.

6. Liquidity risk

Definition

Liquidity risk is the risk that a legal entity cannot maintain, or generate, sufficient cash resources to meet its payment obligations in full as they fall due or can only do so at an unsustainable cost or at materially disadvantageous terms.

The company is exposed to liquidity risk in the event of heightened benefit withdrawals and risk claims where backing assets cannot be readily converted into cash.

Ownership and accountability

The company's liquidity risk policy establishes common principles of managing liquidity risk across the company and is approved by the Board.

Risk identification, assessment and measurement

The company's approach to measuring liquidity risk is aligned to international best practice standards. Risk identification applies to liquidity requirements that are known in advance as well as to unknown liquidity requirements that are typically contingent on the occurrence of another event.

The liquidity assessment at 31 December 2021 indicates a healthy surplus of sources of liquidity available to meet stressed outflows across the Liberty Life Assurance Kenya Limited's balance sheet.

Risk management

The Investment committee manages the company's material liquidity risks in accordance with applicable regulations and the Liquidity Risk Policy, as approved by the Board. The risk is managed within approved risk limits.

Liquidity risk arising from contractual agreements and policyholder behaviour is primarily managed by matching liabilities with backing assets that are of similar maturity, cash flow profile and risk nature. A variety of tools are available to manage remaining cash flow mismatches. These tools enable non-cash liquid assets, held in the liquid asset buffer, to be easily converted into cash.

Where the company purchases backing assets that have predictable cash flow profiles, but which give rise to structural liquidity mismatches between projected cash inflows and outflows, the liquidity position is actively managed to prevent any undue future liquidity strains.

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Risk management

Risk reporting

Liquidity risk reports are produced regularly and are used to help manage liquidity risk. Detailed reporting is provided to the Investment committees with additional reporting being provided to the ARC on a quarterly basis.

Liquidity profile of assets

The majority of Liberty's assets match its liabilities from a liquidity perspective, including both investment-linked business and investment guarantees.

The table below breaks down the company's assets according to time to liquidate. It is worth noting that, in a stressed environment, the market value of these assets is likely to be negatively affected.

Financial, property and insurance asset liquidity	2021		2020	
	%	K Shs '000	%	K Shs '000
Liquid assets (realisable within one month e.g. cash, listed equities, term deposits, government securities)	83,83	21 230 125	84,33	20 659 698
Medium assets (realisable within six months e.g. unlisted equities, certain unlisted term deposits)	8,84	2 222 829	8,05	1 953 562
Illiquid assets (realisable in excess of six months e.g. investment properties)	7,33	1 845 995	7,62	1 849 250
	100 %	25 298 949	100 %	24 462 510

Liability profile

Liberty projects both expected and stressed cash flow profiles of its liabilities and ensures that sufficient high quality liquid assets are held to meet its liquidity requirements.

Liquidity risk arises mainly as a result of changes to expected lapse, mortality and longevity experience relative to assumptions, client disinvestment from investment portfolios housing illiquid assets.

Policy terms and conditions generally limit the extent of Liberty's liquidity exposure by applying notice periods for large disinvestments and/or restricting claims to the value at which assets are realised in the event of sale.

The tables below illustrate the maturity profile of the company's financial instrument liabilities and the expected liability cash flows arising out of long-term insurance and investment contracts. Note 16 of the annual financial statements shows the anticipated settlement profile of long-term insurance liabilities on a best estimate basis.

Maturity profile of financial instrument liabilities

The table below summarises the maturity profile of the financial instrument liabilities of the company based on the remaining undiscounted contractual obligations. These figures will be higher than amounts disclosed in the statement of financial position (where the effect of discounting is taken into account) except for short duration liabilities. Policyholder liabilities under investment contracts, investment contracts with DPF and insurance contracts are shown in a separate table below.

KShs '000	Contractual cash flows (excluding policyholder liabilities, derivative liabilities and lease liabilities)					Total
	0 - 3 months ⁽¹⁾	3 - 12 months	1 - 5 years	5 - 10 years	Variable	
2021						
Insurance and other payables	719 921	292 849	-	-	-	1 012 770
Total	719 921	292 849	-	-	-	1 012 770
2020						
Insurance and other payables	133 133	611 308	-	-	-	744 441
Total	133 133	611 308	-	-	-	744 441

(1) 0 - 3 months are either due within the time frame or are payable on demand.

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Risk management

Expected cash flows from long-term insurance business

The tables below give an indication of liquidity needs in respect of cash flows required to meet obligations arising from long-term insurance business.

The amounts in the investment-linked liabilities cash flow table represent the expected cash flows arising from the value of units, allowing for future premiums (excluding future non-contractual premium increases), growth, benefit payments and expected policyholder behaviour. The amounts in the non-investment-linked liability cash flow table represent the expected cash flows from the non-investment-linked liabilities.

Undiscounted cash flows are shown, and the effect of discounting is taken into account to reconcile to total liabilities and assets. For investment-linked contracts, the cash flows relating to the DPF portion are assumed to occur in proportion to the cash flows of the guaranteed units. The cash flows for the guaranteed element and the non-guaranteed element of insurance contracts with DPF have been combined and are included in the investment-linked section of the cash flow table.

In respect of annually-renewable risk business (namely lump sum group risk business, group disability business and credit life business) no allowance has been made for the expected cash flows except in respect of incurred but not reported claims (IBNR).

Expected cash flows (KShs '000)	Insurance contracts				
	Policyholder liabilities	Policyholder assets	Reinsurance assets and liabilities	Investment contracts with DPF	Investment contracts
2021					
Investment-linked liabilities					
Within 1 year	(148 807)	-	-	(49 532)	122 823
1 - 5 years	461 740	-	-	137 509	2 285 112
6 - 10 years	1 152 614	-	-	1 244 445	4 147 759
11 - 20 years	2 179 638	-	-	1 732 652	3 783 239
Over 20 years	22 471	-	-	-	179 892
Total investment-linked liabilities	3 667 656	-	-	3 065 073	10 518 825
Non-investment-linked liabilities/(assets)					
Within 1 year	294 812	-	-	-	-
1 - 5 years	1 948 743	-	166 831	-	-
6 - 10 years	2 857 341	-	-	-	-
11 - 20 years	1 986 960	-	-	-	-
Over 20 years	793 226	-	-	-	-
Effect of discounted cash flows	(4 757 611)	-	-	-	-
Total non-investment-linked liabilities/(assets)	3 123 471	-	166 831	-	-
Total long-term insurance policyholder liabilities	6 791 125	-	166 831	3 065 073	10 518 825
Total surrender value of long-term insurance policyholder liabilities	3 668 243	-	-	3 030 191	10 518 825

