



LIBERTY

Liberty Kenya Holdings Plc

Incorporating Heritage Insurance
and Liberty Life Assurance

Annual financial
statements and reports

for the year ended
31 December

2021

Corporate information

Liberty Kenya Holdings Plc (LKH) is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability company, and is domiciled in Kenya. Liberty Holdings Limited (LHL), a South African registered investment holding company owns 73,67% (2020: 57,74%) of LKH.

The company was listed on the Nairobi Securities Exchange on 21 April 2011.

Directors

	First appointed
Mr P Odera (Chairman)	2/09/2016
Mr M du Toit (Managing Director)	17/12/2008
Mr P Gethi (Non-executive)	17/12/2009
Ms G Ogallo (Non-executive)	10/06/2019
Mr J Hubbard (Non-executive)	16/06/2017
Mr R Shah (Non-executive)	26/05/2020
Ms R Mbai (Non-executive)	27/08/2020

Independent auditor

PricewaterhouseCoopers LLP
Certified public accountants
PwC Tower, Waiyaki Way,
PO Box 43963 - 00100,
Nairobi

Registered office

LR No 209/8592/2
Liberty House,
Mamlaka Road,
PO Box 30390-00100,
Nairobi

Secretary

C Kioni (Ms)
PO Box 30390-00100,
Nairobi

Governance auditor

Dorion Associates
Thompson Estate, Diani Close,
Compound 7, House 3,
Nairobi

Share registrar

Image Registrars Limited
Securities, Registrars and Trustees,
5th Floor,
Barclays Plaza, Loita Street,
PO Box 9287-00100 GPO,
Nairobi

Lawyers

Coulson Harney Advocates (Bowmans)
5th Floor, ICEA Lion Centre
Riverside Park, Chiromo Road,
PO Box 10643-00100,
Nairobi

Principal bankers

Stanbic Bank Kenya Limited
Stanbic Centre, Chiromo Road,
PO Box 72833-00200,
Nairobi

Subsidiaries

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

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Preparation of financial reports

The annual financial statements and reports of Liberty Kenya Holdings Plc group and company for the year ended 31 December 2021 were:

Prepared by:

Eliud Kagera

Supervised by:

Luke Magambo

Directors' responsibility for financial reporting

For the year ended 31 December 2021

The directors are responsible for the preparation and presentation of the consolidated and separate financial statements of Liberty Kenya Holdings Plc (group and company) set out on pages 12 to 129 which comprise the group and company statements of financial position as at 31 December 2021, and the group and company statements of comprehensive income, the group and company statements of changes in equity and the group and company statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described on page 12 is an acceptable basis for preparing and presenting of the consolidated and separate financial statements in the circumstances, preparation and presentation of consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS) 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 Kenya Companies Act, 2015 the directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the group and the company as at the end of the financial year and of the profit or loss of the group and company for that year. It also requires the directors to ensure that the group and company keeps proper accounting records which disclose with reasonable accuracy the financial position of the group and the company.

The directors accept responsibility for the annual consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with IFRS and in the manner required by the Act. The directors are of the opinion that the financial statements give a true and fair view of the financial position of the group and the company and of the group's and the company's profit or loss.

The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of consolidated and separate financial statements, as well as adequate systems of internal financial control. The directors have made an assessment of the group's and the company's ability to continue as a going concern and have no reason to believe the group and the company will not be a going concern for at least the next 12 months from the date of this statement.

Approval of the financial statements

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the board of directors on 24 March 2022.

P Odera
Chairman

Nairobi
24 March 2022

M du Toit
Managing Director

Directors' report

for the year ended 31 December 2021

The directors submit their report together with the audited group and company financial statements for the year ended 31 December 2021, in accordance with the Kenya Companies Act, 2015, which discloses the state of affairs of Liberty Kenya Holdings Plc (Liberty) and its subsidiaries (together the "group").

Principal activities

The group is engaged in the business of insurance and wealth management through its subsidiaries namely Liberty Life Assurance Kenya Limited, The Heritage Insurance Company Kenya Limited, Heritage Insurance Company Tanzania Limited and CFC Investments Limited. The group underwrites classes of long-term insurance in Kenya and all general insurance classes in Kenya and Tanzania as defined in the Kenyan Insurance Act and Tanzania Insurance Act except for bond investments. It also issues investment contracts in Kenya to provide customers with asset management solutions for their savings and retirement needs.

Results and dividends

Total earnings, for the year ended 31 December 2021, attributable to ordinary shareholders, was KShs 80 157 000 (2020: KShs 659 335 000). The impact of Covid-19 has resulted in significantly higher risk claims in 2021 negatively impacting the group financial results. However, the Directors and Management are pleased to highlight that the Company and its subsidiaries have maintained a very strong capital base, sufficient liquidity and the ability to meet their obligations even in these unprecedented times with the heightened remaining uncertainty of Covid-19 future impacts and consideration of a depressed financial result for 2021. The board does not recommend any dividends in respect of the year ended 31 December 2021 (2020: Nil per share).

COVID-19 pandemic reserve specific assumptions

The group's pandemic reserve continues to be largely calculated as the prospective additional unexpired risk reserve (AURR) after projecting all the expected COVID-19 related claims (mortality (the majority), capital disability and retrenchment) until renewal, and allowing for the projected impact on expense ratios of the COVID-19 pandemic as a result of lower new business and worse persistency.

The initial COVID-19 reserving basis for The Group (i.e. used to set the 30 June 2020 COVID-19 pandemic reserve) was based on the Liberty group approach that utilised the Wuhan COVID-19 mortality, the expected herd immunity and the expected level of reporting of COVID-19 cases to come up with mortality/claims ratio stresses and also specific stresses for withdrawals, new business, retrenchment claims, etc. due to the COVID-19 pandemic.

The approach used to set the 31 December 2021 COVID-19 reserve for Liberty Life Assurance Limited is to adjust this original Group basis with the actual Company experience, vaccination numbers, various economic factors that could provide an indication on the trends of retrenchment claims and premium increases that have been effected or are planned and committed to be effected in response to the COVID-19 pandemic. A weighted scenario approach was taken to balance between the two-year experience and the actual 2021 experience especially with regards to the trends on mortality and retrenchment

To calculate the COVID-19 pandemic reserve, the product level expected combined ratio (sum of claims ratio, commission ratio and expense ratio) is assessed and where this exceeds 100%, the projected loss was immediately recognised as a projected AURR. The table below summarises the combined ratios per product used in setting up the pandemic reserve as well as the prior year comparatives.