Liberty Life Assurance Kenya Limited

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Risk management

Expected cash flows (KShs '000)	Insurance contracts				
	Policyholder liabilities	Policyholder assets	Reinsurance assets and liabilities	Investment contracts with DPF	Investment contracts
2020					
Investment-linked liabilities					
Within 1 year	(147 437)	-	-	(63 491)	103 923
1 - 5 years	457 488	-	-	176 261	1 933 493
6 - 10 years	1 142 001	-	-	1 595 152	3 509 527
11 - 20 years	2 159 568	-	-	2 220 944	3 201 098
Over 20 years	22 264	-	-	-	152 212
Total investment-linked liabilities	3 633 884	-	-	3 928 866	8 900 253
Non-investment-linked liabilities/(assets)					
Within 1 year	292 097	-	-	-	-
1 - 5 years	1 930 799	-	(2 904)	-	-
6 - 10 years	2 831 031	-	-	-	-
11 - 20 years	1 968 664	-	-	-	-
Over 20 years	785 922	-	-	-	-
Effect of discounted cash flows	(4 713 804)	-	-	-	-
Total non-investment-linked liabilities/(assets)	3 094 709	-	(2 904)	-	-
Total long-term insurance policyholder liabilities	6 728 593	-	(2 904)	3 928 866	8 900 253
Total surrender value of long-term insurance policyholder liabilities	3 633 884	-	-	3 900 067	8 900 253

Capital requirements

The company's view is that liquidity risk is more appropriately managed by means of a sophisticated liquidity risk management framework such as that outlined above rather than by holding additional capital. Holding a large amount of capital may provide only a small buffer to an extreme liquidity event where assets and liabilities are not well matched. It is much more effective to hold a liquid asset buffer (which may come as an opportunity cost) to ensure sufficient liquidity in a stressed event.

As Liberty Holdings Limited is ultimately a subsidiary of Standard Bank Group Limited, it is also included in the company wide liquidity risk stress testing and planning undertaken by Standard Bank Group Limited.

7. Operational risk

Liberty Holdings Limited defines operational risk as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Whilst the definition includes business conduct, financial crime, compliance and legal risk, these receive additional focus and are hence considered as separate risk categories within Liberty's risk taxonomy. Operational risk excludes risks arising from strategic decisions. Technology, cyber, third party, data and information risks are material components of operational risk.

Operational risk is recognised as a distinct risk category which the company strives to manage within acceptable levels through sound operational risk management practices which are regularly reviewed and enhanced.

Liberty also operates a robust business continuity capability which is considered a key component of managing operational risk.

Approach to managing operational risk

Operational risk exists in the natural course of business activities. The approach to managing operational risk recognises that it is neither possible nor commercially viable to eliminate all operational risk and hence applies fit-for-purpose mitigation practices to achieve an optimal operational risk profile. Operational risk is not typically taken in exchange for reward, however, management seeks as far as possible to limit any negative financial, reputational, customer, staff and regulatory impact.

The operational risk policy is aligned to the company's risk management framework and sets out minimum requirements for identification, assessment, management, monitoring and reporting of operational risk. This is achieved through developing a robust understanding of the risks by conducting self-assessments, measuring and monitoring key indicators, managing operational risk events (including near misses) and taking appropriate actions to mitigate risks.

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Risk management

Management of operational risk is the responsibility of senior management. They are guided and supported by various risk specialists that are part of an operational risk function.

Insurance cover for operational risk

A comprehensive short-term insurance programme is in place which addresses the diversified requirements of the company. The programme includes the following cover:

- Directors and officers liability
- Crime and professional indemnity
- Public liability
- All risks for assets
- Motor fleet

Capital requirements

An allowance for operational risk is made in the calculation of the regulatory capital amount.

Reporting

The preparation of quarterly risk reports forms an integral part of monitoring the company's overall operational risk profile. The content of reports is subject to robust review and challenge through the ARC.

Operational risk reports include information relating to:

- Key operational risks
- Material operational risk incidents
- Key indicators
- Control environment

Management of key operational risks

Operational risk management is a high priority for Liberty. Complexity is a key causal factor for operational risks. A number of ongoing technology and process initiatives are in place and continue to make progress in reducing complexity and streamline systems and processes.

People risk

People risk is defined as the risk of an adverse business impact arising from inadequate practices for the recruitment, development, management and/ or retention of employees and contractors. It also includes the risk of business impact due to insufficient people capacity, capabilities, skills and/or inappropriate behaviour.

The company continues to place significant focus on its people. There are processes in place to continuously assess (through surveys, employee engagement and research) and enhance policies and practices employed to ensure that suitable people are attached to roles and there is sufficient support for them to perform and grow. The availability of appropriately qualified and skilled individuals in the market remains a challenge. Liberty has initiatives in place to continue building this skills base internally by ensuring robust development plans and opportunities for individuals.

Information security risk (including cyber risk)

Liberty defines information security risk as the risk of intentional and/or unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information. The global cyber risk threat is dynamic and continuously changing.

Liberty's information security teams monitor cyber threats, amongst others, through a well-equipped operations support team. There is continuous engagement and collaboration between the information security team and the operational risk team to ensure risks are considered more broadly than only from a technology perspective. The ARC monitor and provide oversight on risks related to technology and information assets, including cyber security, ensuring integration into the company's broader risk management system.

Liberty's information security and cyber program continued to be intensified during the year, particularly in the light of increased remote working practices, and has been delivering according to plan over this period. Liberty follows a risk-based approach to cybersecurity, being proactive whilst also ensuring a robust reactive capability. As result the program has invested in detection, prevention, testing, threat intelligence and response which is regularly tested. The goal of the risk-based cybersecurity program is appropriate risk reduction. The cybersecurity program aligns and leverages Standard Bank's extensive capability which forms an important part of Liberty's cybersecurity strategy's collaboration pillar. This includes participation in initiatives, simulations and testing, leveraging of tools and sharing of threat intelligence.

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Risk management

Information Technology risk

Information Technology risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of information and technology infrastructure and applications within the company.

The company is highly dependent on and constantly increasing its use of information and technology to ensure high quality of operations and customer service. Increasing legal and regulatory compliance requirements, and the importance of IT in enabling such compliance, heightens the importance of managing information and technology operations within an acceptable risk profile.

Risks are effectively managed through the three lines of defence approach, with a specific IT capability in place to ensure adequate focus on this key risk. These risks are mitigated through various controls, which are implemented and closely monitored by management. The company continuously invests in its systems and processes. Actions to reduce the likelihood of risks materialising are identified and accountabilities for remediation are driven by management.

Third party risk

Third party risk is defined as the risk of Liberty's engagements with third party suppliers resulting in reputational damage, operational and legal risk. As organisations globally become more connected, there are relationships and dependencies that become more critical to manage with third parties. These third parties include, amongst others, business and technology partners, suppliers, outsourcing partners, managed services vendors and other related business partners. Liberty places appropriate focus on ensuring risks related to third parties continue to receive attention through robust contracting and onboarding processes, and continuous relationship management, monitoring and oversight processes.

Operational process risk

Operational process risk is the risk of operational processes failing or not being effectively executed resulting in errors, incorrect payment or delays in processing of transactions. Operational process risk, specifically related to risk in operational transaction processes that may impact service to customers, is an area of key focus and monitored continuously through various risk and control practices. Operational process risk incidents are dealt with speedily to ensure limited customer impact. Ensuring a strong risk culture exists across the organisation ensures that every individual is risk aware and takes responsibility for mitigating risks associated with their operational processes.

Financial control risk

This is defined as the risk of inadequate or ineffective financial and accounting processes/controls; management and oversight resulting in a loss and incorrect decision making and reporting. This includes financial, actuarial or tax controls and balance sheet reconciliation and substantiation process. Liberty has a robust actuarial and financial control capability to mitigate this risk. The adequacy and effectiveness of these controls are reviewed by the head of the actuarial control function as well as internal and external audit.