Product	2021	2020
Group life	115%	127%
Credit life	113%	98%
Last expense	107%	93%

For the retail life portfolio, the reserve was determined by stressing the base mortality assumption. The Wuhan mortality rate was applied to the sums at risk over the next 12 months. This was then adjusted for a herd immunity factor of 60% and for the fact that most of the cases are projected not expected to be reported ("high unreported factor") of 20%.

For the medical portfolio in Heritage general business, the reserve was determined using a risk margin calculation that allows the provision to be held at a specified confidence level. As at 31 December 2021, the risk margin was calibrated to a 1-in-25-year event (96% confidence level which is higher than the 75% confidence level at which the risk margin for regular reserving purposes is calculated). This is based on some high-level work done where it was estimated that significant pandemics occurred on average about once in every 25 years if experience after 1 800 is considered.

Accounting policies

The accounting policies applied in the preparation of these annual financial statements are in terms of IFRS and are consistent with those applied in the prior year group and company annual financial statements except for the mandatory adoption of amendments to IFRS effective for 1 January 2021 and the early adoption of certain other amendments.

All significant accounting policies and amendments adopted are contained in Appendix A.

Share capital

There have been no changes to the authorised or issued share capital during the year.

Directors

The names of the directors who held office during the year and to the date of this report are set out on page 6. In accordance with the Company's Articles of Association, all directors unless retiring, offer themselves for re-election after every three years.

Director appointments and resignations during 2021 and up to the date of this report

During the year, there were no director appointments, resignations or retirements.

Directors' report (continued)

for the year ended 31 December 2021

Interest of directors, including their families, in share capital of Liberty

as at 31 December 2021

No directors have direct ownership interests in the share capital of Liberty Kenya Holdings Plc for 2021 or 2020.

There have been no other changes to the interests of directors, including their families, in the share capital as disclosed above as at 31 December 2021 to the date of approval of the annual financial statements, namely 24 March 2022.

Directors' related party information

Shareholders are referred to note 34 to the group annual financial statements for disclosure pertaining to directors' related party transactions and key management compensation.

Relevant audit information

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

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

Auditor

The auditor, PricewaterhouseCoopers LLP was appointed at the annual general meeting on 17 June 2021, following the retirement of KPMG Kenya from office, in accordance with section 721 of the Kenyan Companies Act, 2015 and the Kenyan Insurance Regulations in respect of these operating subsidiaries.

PricewaterhouseCoopers LLP continue in office in line with Section 721 of the Kenyan Companies Act, 2015.

Holding company

On 9 October 2021, Liberty Holdings Limited acquired a further 84,235,930 ordinary shares in Liberty Kenya Holdings Plc. At 31 December 2021, the group's holding company, Liberty Holdings Limited, held 73.67% (2020: 57.7%) of Liberty's issued ordinary shares. The ultimate holding company is Standard Bank Group Limited, a South African registered bank.

Bancassurance

The group has bancassurance business agreements with the Stanbic Bank Kenya Limited for the manufacture, sale and promotion of insurance, investment, and health products through the Bank's distribution capability.

In terms of the agreements, various entities in the group pay profit shares to various Standard Bank operations with respect to business sourced from Standard Bank distribution and clients. The amounts to be paid are in most cases dependent on source and type of business and are paid along geographical lines.

The bancassurance business agreements are evergreen agreements with a 24-month notice period for termination. As at the date of the approval of this report, neither party had given notice. As the bancassurance relationship provides commercial benefits to both Liberty and Standard Bank, a governance framework is in place to protect the interests of non-controlling shareholders.

Refer to related party disclosure in note 34 to the group annual financial statements for further details.

Subsidiaries

Details of the significant interests in directly-owned subsidiary companies are contained in note 7 to the annual financial statements.

Directors' report (continued)

for the year ended 31 December 2021

Annual General Meeting Resolutions

At the annual general meeting (AGM) held on 17 June 2021, LKH's shareholders passed the following resolutions for the purposes indicated:

RESOLUTION	VOTES			
	FOR VOTES	%	AGAINST VOTES	%
To consider and, if thought fit, adopt the Annual Report and the Financial Statements for the year ended 31st December 2020, together with the Directors' and Auditors' Reports thereon.	418 974 280	99,90%	440 100	0,10%
In accordance with Article 111 of the Company's Articles of Association, Mr Peter Gethi, retires by rotation and offers himself for re-election.	419 400 469	99,99%	7 911	0,01%
In accordance with Article 88 of the Company's Articles of Association, Ms Rachel Mbai, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offer her herself for re-election.	419 404 380	99,99%	10 000	0,01%
To approve the Directors' Remuneration and the Directors' Remuneration Report for the year ended 31 December 2020.	418 943 618	99,90%	445 962	0,10%
To note that KPMG retires from office and to appoint PricewaterhouseCoopers LLP as the external auditor of the Company in accordance with Sections 721 and 724 of the Companies Act 2015, and to authorise the directors to fix their remuneration.	419 403 480	99,99%	600	0,01%
To pass an ordinary resolution pursuant to Section 769 of the Companies Act, 2015, that the following directors being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:				
i. Mr Rajesh Shah	419 400 080	99,99%	600	0,01%
ii. Mr Peter Gethi	419 400 080	99,99%	600	0,01%
iii. Ms Rachel Mbai	419 400 080	99,99%	600	0,01%

1 144 registered shareholders with a total of 423 666 339 shares in Liberty Kenya Holdings Plc were eligible to vote. Total number of shares that participated were 419 400 680 shares. This represents a participation level of 98,99%.

Borrowing powers

In terms of the company's memorandum of incorporation the amount which the company may borrow is limited.

Insurance

Liberty has placed cover for losses as a result of commercial crime and claims under professional indemnity as well as for directors' and officers' liability insurance. These covers were renewed at 31 December 2021 for the year 2022, as part of the Standard Bank Group Limited's insurance programme, in which the group participates.

Events after reporting date

On 14 July 2021, Liberty Holdings Limited "LHL" (the company's controlling shareholder) and Standard Bank Group "SBG" (the company's ultimate controlling shareholder), jointly announced a proposed transaction that would be implemented through a scheme of arrangement (Scheme), pursuant to which SBG will acquire all the ordinary and preference shares issued by LHL other than the shares already held by SBG. The Scheme was approved by the requisite majority of LHL shareholders on 13 October 2021.

All the conditions precedent related to the ordinary shares were met on 7 February 2022. The Scheme was implemented on 28 February 2022, and consequently the delisting of all LHL ordinary shares on the Johannesburg Stock Exchange (JSE) took place on 1 March 2022 (refer SBG SENS announcement dated 7 February 2022). There are no direct implications to the existing shareholding or financial results of Liberty Kenya Holdings Plc.

Approval of the financial statements and events after reporting date

There have been no significant events after the reporting date, being 31 December 2021, to the date of approval of the annual financial statements, namely 24 March 2022.

By order of the Board

C Kioni (Ms)

24 March 2022

Directors' remuneration report

for the year ended 31 December 2021

Liberty Kenya Holdings Plc hereby presents the Directors' remuneration report for the year ended 31 December 2021. This report is in compliance with the Liberty group's remuneration policy, the Capital Markets Authority Code of Corporate Governance Guidelines on Director's remuneration and the Companies Act, 2015. A key provision of the Company's principles is that reward will directly support the business strategy with clear and measurable linkage to business performance.

Our remuneration system seeks to recognise the contribution individuals make to the success of the Company and reflect the value of the roles they are performing, as well as the level to which they perform them. Our approach to recognising our employees' contribution to the business is based on the principles of:

Market: Our remuneration levels reflect the competitive market and compare favourably with relevant competitors for such skills.

Communication: We aim to give details to every one of the component values of their total remuneration package and the criteria that may affect it.

Effectiveness: We aim to seek out best practice and ensure our remuneration programmes remain effective for the business and individuals.

Overall: Our remuneration components are reviewed regularly and are subject to external benchmarking to ensure that we continually offer competitive total reward packages. We are committed to ensuring appropriate remuneration and recognition is applied in a fair and consistent manner.

Information not subject to audit

Information not subject to audit comprise the following with respect to directors:

- Policy on Directors' remuneration;
- Board evaluation;
- Changes to Directors' remuneration during the year;
- Service contracts; and
- Approval of 2020 Directors' remuneration report.

Information subject to audit (Auditable part)

Information subject to audit comprises of the amounts of each Directors' emolument and compensation in the relevant years.

Details of Directors

Mr Philip Odera	Non-Executive (Chairman)
Mr Mike du Toit	Executive (Managing Director)

Mr Peter Gethi	Non-Executive
Mr Jeff Hubbard	Non-Executive
Ms Gladys Ogallo	Non-Executive
Mr Rajesh Shah	Non-Executive
Ms Rachel Mbai	Non-Executive

Non-executive Directors retire on rotation after serving three years, and are eligible to seek re-election by shareholders in accordance with the Company's Articles of Association at Annual General Meetings. Non-executive Directors do not have service agreements.

Directors' appointment and retirement term

Director	Appointment	Retirement date by rotation at the AGM ⁽¹⁾
Mr Philip Odera	2016	2023
Mr Mike du Toit	2008	Executive (No rotation)
Mr Peter Gethi	2009	2024
Mr Jeff Hubbard	2017	2023
Ms Gladys Ogallo	2019	2022
Mr Rajesh Shah	2020	2023
Ms Rachel Mbai	2020	2024

¹ The Annual General Meeting is planned to be held on 17 June 2022

Remuneration Policy for the Non-Executive Chairman and Non-Executive Directors

The remuneration of the Non-Executive Chairman and Non-Executive Directors is determined by the Directors' Affairs Committee of the Company. These Board members receive annual fees and allowances for attending meetings. Non-Executive roles are not entitled to any performance-related pay or pension.

The fees for Non-Executive Directors are set at a level that is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. Fees are paid in cash.

The amount of fees reflects the commensurate responsibility and time commitment given to the Board and Board Committees.

The Company's policy is to appoint the Non-Executive Directors for an initial three-year period, which may be extended for a further term by mutual consent or via approval by Members at an Annual General Meeting. The initial appointments and any subsequent reappointments are subject to annual election or re-election by shareholders.

The appointment of non-executive Directors is subject to a formal appointment and induction process. The approval from the Capital Markets Authority is a prerequisite for the formal appointment of any director.

Executive Directors' remuneration

The remuneration of executive directors is determined by the Director's Affairs Committee commensurate with market and levels of responsibility.

Board Evaluation

The performance of Board members and the Board collectively is based on Board Evaluations conducted periodically. The evaluation is in the form of a questionnaire that is completed individually and reviewed together. The questionnaire is designed to capture key matrixes that are considered important for the strategic direction of the Group. Some of the key matrix assessments are as follows:

- Board composition and quality;
- Board meetings and procedures;
- Board strategy and risk management;
- Board and management relations; and
- Succession planning.

Directors' remuneration report (continued)

for the year ended 31 December 2021

The list of the reward components are as follows:

The Directors' fees and benefits are as follows and are subject to periodic review taking into account market practice and the role of the directors.

1. Retainer fees

This is competitive, taking into account market rates of pay. Fees are reviewed by the Directors' Affairs Committee every two years after a survey of prevailing market movements. Any increases are determined in accordance with the business's ability to fund the increase. Retainer fees are paid on a quarterly basis.

2. Attendance fees

Non-Executive Directors are paid an attendance fee in recognition of the time spent attending Board or Committee meetings as well as meetings for the subsidiary companies. These are also benchmarked on market rates and trends.

3. Insurance cover

The group provides Directors' and Officers' liability insurance cover in line with best practice.

4. Travel and accommodation when on company business

Liberty caters for travel and accommodation costs in line with its Travel and Entertainment policy in place for Directors attending to Board and Company related meetings and matters.

Changes to Directors' remuneration

There were no substantial changes to the director's remuneration policy relating to the directors' remuneration made during the year (2020: None).

For the financial year ended 31 December 2021, the total Non-executive Directors remuneration in KShs' 000s was KShs 21 182 (2020: KShs 16 637) and for executive directors was KShs 39 167 (2020: KShs 35 818).

The total amount of emoluments paid to Directors for services rendered during 2021 is also disclosed in note 34 to the financial statements.

	2021			2020		
	Retainer Fees KShs'000	Attendance Fees KShs'000	Total KShs'000	Retainer Fees KShs'000	Attendance Fees KShs'000	Total KShs'000
Non-Executive Directors						
Mr Philip Odera	564	6 930	7 494	564	4 200	4 764
Mr Gayling May	-	-	-	212	1 516	1 728
Mr Peter Gethi	423	4 056	4 479	423	2 652	3 075
Mr Rajesh Shah	423	2 636	3 059	423	2 424	2 847
Ms Gladys Ogallo	423	2 964	3 387	423	2 808	3 231
Ms Rachel Mbai	423	2 340	2 763	212	780	992
Mr Jeff Hubbard (i)	-	-	-	-	-	-
Total	2 256	18 926	21 182	2 257	14 380	16 637

- I. Retainers and Board attendance fees are only paid to non-executive Directors. Mr. Jeff Hubbard is the nominated director representing the controlling shareholder, Liberty Holdings Limited. No fees were charged for his services as a director for 2021 or 2020.
- II. Directors who are also members of operating companies do not receive double fees for attendance of joint Board meetings.
- III. The cost incurred by the company to purchase insurance cover on behalf of Directors amounted to KShs. 527 000 (2020: KShs 559 000).
- IV. No amount was paid as an expense allowance that is not chargeable to income tax, or would benefit the director as an individual, or paid to or receivable by the director in respect of qualifying services.
- V. No compensation for loss of office was paid to or receivable by any director in connection with the termination of qualifying services in the year.
- VI. No director is entitled to any compensation upon the termination or end of their tenure as a member of the Board.