8. Business conduct risk

Liberty defines business conduct risk as the risk of loss, whether qualitative or quantitative, caused by the inappropriate behaviour of individuals, including financial advisers and third-party service providers, or of Liberty itself, that results in poor customer outcomes, causes detriment to the financial institution, or has an adverse impact on the market.

Approach to managing business conduct risk

Liberty places the customer at the heart of everything it does and operates in a manner where fair play and ethical behaviour underpin all business activities and relationships. Liberty has no appetite for deliberately or knowingly breaching legislative, regulatory and internal policy requirements.

Business conduct risk has evolved to not only include the risk of delivering poor outcomes to customers, but also the risk of loss caused by the behaviour of employees, advisers, or third-party service providers. The Head of Risk is responsible for embedding the Board approved business conduct risk policy and providing second line assurance for this risk type. All risks that may influence the customer outcome across the value chain are dealt with as part of this risk type, including aspects such as product design, approval of marketing material, policyholder investment performance, customer complaints and claims management.

The company customer fairness committee, supported by the executive committee, assists in achieving fair outcomes for all Liberty's customers.

Liberty supports the steps taken by the Insurance Regulatory Authority, Retirement Benefits Authority, and the Association of Kenya Insurers to improve the outcomes for all customers and will continue to work with them to achieve this.

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Risk management

Risk reporting

The preparation of quarterly business conduct risk reports forms an integral part of monitoring the company's overall business conduct risk. The content of reports is subject to robust review and challenge through the ARC. Reports include information relating to key business conduct risks, including material incidents, as well as conduct risk themes which the business is currently managing.

Key business conduct risks in 2021

The management of business conduct risk is a high priority for Liberty. Some of the key business conduct risks themes which were a focus in 2021 and will continue to be a focus in 2022 include:

- Advice Risk - the risk of providing inappropriate advice or not being able to demonstrate that advice was suitable at the time it was provided;
- Complexity Management - complex products and the wide range of products sold over time result in elevated conduct risk; and
- Legacy Products - historical product designs and terms and conditions may be deemed inappropriate when considered in terms of current thinking around fair treatment of, and outcomes to, customers.

9. Compliance and Legal risk

This is the risk of loss, including legal or regulatory sanctions or damage to reputation resulting from: the failure to comply with relevant legal, statutory, supervisory or regulatory requirements; inadequacy, inaccuracy or absence of written agreements; or any type of financial crime.

Compliance risk

Compliance exposure assessments are carried out with oversight from the company compliance function to provide the Board with independent assurance on the status of compliance within the organisation.

Liberty seeks positive and constructive engagement with its regulators and policymakers, both directly and through appropriate participation in industry forums, to partner with them in ensuring optimal regulatory outcomes for the industry and all its stakeholders.

Financial crime risk

This is defined as the risk of economic loss, reputational impact and regulatory sanction arising from any type of financial crime against the company. Financial crime includes fraud, theft, money laundering, violent/cyber-crime, bribery, corruption, collusion and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties.

Financial crime risk is managed through forensics and compliance capabilities and by strengthening the risk culture to proactively mitigate risks and manage incidents. Focus is placed on ensuring robust prevention and detection controls are in place and are continuously enhanced based on internal and external trends.

10. Concentration risk

Introduction

Concentration risk is the risk that the company is exposed to financial loss which, if incurred, would be significant due to the aggregate (concentration) exposure the company has to a particular asset, counterparty, customer or service provider. In addition to concentration risks detailed in previous sections, the company has identified the risks detailed below.

Asset manager allocation

The company engages the services of the following asset managers who manage assets on its behalf:

	2021		2020	
	%	KShs '000	%	KShs '000
Self managed	21 %	5 337 503	16 %	3 909 634
Sanlam fund managers	33 %	8 273 937	35 %	8 563 256
ICEA LION Asset Management (ILAM)	46 %	11 447 958	49 %	11 789 125
Total financial, property and insurance assets	100 %	25 059 398	100 %	24 262 015

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Risk management

Potential risks associated with asset managers are:

- Poor fund performance resulting in the reduced ability of the company to retain and sell investment-linked products;
- Adoption of poor credit policies exposing the company to undue credit risk;
- Inadequate ability to manage the relationship between the return on risk capital for the risk being taken at a granular level; and
- Illiquidity of instruments invested in which could result in value destruction should these investments need to be realised in the short-term.

Kenya

The company was founded in Kenya over 50 years ago and has, during this time, concentrated mainly on providing risk and investment products to Kenyan customers. Consequently, both the company's asset base and liabilities contain significant Kenyan sovereign risk.

The currency risk section summarises the exposures to foreign currency and indicate the shilling concentration risk.

11. Sensitivity analysis

The company's earnings and available capital are exposed to insurance and market risks amongst others through its insurance and investments management operations. Assumptions are made in respect of the market and insurance risks in the measurement of policyholder contract values. This section provides sensitivity analyses to changes in some of these variables.

The sensitivities presented are calculated at a point in time and applied consistently across the financial position of the company. In many cases changes to certain economic or policyholder behaviour assumptions do not result in linear impacts to policyholder contract values and are not always consistent in the direction of impact to ordinary shareholders' equity. For example, increases to withdrawal rates may reduce ordinary shareholders' equity for investment products, but increase it for certain sub-sets of risk products. The company has in place asset/liability matching strategy which is implemented within the risk appetite constraints set by the Board.

The upper and lower sensitivities chosen reflect management's judgement of a reasonably likely annual possible change in the respective variable on a through the economic cycle basis. The sensitivity analysis does not cover extreme or irregular events that may occur.

The table below provides a description of the sensitivities that are provided on insurance risk assumptions.

Insurance risk variable	Description of sensitivity
Assurance mortality	A level percentage change in the expected future mortality rates on assurance contracts
Annuitant longevity	A level percentage change in the expected future mortality rates on assurance contracts
Morbidity	A level percentage change in the expected future morbidity rates on assurance contracts
Withdrawal	A level percentage change in the expected future withdrawal rates on assurance contracts
Expense per policy	A level percentage change in the expected maintenance expenses

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholder contract values.

The table below provides a description of the sensitivities provided on market risk assumptions.

Market risk variable	Description of sensitivity
Interest rate yield curve	A parallel shift in the interest rate yield curve
Equity price	A change in local and foreign equity prices
Shilling currency	A change in the Kshs/ZAR exchange rate to all applicable currencies

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Risk management

Sensitivity analysis (continued)

Sensitivities on expected taxation and on long-term expense inflation assumptions have not been provided.

The equity price and shilling currency sensitivities are applied as an instantaneous event at the financial position date with no change to long-term market assumptions used in the measurement of policyholder contract values. In other words, the assets are instantaneously impacted by the sensitivity on the financial position date. The new asset levels are applied to the measurement of policyholder contract values, where applicable, but no changes are made to the prospective assumptions used in the measurement of policyholder contract values. The interest rate yield curve sensitivities are applied similarly but the assumptions used in the measurement of policyholder contract values that are dependent on interest rate yield curves volatilities are updated.