There were no other sums paid to third parties in respect of directors' services.

Directors' remuneration report (continued)

for the year ended 31 December 2021

Executive Director remuneration policy

Service Contracts

The Managing Director is the only Executive Director of the Company. He has a service contract with the Company until 31 March 2022. The contract is renewable, by mutual agreement.

Name	Date of Contract	Type of Contract	Unexpired term	Notice period	Amount payable for early termination Shs'000
Mr Mike du Toit	1 June 2021	Renewable contract	3 months	1 month	nil

The remuneration of the Managing Director is set at a level which is considered appropriate to attract an individual with the necessary experience and ability to oversee the businesses across the region. The salary is paid in cash.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which the Managing Director acquired benefits by means of acquisition of shares in the Company or a long-term investment scheme.

2021	Basic Pay KShs'000	Other Benefits KShs'000	Bonus KShs'000	Non-cash Benefits KShs'000	Total KShs'000
Mr Mike du Toit	21 471	2 909	13 934	853	39 167
2020	Basic Pay KShs'000	Other Benefits KShs'000	Bonus KShs'000	Non-cash Benefits KShs'000	Total KShs'000
Mr Mike du Toit	29 264	3 691	-	2 863	35 818

- Other benefits comprise life cover, medical insurance, club membership, telephone, National Social Security Fund and National Hospital Insurance Fund company contributions.
- Non-cash benefits consist of Company Car benefit.
- Pension/Gratuity: The Company does not operate a pension or gratuity scheme to the benefit of the Managing Director. All benefits are subjected to tax at prevailing PAYE rates.

Approval of 2020 Directors' remuneration report

At the Annual General Meeting held on 17 June 2021, the Shareholders approved the Directors' remuneration report for 2020.

Further, the Company conducted a poll as required by the Companies Act to vote on the Directors' remuneration report and the results were published at the company's website (www.LibertyKenya.co.ke). It is also a requirement that the tally of the results is observed by an independent person. PricewaterhouseCoopers (PwC) was retained to observe the process and tallying of the poll results. The poll results are summarised under AGM resolutions in the Directors' report on page 5 and were communicated to CMA/NSE on 18 June 2021.

Approval of the Directors' remuneration report

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

By Order of the Board

C Kioni (Ms)

24 March 2022



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LIBERTY KENYA HOLDINGS PLC

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Liberty Kenya Holdings Plc (the Company) and its subsidiaries (together, the Group) set out on pages 12 to 129, which comprise the consolidated statement of financial position at 31 December 2021 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2021, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LIBERTY KENYA HOLDINGS PLC
Report on the audit of the financial statements (continued)

Key audit matters (continued)

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<p>Determination of insurance contract liabilities</p> <p>Insurance contract liabilities comprises outstanding claims, incurred but not reported ("IBNR") for the short term business and policyholder liabilities under the long-term business as disclosed under notes 11 and 14 to the financial statements.</p> <p>The valuation of insurance contract liabilities was considered a key audit matter as:</p> <ul style="list-style-type: none"> the estimation of the provisions involves significant judgment given the inherent uncertainty in estimating future outflows in relation to insurance contracts The valuation of the liabilities relies on the accuracy of claims data and the assumption that future claims development will follow a similar pattern to past development experience Changes in assumptions can lead to significant changes in insurance contract liabilities. The methodology used can also have a material impact on the valuation of the liabilities. 	<p><i>Long term business</i></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. <p><i>Short term business</i></p> <ul style="list-style-type: none"> We assessed the competence, capabilities and objectivity of the Statutory Actuary. We validated, on a sample basis, the claims paid to supporting documentation and comparing the claim payments in 2021 to the reserves previously held. We tested the reasonableness of claims outstanding by comparing the recorded amounts to the latest available information on source documents. We tested the medical claims outstanding by reviewing the reconciliation between the outstanding balances in the ledger to the medical supplier statements. We reviewed the methodology and assumptions used by the Statutory Actuary to compute the liabilities against generally accepted actuarial practice approaches, in relation to the business written and expected risks. We assessed the reasonableness of the reserves by comparing actual outcomes against reserve estimates in the prior years. We independently recalculated the IBNR reserves for a sample of classes and compared this to the values estimated by management. Independently recalculating IBNR reserves for a sample of classes.

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.

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 Group and 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 Group and Company or to cease operations, or have no realistic alternative but to do so.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LIBERTY KENYA HOLDINGS PLC
Report on the audit of the financial statements (continued)

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 Group and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and Company to express an opinion on the Group and Company's financial statements. We are responsible for the direction, supervision and performance of the Group and Company audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the report of directors' report on pages 3 to 4 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 5 to 8 has been properly prepared in accordance with the Companies Act, 2015.

CPA Bernice Kimacia, Practising Certificate Number 1457
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

Accounting principles

for the year ended 31 December 2021

BASIS OF PREPARATION

The 2021 group and company annual financial statements of Liberty Kenya Holdings Plc have been prepared in accordance with and containing information required by:

- International Financial Reporting Standards (IFRS);
- the Kenyan Companies Act of 2015.

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

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

The accounting policies applied in the preparation of these annual financial statements are in terms of IFRS and are consistent with those applied in the prior year group and company annual financial statements.

Various amendments issued by the IASB were also adopted for the year commencing 1 January 2021. There is no impact on the group's or company's current financial results, disclosures, or comparative information as a result of these amendments.

Accounting Policy Elections

Where permitted under IFRS, the group and company adopts accounting policy choices which increase the relevance of reported profit in line with how the business is managed and to eliminate, as much as possible, accounting mismatches within profit or loss

The group and company has made the following accounting policy elections in terms of IFRS, with reference to the detailed accounting policies shown in brackets:

- For all financial assets and financial liabilities that are measured at fair value through profit or loss, all income statement movements (including dividends, interest received and finance costs) are classified as fair value adjustments. (accounting policy 4)
- Equipment is stated at cost less accumulated depreciation (accounting policy 6.4)
- Payments of dividends are included in operating activities in the cash flow statement.
- Investment and owner-occupied properties are accounted for using the fair value model (accounting policy 6)
- After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses (accounting policy 6.5)
- Application of shadow accounting to changes in policyholder liabilities arising from fair value remeasurement of owner-occupied properties backing insurance liabilities as applicable to eliminate an accounting mismatch in profit or loss (accounting policy 5.3.1)
- Although the application of the local actuarial valuation bases is not an accounting policy election as such, IFRS refers the measurement of these assets and liabilities to existing local practice until the adoption of IFRS 17 effective 1 January 2023.

Key judgements in applying assumptions on application of accounting policies

for the year ended 31 December 2021

Key assumptions can materially affect the reported amounts of assets and liabilities. 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.

Liberty Kenya Holdings Plc (LKH) business model is as an investment holding company. Through its subsidiaries, it utilises and renews available capital resources sustainably to create shareholder value by providing solutions to individuals or groups of individuals to meet their insurance and investment needs.

The financial assets held by LKH's subsidiaries as part of its operating activities are managed with the objective of realising cash flows through the sale of assets. Management makes decisions based on the assets' fair values and manages the assets to realise those fair values.

Properties at fair value

Investment and owner-occupied properties are measured at fair value using the income approach method 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.

The rebuttable presumption for taxation considerations is that the properties will ultimately be realised through sale.

The sensitivity analysis is detailed in note 20.6 of this report.

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

The key assumptions applied, and analysis of their sensitivity is detailed in the insurance risk and sensitivity analysis components of the risk management disclosures section 3 and 11 of this report.

Policyholder liabilities – investment contracts with discretionary participation features (DPF)

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. 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 (guaranteed amounts to policyholders). This feature brings the policies into the definition of investment contracts with discretionary participation features.

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

for the year ended 31 December 2021

Short-term Insurance contract liabilities

Estimates are made for short-term business claims and claims Incurred But Not Reported (IBNR) as at the period end based on the historical claims' development statistics and evaluation of the current, past and future assumptions. Using the Bonehuetter Fergusson model, the group has developed estimates of expected claims outstanding.

The key assumptions applied, and analysis of their sensitivity is detailed in the insurance risk and sensitivity analysis components of the risk management disclosures section 3 and 11 of this report.

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 groups in which the group 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 group is exposed to longevity risk.

An investigation into mortality experience is performed annually. The investigation period extends over the latest four full years for all classes of business. The results of the investigation are used to make decisions on whether to continue using the industry table or change to other appropriate tables that best match experience. The key assumptions applied, and analysis of their sensitivity is detailed in the insurance risk and sensitivity analysis components of the risk management disclosures section 3 and 11 of this report.

Morbidity

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

The key assumptions applied, and analysis of their sensitivity is detailed in the insurance risk and sensitivity analysis components of the risk management disclosures section 3 and 11 of this report.

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. The key assumptions applied, and analysis of their sensitivity is detailed in the insurance risk and sensitivity analysis components of the risk management disclosures section 3 and 11 of this report.

Impairment of goodwill

The group tests annually whether goodwill was impaired in accordance with the accounting policy note 6.5. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The key assumptions applied, and analysis of their sensitivity is detailed in note 3 of this report.

Income taxes

The group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of receivables measured using amortised cost

The group recognizes expected credit losses (ECL) on debt financial assets classified as amortised cost. The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. A significant change in credit risk (SICR) is when there is a material change in the probability of default, since origination. The sensitivity is detailed in note 9.

Cash flow statement

Management consider it appropriate for all cash flows relating to investment portfolios backing for required capital and assets policyholder liabilities to be reflected as cash flows from operating activities rather than cash flows from investing activities.

Summary of the group's assets and liabilities by measurement basis

as at 31 December 2021

2021 KShs'000	Financial position measurement basis						
	Fair value through profit or loss ⁽¹⁾	Fair value through OCI	Financial sound- ness ⁽²⁾	Cost less amor- tisation ⁽³⁾	Amor- tised cost ⁽⁴⁾	Other ⁽⁵⁾	Total
Assets							
Intangible assets	-	-	-	160 362	-	1 254 995	1 415 357
Owner-occupied properties	-	1 216 000	-	-	-	-	1 216 000
Investment properties	-	-	-	-	-	-	-
Equipment	-	-	-	183 423	-	-	183 423
Right-of-use-assets	-	-	-	62 964	-	-	62 964
Deferred taxation	-	-	-	-	-	187 820	187 820
Financial investments	22 290 725	-	-	-	-	-	22 290 725
Policy and staff loans receivable	-	-	-	-	1 648 024	-	1 648 024
Deferred acquisition costs	-	-	-	147 548	-	-	147 548
Reinsurance assets	-	-	166 831	-	-	3 226 301	3 393 132
Short-term insurance	-	-	-	-	-	3 226 301	3 226 301
Long-term insurance	-	-	166 831	-	-	-	166 831
Current taxation	-	-	-	-	-	157 946	157 946
Prepayments, insurance and other receivables	-	-	-	-	573 222	718 980	1 292 202
Investment properties held for sale	625 263	-	-	-	-	-	625 263
Cash and cash equivalents	-	-	-	-	7 855 904	-	7 855 904
Total assets	22 915 988	1 216 000	166 831	554 297	10 077 150	5 546 042	40 476 308
Percentage (%)	56.6	3.0	0.4	1.4	25.9	13.7	100.0
Liabilities							
Lease liabilities	-	-	-	-	78 863	-	78 863
Long-term policyholder liabilities	10 518 825	-	9 856 199	-	-	-	20 375 024
Insurance contracts	-	-	6 791 125	-	-	-	6 791 125
Investment contracts with discretionary participation features	-	-	3 065 074	-	-	-	3 065 074
Financial liabilities under investment contracts	10 518 825	-	-	-	-	-	10 518 825
Deferred taxation	-	-	-	-	-	1 050 886	1 050 886
Short-term insurance liabilities	-	-	-	-	-	7 615 459	7 615 459
Insurance and other payables	-	-	-	-	504 164	1 891 887	2 396 051
Employee benefits	-	-	-	-	-	145 301	145 301
Total liabilities	10 518 825	-	9 856 199	-	583 027	10 703 533	31 661 584
Percentage (%)	33.2	-	31.1	-	1.8	33.8	100.0

⁽¹⁾ Fair value through profit or loss includes all IFRS 9 fair value through profit or loss classifications.

⁽²⁾ Financial soundness valuation methodology is the valuation methodology used to value insurance contracts and investment contracts with DPF, and requires that the "Gross Premium Valuation" (GPV) method be used in valuing long-term insurance liabilities. Assets or liabilities measured on the financial soundness basis are subject to liability adequacy testing.