Over a reporting period, assets are expected to earn a return consistent with the long-term assumptions used in the measurement of policyholder contract values. The instantaneous sensitivities applied at the financial position date show the impacts of deviations from these long-term assumptions (e.g. the increase in the equity price sensitivity shows the impact of assets earning the sensitivity amount in excess of the long-term equity return assumption).

The market sensitivities are applied to all assets held by the company (and not just assets backing the policyholder contract values). Each sensitivity is applied in isolation with all other assumptions left unchanged.

The table below summarises the impact of the change in the above risk variables on policyholder contract values and on ordinary shareholders' equity and attributable profit after taxation. The market risk sensitivities are net of risk mitigation activities as described in the market risk section. Consequently, the comparability to the previous year is impacted by the level of risk mitigation at the respective financial position dates.

Assumption description KShs '000	Change in variable %	Gross of reinsurance impact on policyholder contract values	Net of reinsurance impact on policyholder contract values	Impact on ordinary shareholders' equity and attributable profit after taxation
2021				
Insurance assumptions				
Mortality	+2	3 212	3 212	(2 910)
Assured lives	-2	(3 148)	(3 148)	2 805
Annuitant longevity	+4	-	-	-
	-4	-	-	-
Withdrawals	+8	(25 440)	(25 440)	23 016
	-8	26 760	26 760	(24 202)
Expense per policy	+5	69 425	69 425	(55 331)
	-5	(68 875)	(68 875)	54 887
Market assumptions				
Interest rate yield curve	+12	(145 303)	(145 303)	63 634
	-12	167 439	167 439	(73 628)
Equity prices	+15	494 613	494 613	98 923
	-15	(494 613)	(494 613)	(98 923)

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Risk management

Assumption description KShs '000	Change in variable %	Gross of reinsurance impact on policyholder contract values	Net of reinsurance impact on policyholder contract values	Impact on ordinary shareholders' equity and attributable profit after taxation
2020				
Insurance assumptions				
Mortality	+2	3 329	3 329	3 329
Assured lives	-2	(3 329)	(3 329)	(3 329)
Annuitant longevity	+4	689	689	(689)
Withdrawals	-4	(676)	(676)	676
Expense per policy	+8	(21 385)	(21 385)	21 385
	-8	22 387	22 387	(22 387)
	+5	62 974	62 974	(62 974)
	-5	(62 703)	(62 703)	62 703
Market assumptions				
Interest rate yield curve	+12	(182 122)	(182 122)	79 756
	-12	210 030	210 030	(92 357)
Equity prices	+15	467 348	467 348	93 470
	-15	(467 348)	(467 348)	(93 470)

Liberty Life Assurance Kenya Limited

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Accounting Policies

1.1 Reporting entity

Liberty Life Assurance Kenya Limited ("the Company") is incorporated in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya. The address of its registered office is:-

Liberty House, Mamlaka Rd
P.O. Box 30364-00100
Nairobi, Kenya.

The Company is engaged in long-term insurance that comprises Life Assurance, Endowment, Unit-Linked products and Pension Administration contracts. Life assurance business relates to the underwriting of risks relating to death of an insured person with the option of taking additional cover to offer financial protection following the diagnosis or treatment of illnesses deemed critical. Endowment products provide an additional benefit at 5maturity provided the life assured survives to the end of the term and thus are commonly used as savings vehicles for education among other financial goals. Under the unit-linked savings products, a portion of the premium paid is invested in various asset classes depending on the policy-holder's risk appetite and investment needs and the remaining premium is used to provide insurance cover. All life contracts are subject to the payment of premiums either over the policy term or over the continuance of the life of an insured person. Pension contract relates to administration of pension scheme funds.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit or loss by the statement of profit or loss and other comprehensive income in these financial statements.

The financial statements are presented in the functional currency, Kenya Shillings (KShs), rounded to the nearest thousand.

1.2 Basis of preparation

The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Kenyan Companies Act, 2015. In addition, the company aligned the presentation of its annual financial statements for the year ended 31 December 2021 to those of Liberty Holdings Limited

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following which are measured at fair value:

- Financial instruments at fair value through profit or loss,
- Financial assets at fair value through other comprehensive income, and;
- Investment properties.

(i) Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional currency of the parent company. Except as otherwise indicated, financial information presentation in Kenya shillings has been rounded to the nearest thousand (KShs '000').

(ii) Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1 above.

Liberty Life Assurance Kenya Limited

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Accounting Policies

1.3 New IFRS standards and amendments

1.3.1 New standards and Interpretations effective and adopted during the year ended 31 December 2021

The following amendments are effective from 1 January 2021.

Standard	Effective date
Interest rate benchmark reform-phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
IFRS 9 Financial Instruments General hedge accounting (GHA)	1 January 2021
Sale or contribution of assets between an investor and its associate or company (Amendments to IFRS 10 and IAS 28).	1 January 2021
COVID-19 related rent concessions (Amendment to IFRS 16)	1 June 2020

The above standards did not have a significant impact on the company's financial statements

1.3.2 New and amended standards and Interpretations in issue but have not been applied

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021 and have not been applied in preparing these financial statements. The company does not plan to early adopt these standards. These are summarised below:

Standard	Effective date
Onerous contracts: Cost of fulfilling a contract (Amendments to IAS 37)	1 January 2022
Property, plant and equipment: Proceeds before intended use (Amendments to IAS 16)	1 January 2022
Annual improvements to IFRS standards 2018-2020	1 January 2022
Reference to Conceptual Framework (Amendment to IFRS 3)	1 January 2023
Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023

1.3.3 New standards not yet effective that may impact on the company and company results or disclosures

The following new standards have been issued by the IASB however are not yet effective for the current financial year. The company will comply with the new standards and amendments from the effective date and has elected not to early adopt any new standards at this stage.

STANDARD	SCOPE	POTENTIAL IMPACT TO THE COMPANY
IFRS 17 Insurance Contracts	<p>IFRS 17 replaces IFRS 4, which was issued as an interim standard and permitted entities to account for insurance contracts (particularly the measurement thereof) using local actuarial practices, resulting in a multitude of different approaches. Consequently, the financial position and financial performance of otherwise similar companies are not always comparable.</p> <p>IFRS 17 prescribes a single accounting model under which insurance contracts are measured using current estimates.</p>	<p>The implementation of IFRS 17 is significant for the group, specifically in areas such as profit recognition, presentation in the statement of comprehensive income and level of transparency of components of reserving. In order to meet the requirements of IFRS 17, the group has invested significant effort in data collection and storage, modelling and ledger configuration. The group is progressing well with a new SAP S4/Hana general ledger, a SAP IFRS 17 subledger, and a data platform to receive, harmonise, enrich and deliver data to the SAP ledger systems.</p>