⁽³⁾ Cost less amortisation is original cost less straight-line amortisation over defined periods, limited to residual value.

⁽⁴⁾ Amortised cost utilising the effective interest rate method.

⁽⁵⁾ Other refers to other measurement basis that are in line with accounting policies as disclosed in Appendix A.

Summary of the group's assets and liabilities by measurement basis

(continued)

2020 KShs'000	Financial position measurement basis						Total
	Fair value through profit or loss ⁽¹⁾	Fair value through OCI	Financial sound- ness ⁽²⁾	Cost less amor- tisation ⁽³⁾	Amor- tised cost ⁽⁴⁾	Other ⁽⁵⁾	
Assets							
Intangible assets	-	-	-	164 932	-	1 254 995	1 419 927
Owner-occupied properties	-	1 018 828	-	-	-	-	1 018 828
Investment properties	199 600	-	-	-	-	-	199 600
Equipment	-	-	-	183 363	-	-	183 363
Right-of-use-assets	-	-	-	86 928	-	-	86 928
Deferred taxation	-	-	-	-	-	219 764	219 764
Deferred acquisition costs	-	-	-	117 389	-	-	117 389
Financial investments	23 357 471	-	-	-	-	-	23 357 471
Policy and staff loans receivable	-	-	-	-	1 712 273	-	1 712 273
Reinsurance assets	-	-	2 904	-	-	3 162 100	3 165 004
Short-term insurance	-	-	-	-	-	3 162 100	3 162 100
Long-term insurance	-	-	2 904	-	-	-	2 904
Prepayments, insurance and other receivables	-	-	-	-	1 033 224	310 924	1 344 148
Current taxation	-	-	-	-	-	107 817	107 817
Investment properties held for sale	633 250	-	-	-	-	-	633 250
Cash and cash equivalents	-	-	-	-	5 735 467	-	5 735 467
Total assets	24 190 321	1 018 828	2 904	552 612	8 480 964	5 055 600	39 301 229
Percentage (%)	61,5	2,6	-	1,4	21,6	12,9	100,0
Liabilities							
Lease liabilities	-	-	-	-	99 501	-	99 501
Long-term policyholder liabilities	8 900 253	-	10 657 459	-	-	-	19 557 712
Insurance contracts	-	-	6 728 593	-	-	-	6 728 593
Investment contracts with discretionary participation features	-	-	3 928 866	-	-	-	3 928 866
Financial liabilities under investment contracts	8 900 253	-	-	-	-	-	8 900 253
Deferred taxation	-	-	-	-	-	1 117 704	1 117 704
Short-term insurance liabilities	-	-	-	-	-	7 111 631	7 111 631
Insurance and other payables	-	-	-	-	1 254 291	1 285 024	2 539 315
Employee benefits	-	-	-	-	-	170 181	170 181
Total liabilities	8 900 253	-	10 657 459	-	1 353 792	9 684 540	30 596 044
Percentage (%)	29,1	-	34,8	-	4,4	31,7	100,0

⁽¹⁾ Fair value through profit or loss is amounts that equal or materially approximate fair value.

⁽²⁾ Financial soundness valuation methodology is the valuation methodology used to value insurance contracts and investment contracts with DPf, and requires that the "Gross Premium Valuation" (GPV) method be used in valuing long-term insurance liabilities. Assets or liabilities measured on the financial soundness basis are subject to liability adequacy testing.

⁽³⁾ Cost less amortisation is original cost less straight-line amortisation over defined periods, limited to residual value.

⁽⁴⁾ Amortised cost utilising the effective interest rate method.

⁽⁵⁾ Other refers to other measurement basis that are in line with accounting policies as disclosed in Appendix A.

Guide to the annual financial statements and notes

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Group and company statements of financial position

as at 31 December 2021

KShs'000	Notes	Group		Company	
		2021	2020	2021	2020
Assets					
Interests in subsidiaries	7	-	-	2 571 541	2 571 541
Intangible assets	3	1 415 357	1 419 927	-	-
Owner-occupied properties	4.2	1 216 000	1 018 828	-	-
Investment properties	4.3	-	199 600	-	-
Equipment	5	183 423	183 363	-	-
Right-of-use assets	6	62 964	86 928	-	-
Deferred taxation	14	187 820	219 764	-	-
Financial investments	9	22 290 725	23 357 471	-	-
Policy and staff loans receivable	9	1 648 024	1 712 273	-	-
Deferred acquisition costs	8	147 548	117 389	-	-
Reinsurance assets		3 393 132	3 165 004	-	-
Short-term insurance	15	3 226 301	3 162 100	-	-
Long-term insurance	12	166 831	2 904	-	-
Current taxation	33	157 946	107 817	-	-
Prepayments, insurance and other receivables	10	1 292 202	1 344 148	-	16 733
Investment properties held for sale	4.4	625 263	633 250	-	-
Cash and cash equivalents	11	7 855 904	5 735 467	10 151	10 319
Total assets		40 476 308	39 301 229	2 581 692	2 598 593
Liabilities					
Lease liabilities	16	78 863	99 501	-	-
Long-term policyholder liabilities		20 375 024	19 557 712	-	-
Insurance contracts	12	6 791 125	6 728 593	-	-
Investment contracts with discretionary participation features	12	3 065 074	3 928 866	-	-
Financial liabilities under investment contracts	13	10 518 825	8 900 253	-	-
Deferred taxation	14	1 050 886	1 117 704	-	-
Short-term insurance liabilities	15	7 615 459	7 111 631	-	-
Intergroup balances with subsidiaries	7	-	-	24 796	44 469
Insurance and other payables	18	2 396 051	2 539 315	14 853	21 871
Employee benefits	17	145 301	170 181	-	-
Total liabilities		31 661 584	30 596 044	39 649	66 340
Equity					
Ordinary shareholders' equity		8 501 900	8 405 118	2 542 043	2 532 253
Share capital	21	535 707	535 707	535 707	535 707
Share premium	21	1 490 480	1 490 480	1 490 480	1 490 480
Retained surplus		4 478 329	4 255 321	515 856	506 066
Other reserves		1 997 384	2 123 610	-	-
Non-controlling interests	30.1	312 824	300 067	-	-
Total equity		8 814 724	8 705 185	2 542 043	2 532 253
Total equity and liabilities		40 476 308	39 301 229	2 581 692	2 598 593

The financial statements on pages 12 to 129, were approved and authorised for issue by the board of directors on 24 March 2022 and were signed on its behalf by:

P Odera

M du Toit

R Shah

C Kioni

The accounting principles on pages 12 to 14 summary of the group's assets and liabilities by measurement basis on pages 15 to 16, notes on pages 23 to 76, risk management on pages 78 to 110, and the detailed accounting policies on pages 111 to 129, form an integral part of the financial statements.

Group and company statements of comprehensive income

for the year ended 31 December 2021

KShs'000	Notes	Group		Company	
		2021	2020	2021	2020
Revenue					
Insurance premiums	22	11 411 462	11 176 458	-	-
Reinsurance premiums	22	(4 682 805)	(4 490 596)	-	-
Net insurance premiums		6 728 657	6 685 862	-	-
Revenue from contracts with customers and fee income on placement of reinsurance	23	1 335 589	1 110 002	-	-
Investment income	24.1	46 649	131 203	200 000	185 000
Interest income on financial assets using the effective interest rate method	24.2	643 753	506 922	-	-
Fair value adjustments to assets held at fair value through profit or loss	25	2 158 708	1 423 735	-	-
Total income		10 913 356	9 857 724	200 000	185 000
Claims and policyholder benefits under insurance contracts	26	(8 201 331)	(6 792 094)	-	-
Insurance claims recovered from reinsurers	26	1 968 149	1 840 201	-	-
Change in long-term policyholder assets and liabilities		965 187	1 263 759	-	-
Liabilities under insurance contracts	12	(62 532)	330 352	-	-
Investment contracts with discretionary participation features	12	863 792	960 792	-	-
Applicable to reinsurers	12	163 927	(27 385)	-	-
Fair value adjustment to long-term policyholder liabilities under investment contracts	13	(854 885)	(520 967)	-	-
Acquisition costs	27	(1 686 566)	(1 669 611)	-	-
General marketing and administration expenses	28	(2 781 576)	(2 922 819)	(190 210)	(205 235)
Finance costs	29	(10 788)	(12 296)	-	-
Profit before taxation		311 546	1 043 897	9 790	(20 235)
Taxation	31	(229 719)	(367 951)	-	-
Total earnings		81 827	675 946	9 790	(20 235)
Other comprehensive income		27 712	47 125	-	-
Items that may be reclassified subsequently to profit or loss		27 712	47 081	-	-
Foreign currency translation		27 712	47 081	-	-
Items that may not be reclassified subsequently to profit or loss		-	44	-	-
Owner-occupied properties – fair value adjustment	4.2	-	(36 871)	-	-
Income and capital gains tax relating to owner-occupied properties fair value adjustment		-	(14)	-	-
Change in long-term policyholder insurance liabilities (application of shadow accounting)		-	36 929	-	-
Total comprehensive income		109 539	723 071	9 790	(20 235)
Total earnings attributable to:					
Shareholders' equity		80 157	659 335	9 790	(20 235)
Non-controlling interests	30.1	1 670	16 611	-	-
		81 827	675 946	9 790	(20 235)
Total comprehensive income attributable to:					
Shareholders' equity		96 796	687 628	9 790	(20 235)
Non-controlling interests	30.2	12 757	35 443	-	-
		109 553	723 071	9 790	(20 235)
Basic earnings per share					
Basic and diluted earnings per share KShs	1	0,15	1,23	0,00	0,00

The accounting principles on pages 12 to 14 summary of the group's assets and liabilities by measurement basis on pages 15 to 16, notes on pages 23 to 76, risk management on pages 78 to 110, and the detailed accounting policies on pages 111 to 129, form an integral part of the financial statements.

Group statement of changes in equity

for the year ended 31 December 2021

KShs'000	Share capital	Share premium	FCTR ⁽¹⁾	Statutory reserve ⁽²⁾	Owner-occupied properties ⁽³⁾	Retained surplus	Non-controlling interests	Total equity
Balance at 1 January 2020	535 707	1 490 480	(194 928)	1 870 171	217 389	3 798 671	264 624	7 982 114
Total comprehensive income	-	-	28 249	-	44	659 335	35 443	723 071
Total earnings	-	-	-	-	-	659 335	16 611	675 946
Other comprehensive income	-	-	28 249	-	44	-	18 832	47 125
Transfer between reserves	-	-	418	202 267	-	(202 685)	-	-
Balance at 31 December 2020	535 707	1 490 480	(166 261)	2 072 438	217 433	4 255 321	300 067	8 705 185
Total comprehensive income	-	-	16 625	-	-	80 157	12 757	109 539
Total earnings	-	-	-	-	-	80 157	1 670	81 827
Other comprehensive income	-	-	16 625	-	-	-	11 087	27 712
Transfer between reserves	-	-	14	(142 865)	-	142 851	-	-
Balance at 31 December 2021	535 707	1 490 480	(149 622)	1 929 573	217 433	4 478 329	312 824	8 814 724

⁽¹⁾ FCTR – Foreign currency translation reserve. The FCTR arises from the consolidation of the foreign owned subsidiary, Heritage Insurance Tanzania Limited and represents gains and losses, including the differences arising as a result of translating opening shareholders' equity using exchange rates at the end of the reporting period rather than exchange rates at the beginning of the period, are included in a translation reserve account and reported as a separate component of equity

⁽²⁾ The statutory reserve comprises the undistributed life surplus and a separate reserve set aside as required by insurance regulations in Tanzania. Tanzania regulations require a separate reserve equal to 5% of net written premium or 20% of the net profits whichever is higher. This reserve is capped at minimum paid-up capital or 50% of net written premiums. Distribution of Liberty Life surplus to the benefit of the shareholders is on the recommendations of the statutory actuary and is capped to 30% of available surplus as required by Insurance Act Kenya.

⁽³⁾ Owner-occupied properties – represents portion of the building properties occupied by group companies. The reserve amount represents cumulative gains on revaluations on owner-occupied properties

The accounting principles on pages 12 to 14, summary of the group's assets and liabilities by measurement basis on pages 15 to 16, notes on pages 23 to 76, risk management on pages 78 to 110, and the detailed accounting policies on pages 111 to 129, form an integral part of the financial statements.

Company statement of changes in equity

for the year ended 31 December 2021

KShs'000	Share capital	Share premium	Retained surplus	Total equity
Balance at 1 January 2020	535 707	1 490 480	526 301	2 552 488
Total comprehensive income				
Total loss	-	-	(20 235)	(20 235)
Balance at 31 December 2020	535 707	1 490 480	506 066	2 532 253
Total comprehensive income				
Total earnings	-	-	9 790	9 790
Balance at 31 December 2021	535 707	1 490 480	515 856	2 542 043

The accounting principles on pages 12 to 14, summary of the group's assets and liabilities by measurement basis on pages 15 to 16, notes on pages 23 to 76, risk management on pages 78 to 110, and the detailed accounting policies on pages 111 to 129, form an integral part of the financial statements.