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Accounting Policies

1.3. New IFRS standards and amendments (continued)

1.3.3 New standards not yet effective that may impact on the company and company results or disclosures (continued)

STANDARD	SCOPE	POTENTIAL IMPACT TO THE COMPANY
IFRS 17 Insurance Contracts	The application of IFRS 17 will enable stakeholders to understand and compare the financial positions and performances of those reporting entities that issue insurance contracts. The method of revenue recognition will enhance comparability to companies in other jurisdictions and industries under IFRS 17, a general measurement model (GMM) is applicable to long-term insurance contracts and is based on a fulfilment objective (risk-adjusted present value of best estimate future cash flows).	<p>The company continues to develop its key judgments in the interpretation of the standard and items such as cost reserving, application of South African taxation to best estimate cash flows, transition approaches are among some of the items still to be finally determined.</p> <p>Representatives from Liberty are involved in various industry forums in order to remain aware of implementation issues and interpretations being considered.</p>
	It requires the use of current estimates, which are those informed by actual trends and investment markets. IFRS 17 establishes a contractual service margin (CSM) at the initial measurement of the liability. The CSM represents the unearned profit on the contract and results in no gain at initial recognition. The CSM is released over the life of the contract in line with the level of service provided in each period. The interest rate on the CSM is locked in at the rate at inception.	Certain of these industry forums are engaged with National Treasury on any implications of the adoption of the new standard to taxation. The group is required to produce its first external results under IFRS 17 for the six month period ending 30 June 2023, with restated comparative information (i.e. interim reporting) and then for the full financial year ended 31 December 2023. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on the adoption of IFRS 17.
	The CSM will be utilised as a “shock absorber” in the event of changes to best estimate cash flows. On loss-making (onerous) contracts, there is no CSM and the full loss will be recognised as soon as it is expected that the group of contracts will be onerous, in terms of the initial recognition criteria in IFRS 17. The GMM is modified for contracts that have participation features, in which case the variable fee measurement approach (VFA) is used to measure the contract.	<p>IFRS 17 Project governance</p> <p>Liberty's IFRS 17 steering committee, sponsored by the group's financial director, is responsible for providing overall strategic direction to the project and to monitor progress and interdependencies with other group initiatives. The committee comprises representation from finance, risk, actuarial, IT, internal audit and business. The committee is supported by a number of working groups responsible for various work streams. The group is also providing policy guidance and technical support for the implementation in its subsidiaries within the African jurisdictions, with each entity adhering to local governance requirements as well. The group's external auditors, PwC, have as part of their early audit in preparation for IFRS 17 adoption, have been involved in this process</p>

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Accounting Policies

1.3. New IFRS standards and amendments (continued)

1.3.3 New standards not yet effective that may impact on the company and company results or disclosures (continued)

STANDARD	SCOPE	POTENTIAL IMPACT TO THE COMPANY
IFRS 17 Insurance Contracts	An optional simplified premium allocation approach (PAA) is available for contracts that have a coverage period of 12 months or less. The PAA is similar to the current unearned premium reserve profile recognised overtime. The IASB issued the final IFRS 17 standard in June 2020, which confirmed that the standard will come into effect for years commencing 1 January 2023	<p>IFRS 17 Project governance</p> <p>The Company has progressed well with the conceptual design decisions and the system and model build required to implement IFRS 17. The group has confirmed substantially all its contract classifications, contract boundaries and measurement bases. The group has chosen not to early adopt the standard and is in the process of determining the required opening balance transition values. The application of contractual service margins (CSM) as guided by the standard are likely to result in lower volatility in reported earnings over time.</p>
	<p>An optional simplified premium allocation approach (PAA) is available for contracts that have a coverage period of 12 months or less.</p> <p>The PAA is similar to the current unearned premium reserve profile recognised overtime. The IASB issued the final IFRS 17 standard in June 2020, which confirmed that the standard will come into effect for years commencing 1 January 2023</p>	<p>Management anticipate developing a better understanding of the expected transition balance sheet during 2021. The group has elected to use the PAA approach for contracts that have a coverage period of 12 months or less. The company expects to be fully prepared to start a parallel run through 2022, during which the new IFRS 17 processes will be run and embedded. Ongoing training initiatives ensure that various relevant stakeholders are familiar with the implications and requirements of this new standard. The financial impact of IFRS 17 has not yet been fully assessed. It is anticipated that the impact will only be quantified with reasonable certainty in 2022 (being a combination of transition values as well as revenue recognition patterns). At this stage, the impact of IFRS 17 on regulatory capital is expected to be minimal given that the group is aligning the IFRS 17 and SAM basis as much as is allowable under IFRS 17.</p>

Amendments and improvements to standards

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively.

Other amendments to standards that are effective for annual periods beginning on or after 1 January 2021, but not mentioned previously, are not expected to have a significant impact on the company and company's reported assets and liabilities.

Liberty Life Assurance Kenya Limited

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Accounting Policies

1.3. New IFRS standards and amendments (continued)

1.3.3 New standards not yet effective that may impact on the company and company results or disclosures (continued)

Annual improvements effective 1 January 2021 that were not early adopted are not expected to have a significant impact on the company's reported assets and liabilities and disclosures.

1.4 Foreign currencies

The company's presentation currency is Kenya Shillings (KShs). All amounts are shown in KShs'000 unless otherwise indicated. The functional currency of the company's operations is the currency of the primary economic environment where each operation physically has its main activities.

1.4.1 Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies that differ from the functional currency at the statement of financial position date are translated into the functional currency at the ruling rate at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction, and those measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains or losses are recognised as part of fair value adjustments on financial instruments in profit or loss.

1.5 Financial instruments

1.5.1 Financial assets

Financial assets include financial investments, assets held for trading and for hedging repurchase agreements, scrip and collateral assets, components of receivables that are not measured under IFRS 4, cash and cash equivalents and intercompany balances.

Financial assets

Financial assets are classified based on the business model and nature of cash flows associated with the instrument.

Nature

Amortised cost	<p>A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):</p> <ul style="list-style-type: none"> • Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows. • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.
Fair value through OCI	<p>The company have no equity instruments that have been elected to be measured at fair value through other comprehensive income.</p> <p>A debt instrument that meets both the following conditions (other than those designated at fair value through profit or loss):</p> <ul style="list-style-type: none"> • held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and • the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. <p>This assessment include determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.</p>
Designated at fair value through profit or loss	<p>Financial assets are designated to be measured at fair value to eliminate or significantly through profit or loss reduce an accounting mismatch that would otherwise arise.</p>

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Accounting Policies

1.5. Financial instruments (continued)

1.5.1. Financial assets (continued)

Fair value through profit or loss (default)	Financial assets that are not classified into one of the above mentioned financial asset categories; and/ or where the business model is that performance is assessed on a fair value basis.
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Subsequent measurement

Subsequent to initial measurement, financial assets are classified, according to the business model assessment, in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost (loans receivable)	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate. Interest income is shown as a separate line on the face of the income statement (combined with interest income on financial assets held at fair value through OCI).
Fair value through OCI	Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to fair value adjustments on financial instruments. Expected credit impairment losses are recognised as part of impairment charges. However the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. Interest income on debt financial assets is recognised in interest income in terms of the effective interest method. Interest income from these assets is shown as a separate line on the face of the statement of profit or loss (combined with interest from financial assets held at amortised cost).
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on financial assets are recognised in the income statement as part of fair value gains or losses on financial instruments.
Fair value through profit or loss (default)	Fair value gains and losses on financial assets are recognised in the income statement as part of fair value gains or losses on financial instruments.

Impairment

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI.

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

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Accounting Policies

1.5. Financial instruments (continued)

1.5.1. Financial assets (continued)

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	Lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: <ul style="list-style-type: none">• Default: A financial asset is considered to be in default when there is objective evidence of impairment. Exposures which are overdue for more than 90 days are also considered to be in default.• Significant financial difficulty of borrower and/or modification• Probability of bankruptcy or financial reorganisation• Disappearance of an active market due to financial difficulties.

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

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

The company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from economic experts and consideration of a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the company operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund and selected private-sector and academic forecasters. The base case represents a best estimate and is aligned with information used by the company for other purposes, such as strategic planning and budgeting. The company also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Cash and cash equivalents

Cash and cash equivalents comprise:

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

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

Prepayments and other receivables

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

Reclassification

Reclassifications of financial assets under IFRS 9 are permitted when, and only when, the company changes its business model for managing financial assets, in which case all affected financial assets are reclassified.

Liberty Life Assurance Kenya Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Accounting Policies

1.5. Financial instruments (continued)

1.5.1. Financial assets (continued)

Derecognition

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

1.5.2 Financial liabilities

Financial liabilities include financial liabilities under investment contracts and other payables.

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	IFRS 9, contains an option to designate a financial liability as measured at FVTPL when:- (i) doing so significantly reduces or eliminates an accounting mismatch that would arise from measuring assets and liabilities or recognising gains or losses on different basis. (ii) the liability is part of a group of financial liabilities that are managed and performance is evaluated on a fair value basis.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including finance costs but excluding fair value gains and losses attributable to own credit risk) recognised in the fair value adjustments on financial instruments. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within profit or loss.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

Other payables

Other payables are initially measured at fair value.

Inter-company loans

Based on an assessment of the business model and contractual cash flows under IFRS 9, in the company financial statements, inter-company loans (being financial instruments) are classified at amortised cost.

Reclassification

A financial liability may not be reclassified.

Derecognition

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Liberty Life Assurance Kenya Limited

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Accounting Policies

1.5. Financial instruments (continued)

1.5.3 Fair value

Fair value is applied as defined in IFRS 13. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument or is determined using valuation models with only observable market data as inputs. Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument or determined using valuation models that utilise non-observable market data as inputs.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date. If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, net asset values, pricing models and other valuation techniques commonly used by market participants.

IFRS 13 requires disclosure of fair value measurements by level according to the following fair value hierarchies:

- Level 1 – Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Nairobi Securities Exchange or an international stock or bond exchange.
- Level 2 – Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the financial position date. The valuation techniques or models are periodically reviewed, and the outputs validated.
- Level 3 – Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

There were no financial assets or financial liabilities measured at fair value on level 3 fair value

Realised and unrealised gains or losses arising from changes in the fair value of these financial assets are recognised in profit or loss within net fair value gains on financial assets at fair value in the period in which they arise. The fair value of financial assets with standard terms and conditions and traded on active liquid markets is determined by reference to regulated exchange quoted ruling market prices at the close of business on the last trading day on or before the statement of financial position date. If quoted market prices are not available, reference is also made to readily and regularly available broker or dealer price quotations. For units in mutual funds and shares in open-ended investment companies, fair value is determined by reference to published repurchase prices.

If a market for a financial asset is not active, the company establishes fair value by using various valuation techniques detailed in the fair value hierarchy note to the annual financial statements. These include the use of recent arm's length transactions, reference to the current market value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where the fair value of financial instruments is determined using discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

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Accounting Policies

1.5. Financial instruments (continued)

Fair value adjustments for unquoted instruments are included in investment gains and losses and are determined as follows:

Instrument	Valuation technique	Method of valuation
Fixed and variable rate preference shares, bonds and inflation-linked bonds	Discounted cash flow (DCF) model	Cash flows are projected by using either the applicable fixed dividend/coupon, or by extrapolating the future variable dividend/ coupon using an applicable market implied curve. These dividends/ coupons are then valued using a discount curve which allows for the credit risk of the particular issuer (where the credit spread is derived from instruments which display similar credit risk characteristics).
Fixed deposits and negotiable certificates of deposit	Fair valued by unbundling the deposit into a floating rate deposit and an interest rate swap.	The floating rate deposit is valued at face value and adjusted where necessary for the probability of default of the issuer. The interest rate swap is valued using the appropriate market implied curve. The sum of these two components is used as the value of the deposit.

1.6 Insurance and investment contracts

In terms of IFRS 4, insurance contracts are measured under existing local practice at the date of adoption of IFRS 4.

1.6.1 Insurance and investment contract classification

The company issues contracts that transfer insurance risk or financial risk or both.

Insurance contract	<p>A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.</p> <p>Where the value of policyholder contracts is negative or positive in aggregate, this is shown as long-term policyholder liabilities – insurance contracts and long-term policyholder assets – insurance contracts.</p> <p>Insurance contracts where the company accepts significant insurance risk from the policyholder are classified depending on the duration of or the type of insurance risk, as follows:</p> <ul style="list-style-type: none"> • long-term insurance; and • Level 1 short-term insurance. <p>Insurance contracts where another insurer (or reinsurer) accepts significant insurance risks from the company are reinsurance contracts.</p>
Investment contract	<p>A contract that transfers financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other measurable variable.</p> <p>Policyholder investment contracts are classified depending on the duration of or the type of investment benefit, as follows:</p> <ul style="list-style-type: none"> • long-term investment with discretionary participation feature (DPF); • and long-term investment without DPF.

Liberty Life Assurance Kenya Limited

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Accounting Policies

1.6. Insurance and investment contracts (continued)

1.6.2 Discretionary participation features (DPF)

A number of insurance and investment contracts contain a DPF. This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the company; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the group; or
 - the profit or loss of the company, fund or other entity that issues the contract.

The terms and conditions or practice relating to these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and limits within which the company may exercise its discretion as to the quantum and timing of the payment to policyholders.

The terms reversionary bonus and smoothed bonus refer to the specific forms of DPF contracts underwritten by the company.

All components in respect of DPFs are included in the policyholder liabilities.

1.6.3 Insurance contract classification

Insurance contracts are classified into two main categories, depending on the duration of risk and as per the provisions of the Insurance Act, which are:

Long-term insurance business	<p>Long-term insurance business includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business, industrial life assurance business and business incidental to any such class of business.</p> <p>Life assurance business means the business of, or in relation to, the issuing of or the undertaking of a liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under two continuous disability insurance contracts) and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life.</p> <p>Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, company life and permanent health insurance policy.</p>
Short-term insurance business	<p>It is insurance business of any class or classes that is not long-term insurance business. Classes of short-term (also known as general insurance) include engineering insurance, fire insurance - domestic risks, fire insurance - industrial and commercial risks, liability insurance, marine insurance, motor insurance - private vehicles, motor insurance - commercial vehicles, personal accident insurance, medical insurance, theft insurance, workmen's compensation and employer's liability insurance and miscellaneous insurance (i.e. class of business not included under those listed above). Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of or damage to or arising out of or in connection with the use of motor vehicles, inclusive of third-party risks but exclusive of transit risks.</p>
	<p>Personal accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class. It also includes business of effecting and carrying out contracts of insurance against risk of persons insured incurring medical expenses.</p>

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Accounting Policies

1.6. Insurance and investment contracts (continued)

	<p>Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business, damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business</p>
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Long-term insurance contracts

Insurance contracts are classified into two main categories, depending on the duration of risk and as per the provisions of the Insurance Act, which are:

Measurement	<p>A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.</p> <p>Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.</p> <p>The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts. Shadow accounting is applied to policyholder insurance contracts where the underlying measurement of the policyholder insurance liability depends directly on the fair value of any owner-occupied properties. Any unrealised gains and losses on such owner-occupied properties are recognised in other comprehensive income as described in accounting policy note 1.2. The shadow accounting adjustment to policyholder insurance contracts is recognized in other comprehensive income to the extent that the unrealised gains or losses, together with any related taxation on owner occupied properties backing policyholder insurance liabilities are also recognised directly in other comprehensive income.</p>
Claims	<p>For long-term insurance business, benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.</p>
Commissions earned and payable and deferred acquisition costs	<p>Commissions earned and payable are recognised in the period in which relevant premiums are written. A proportion of commissions payable is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs (DAC) represent a proportion of acquisition costs that relate to policies that are in force at the year end.</p>
Liability adequacy test	<p>At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.</p> <p>Any deficiency is immediately charged to profit or loss as part of claims incurred.</p>

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Accounting Policies

1.6. Insurance and investment contracts (continued)

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

Measurement and initial recognition	The company issues investment contracts, as follows:	
	<p>Without fixed benefits (investment-linked and structured products). Fair value of these financial liabilities is dependent on the fair value of the underlying financial assets, derivatives and/or investment property and are designated at inception as at fair value. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.</p> <p>The company's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of an investment-linked financial liability is determined using the current unit price multiplied by the number of units attributed to the policyholder at the statement of financial position date. If an investment contract is subject to a put or surrender option exercisable at the reporting date, the fair value of the financial liability is never less than the amount payable on the put or surrender option.</p>	<p>With fixed and guaranteed benefits (term certain annuity). Future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. Profit on initial recognition is amortised over the life of the contract.</p>
Service fees on investment management contracts and deferred revenue liability (DRL)	Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.	
Amounts received and claims incurred on investment management contracts	Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.	
Deferred acquisition costs (DAC) in respect of investment contracts	Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed.	

1.6.5 Reinsurance contracts held

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

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Accounting Policies

1.6. Insurance and investment contracts (continued)

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

1.6.6 Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Receivables and payables related to insurance contracts are subsequently measured under IFRS 4, whilst those related to investments contact are under IFRS 9. The company gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables.

1.7 Non Financial Assets

1.7.1 Investment properties

Investment properties include property that is being constructed or developed for future use as investment property. They are held to earn rental income and capital appreciation.	Investment and owner-occupied properties are carried at fair value, determined annually by external independent valuers taking into account characteristics of the properties that market participants would take into account when pricing the property at measurement date. Determination of fair value also considers the current use of the property in terms of its highest and best use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible.
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Accounting Policies

1.7. Non Financial Assets (continued)

1.7.2 Owner-occupied properties

Nature	Measurement	Depreciation
Owner occupied properties are held by the company for use in the supply of services or for its own administration purposes.	Owner-occupied properties are stated at revalued amounts, being fair value at the date of valuation less subsequent accumulated depreciation for buildings and accumulated impairment losses. The property was valued as at 31 December 2021 by Tyson's Limited, a registered independent valuer with relevant professional qualification and experience in the category of the property being valued. If the open-market valuation information cannot be reliably determined, the company uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets. The fair value adjustments on owner-occupied properties are recognised in OCI and accumulated in a revaluation reserve in equity to the extent that the accumulated adjustment is a surplus. Any accumulated deficits are recorded in profit or loss. On disposal or transfer (change in use) of owner-occupied properties to investment properties, the amounts included in the revaluation reserve are transferred directly to retained surplus. The deemed cost for any reclassification (between investment properties and owner- occupied properties) is at fair value, at the date of reclassification.	Depreciation is recognised in profit or loss at rates appropriate to the expected useful lives of owner-occupied buildings and any significant component part. Land is not depreciated. Depreciation is calculated on the opening open-market fair value less any expected residual value. If the expected residual value is greater than or equal to the carrying value, no depreciation is provided for. On the date of the revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is directly transferred net of any related deferred taxation, between the revaluation reserve and retained earnings as the property is property is utilised. Depreciation period for owner-occupied property is 25-40 years.

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Accounting Policies

1.7.3 Leases

IFRS 16 Lessee accounting policies

Type and description	Statement of financial position	Statement of comprehensive income
<p>Single lessee accounting model</p> <p>All leases are accounted for by recognising a right-of use asset and a lease liability except for:</p> <ul style="list-style-type: none"> • leases of low value assets; and • leases with a duration of twelve months or less. 	<p>Lease liabilities:</p> <p>Initially measured at the present value of the contractual payments due to the lessor over the lease term that are not paid at commencement date, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case for the group) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.</p> <p>On initial recognition, the carrying value of the lease liability also includes:</p> <ul style="list-style-type: none"> • Amounts expected to be payable under any residual value guarantee; • The exercise price of any purchase option granted in favour of the company, should it be reasonably certain that this option will be exercised; • Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised. <p>Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.</p>	<p>Interest expense on lease liabilities:</p> <p>A lease finance cost, determined with reference to the interest rate implicit in the lease or the group's incremental borrowing rate, is recognised within interest expense over the lease period.</p>

Liberty Life Assurance Kenya Limited

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Accounting Policies

1.7.3 Leases (continued)

Lessor accounting policies

Type and description	Statement of financial position	Statement of comprehensive income
	<p>Right-of-use assets:</p> <p>Initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:</p> <ul style="list-style-type: none"> • Amounts expected to be payable under any residual value guarantee; • The exercise price of any purchase option granted in favour of the company, should it be reasonably certain that this option will be exercised; • Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised. <p>The company applies the cost model subsequent to the initial measurement of the right-of-use assets.</p>	<p>Depreciation on right-of-use assets:</p> <p>Subsequent to initial measurement, the right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the company at the end of the lease term, whereby the right-of-use assets are depreciated on a straight-line basis over the remaining economic life of the asset. This depreciation is recognised as part of general marketing and administration expenses.</p>
	<p>Termination of leases:</p> <p>When the company or lessor terminates or cancels a lease, the right-of-use asset and lease liability are derecognised.</p>	<p>Termination of leases:</p> <p>On derecognition of the right-of-use asset and lease liability, any difference is recognised as a derecognition gain or loss together with termination or cancellation costs in profit or loss.</p>
<p>All leases that meet the criteria as either a lease of a low value asset or a short-term lease are accounted for on a straight-line basis over the lease term.</p>	<p>Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.</p>	<p>Payments made under these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When these leases are terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.</p>

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1.7.3 Leases (continued)

Reassessment and modification of leases	Reassessment of lease terms and lease modifications that are not accounted for as a separate lease: When the company reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised.
	For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right-of-use asset is reduced to zero any further reduction in the measurement of the lease liability, is recognised in profit or loss.
	For lease modifications that are not accounted for as a separate lease, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. However, for lease modifications that decrease the scope of the lease the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.
	Lease modifications that are accounted for as a separate lease: When the company modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the company accounts for these modification as a separate new lease. This accounting treatment equally applies to leases which the company elected the short-term lease exemption and the lease term is subsequently modified

Lessors accounting policies

Type and description	Statement of financial position	Statement of comprehensive income
Operating leases All leases that do not meet the criteria of a financial lease are classified as operating leases.	The asset underlying the lease continues to be recognised and accounted for in terms of the relevant company accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised.	Operating lease income net of any incentives given to lessees, is recognised on the straight-line basis, or a more representative basis where applicable, over the lease term and is recognised in operating income. When an operating lease is terminated before the lease period has expired, any payment received/(paid) by the company by way of a penalty is recognised as income/(expense) in profit and loss.

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1.7.4 Property and equipment

The company's property and equipment provides it with the necessary infrastructure to operate effectively. Property comprises of owner occupied property as detailed under 1.7.2 above. Equipment principally comprises computer equipment and fixtures and fittings. The cost of these equipment is recognised in the income statement over time as a depreciation charge. Depreciation periods are detailed in note 13 of the company annual financial statements.

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on property and equipment on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life, on the following bases:

Motor vehicles 25%

Furniture fittings & equipment 10%

Computer equipment 20%

The residual values of items of property and equipment and their estimated useful lives are reviewed at each reporting period end and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

1.7.5 Intangible assets

Intangible assets comprise of computer software that are not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to use or sell the software product;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits; and
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available;

The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated finite useful lives, which does not exceed five years. The amortisation is charged to the statement of profit or loss as part of operating and other expenses.

1.7.6 Impairment of other non-financial assets

An impairment loss is recognised in profit or loss immediately when incurred for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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1.8 Equity

Equity shares	Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business reduce the proceeds from the equity issue.
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1.9. Other significant accounting policies

1.9.1 Employee benefits

Type of benefit	Description
Leave pay provision	The company recognises a liability for the amount of accumulated leave if the company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.
Incentive scheme	Incentive scheme bonuses are short-term bonuses which are recognised as an expense as incurred when the company has a present or constructive obligation and the amount can be reliably measured.
Pension obligations (defined contribution plans)	<p>The company operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the company pay fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.</p> <p>The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees. The company and all its employees also contribute to the appropriate National Social Security Fund, which is also a defined contribution scheme. The company's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.</p>

1.9.2 Revenue recognition

Revenue is recognised either when the performance obligation has been satisfied ('point in time') or as control of the service is transferred to the customer ('over time'). This requires an assessment of the company's performance obligations and of when control is transferred to the customer. Where revenue is recognised over time, this is in general due to the company performing and the customer simultaneously receiving and consuming the benefits over the life of the contract as services are rendered. For each performance obligation over time, the company applies a revenue recognition method that faithfully depicts the company's performance in transferring control of the service to the customer. Due to the nature of the company's business, the majority of its revenue from contracts with customers is considered to be recognised 'over time'. If performance obligations in a contract do not meet the over time criteria, the company recognises revenue at a point in time.

Revenue from asset management and other related services offered by the Company is recognised over time as the services are provided. Front-end fees to cover policy set up costs and commission are charged to the client on inception while regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised as income to the company over the billing period.

Revenue is measured based on the consideration specified in contracts with customers, excluding amounts collected on behalf of third parties and, including an assessment of any variable consideration dependent on the achievement of agreed key performance indicators. Such amounts are only included based on the expected value or most likely outcome method, and only to the extent that it is highly probable that no significant revenue reversal will occur. In assessing whether a significant reversal will occur, the company considers both the likelihood and the magnitude of the potential revenue reversal.

As a result of the contracts which the company enters into with its customers, a number of different assets are recognised on the company's statement of financial position. Further details are included in note 9 of the company annual financial statements. Payment terms and conditions included in customer contracts are typically due in full within 30 days.

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Accounting Policies

1.9.2 Revenue recognition (continued)

Revenue type	Description	Recognition and measurement
Insurance premium income (recognised under IFRS 4)	Life-insurance premiums	<p>For long term insurance business, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. For Group Life insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium.</p> <p>Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the financial reporting date and is computed using the 365ths method. Premiums gross of any taxes or duties levied on premiums.</p>
Investment income (for financial instruments, and for rental income, under IFRS 9)	Comprises interest income from government securities and corporate bonds, dividend income and rental income from properties	<p>Dividends – recognised when the right to receive payment is established, dividends received are included in the fair value adjustments for financial assets at fair value through profit or loss.</p> <p>Rental income – accounted for on a straight-line basis under IFRS 16 Leases.</p> <p>Interest income and expenses for all interest-bearing financial instruments: For financial instruments measured at fair value through profit or loss – recognised within fair value adjustments under IFRS 9 in profit or loss. For financial assets held at amortised cost or classified at fair value through other comprehensive income, as interest income on financial assets at amortised cost and financial assets classified at fair value through other comprehensive income; using the effective interest method.</p>
<p>Revenue recognition from contracts with customers</p> <p>Revenue from contracts with customers arises from transactions not associated with financial instruments, insurance contracts or investment properties.</p>		
Fee revenue	Management fees on assets under management.	Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.
Reinsurance commission	Commission earned from reinsurers on placement of short-term reinsurance contracts.	Recognised over the term of the contract.

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1.9.2 Revenue recognition (continued)

Deferred revenue

Upfront fees received on short-term insurance business and long-term investment contracts are recognised as a prepayment. These amounts are non-refundable and released to income as the services are rendered over the expected duration of the contract on a straight-line basis. Refer to note 2 of the company annual financial statements for the details of amounts recognised in profit or loss.

1.9.3 Taxation

Income taxation on the profit or loss for the periods presented comprises current and deferred taxation.

Current taxation

Current taxation is the expected taxation payable, using taxation rates enacted at the reporting date, including any prior year under or overprovisions.

The company is subject to taxation as per the Kenya tax laws. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The company recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred taxation

Deferred taxation is provided in full using the liability method. Provision is made for deferred taxation attributable to temporary differences in the accounting and taxation treatment of items in the financial statements. A deferred taxation liability is recognised for all temporary differences, at enacted or substantially enacted rates of taxation at the statement of financial position date, except for differences:

- Arising from initial recognition of assets or liabilities which affect neither accounting nor taxable profits or losses.

In respect of temporary differences arising on fair value adjustments on investment properties, deferred taxation is provided at the use rate if the property is considered to be a long-term strategic investment or at the capital gains effective rate if recovery is anticipated to be mainly through disposal.

A deferred taxation asset is recognised for the carry forward of unused taxation losses, unused taxation credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilised.

Deferred taxation assets are assessed for probable recoverability based on applicable estimated future business performance and related taxable projected income.

The major categories of assets and liabilities giving rise to a deferred taxation balance are investment properties revaluation surpluses, policyholder valuation basis, life fund special transfers, deferred acquisition costs, deferred revenue, unrealised gains on investments, intangible assets and provisions.

1.9.4 Provisions

Provisions are recognised when the company has a present legal or constructive obligation of uncertain timing or amount, as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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1.9.5 Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale or distribution to owners rather than continuing use, are classified as held for sale or for distribution.

Measurement of asset(s) held for sale once classified as held for sale, and provided that the assets under review are within the measurement scope of IFRS 5, the assets are measured at the lower of their carrying amount and fair value less costs to sell.

Assets held for sale and disposal groups are presented in a line item labelled "non-current assets held for sale". If the disposal group includes liabilities, these will be presented as "disposal group liabilities" or simply as "disposal group".

1.9.6 Offsetting

Assets and liabilities are offset, and the net amount reported in the statement of financial position when:

- there is a current legally enforceable right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