Group and company statements of cash flows

for the year ended 31 December 2021

KShs'000	Notes	Group		Company	
		2021	2020	2021	2020
Cash flows from/(to) operating activities		2 311 463	1 485 595	(168)	(2 540)
Cash (utilised in)/generated from by operations	32	(1 314 802)	(646 325)	(168)	(2 540)
Cash receipts from policyholders		13 834 263	13 539 491	-	-
Cash paid to policyholders, intermediaries, suppliers and employees		(15 149 065)	(14 185 816)	(168)	(2 540)
Interest income on financial assets using the effective interest rate method	24.2	643 753	506 922	-	-
Finance costs	29	(10 788)	(12 296)	-	-
Taxation paid	33	(313 358)	(421 432)	-	-
Net purchase of financial instruments		3 306 658	2 058 726	-	-
Cash flows from investing activities		(127 002)	(166 318)	-	-
Purchase of equipment	5.2.1	(52 821)	(133 169)	-	-
Proceeds on sale of equipment		-	27 330	-	-
Acquisition of intangible assets	3	(74 181)	(60 479)	-	-
Cash flow from financing activities		(33 306)	(30 623)	-	-
Repayment of lease liabilities	16.1	(33 306)	(30 623)	-	-
Net increase/(decrease) in cash and cash equivalents		2 151 155	1 288 654	(168)	(2 540)
Cash and cash equivalents at the beginning of the year		5 735 467	4 419 078	10 319	12 859
Foreign currency translation		(30 718)	27 735	-	-
Cash and cash equivalents at the end of the year	11	7 855 904	5 735 467	10 151	10 319

The accounting principles on pages 12 to 14, summary of the group's assets and liabilities by measurement basis on pages 15 to 16, notes on pages 23 to 76, risk management on pages 78 to 110, and the detailed accounting policies on pages 111 to 129, form an integral part of the financial statements.

Notes to the group and company annual financial statements

for the year ended 31 December 2021

1. Basic earnings and earnings per share

	Group	
	2021	2020
Basic earnings attributable to ordinary shareholders (KShs'000)	80 157	659 335
Weighted average number of ordinary shares (Number of shares)	535 707 499	535 707 499
	Shillings	Shillings
Basic and diluted earnings per share	0,15	1,23

Definitions

Basic earnings per share

Basic earnings per share is basic earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year. There was no dilution effect on earnings per share.

2. Segment information

Liberty Kenya Holdings Plc and its subsidiaries is a insurance organisation delivering mainly insurance products and services to individuals and corporates.

The group is currently organised in line with the Insurance Act which classifies contracts of insurance and investment into two main categories being long-term insurance and general insurance, which includes medical. The distinction is determined through the definitions contained in the insurance act which is largely aligned to contract duration with general insurance typically having short-term contract terms (12 months or less).

The group is structured into three licenced subsidiaries following the Insurance Acts requirements. Two of the subsidiaries undertake short-term insurance and the other undertakes long-term insurance.

An operating segment is a component of the group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Identification of segments and the measurement of segment result is based on the group's internal reporting to management and the respective boards. The Chief Operating and Decision Maker (CODM) is the audit and risk committee.

The group is organised by business units and geographical spread. The business units are segmented as follows:

1. Long-term business
2. Short-term businesses
3. Holding company

Long-term and short-term operations are described in detail on note 5.3 under detailed accounting policies. The holding company is represented by Liberty Kenya Holdings and is primarily involved in investing activities through its subsidiaries.

The group produces segmented financial statements i.e. profit or loss and statement of financial position in compliance with IFRS 8.

The group does not have any one major customer that contributes more than 10% of its revenues.

Definitions

Africa regions

Kenya

Retail and institutional long-term, short-term and health insurance.

Tanzania

Retail and institutional short-term insurance.

Consolidation adjustments

The information in the segment report is presented on the same basis as reported to management. Consolidating adjustments are those accounting reclassifications and entries required to produce IFRS compliant results. Specific details of these adjustments are included as footnotes.

2. Segment information (continued)

2.1 Segment earnings – results by business unit

2021 KShs'000	Long-term business	Short-term business	Holding company	Consolidation adjustments ⁽¹⁾	IFRS reported
Net insurance premiums	2 356 478	4 410 766	-	(38 587)	6 728 657
Investment returns	2 243 871	722 509	200 000	(317 270)	2 849 110
Revenue from contracts with customers and fee income on placement of reinsurance	492 948	842 641	-	-	1 335 589
Total income	5 093 297	5 975 916	200 000	(355 857)	10 913 356
Net claims and policyholder benefits	(3 794 613)	(2 438 569)	-	-	(6 233 182)
Change in policyholders assets and liabilities	965 187	-	-	-	965 187
Fair value adjustment to policyholders' liabilities under investment contracts	(854 885)	-	-	-	(854 885)
Acquisition costs	(596 000)	(1 090 566)	-	-	(1 686 566)
Marketing and administration expenses	(1 009 110)	(1 727 313)	(190 210)	145 057	(2 781 576)
Finance costs	(2 971)	(20 660)	-	12 843	(10 788)
(Loss)/Profit before taxation	(199 095)	698 808	9 790	(197 957)	311 546
Taxation	41 781	(270 887)	-	(613)	(229 719)
Total earnings (loss)/profit	(157 316)	427 921	9 790	(198 570)	81 827
Other comprehensive income/(loss)	-	27 712	-	-	27 712
Total comprehensive income	(157 316)	455 633	9 790	(198 570)	109 539
Attributable to non-controlling interests	-	(12 757)	-	-	(12 757)
Total	(157 316)	442 876	9 790	(198 570)	96 782

⁽¹⁾ Consolidation adjustments include the elimination of inter-group transactions.

2020 KShs'000	Long-term business	Short-term business	Holding company	Consolidation adjustments ⁽¹⁾	IFRS reported
Net insurance premiums	2 506 200	4 179 662	-	-	6 685 862
Investment returns	1 435 251	670 148	185 000	(228 539)	2 061 860
Revenue from contracts with customers and fee income on placement of reinsurance	250 905	859 097	-	-	1 110 002
Total income	4 192 356	5 708 907	185 000	(228 539)	9 857 724
Net claims and policyholder benefits	(3 081 307)	(1 870 586)	-	-	(4 951 893)
Change in policyholders assets and liabilities	1 263 759	-	-	-	1 263 759
Fair value adjustment to policyholders' liabilities under investment contracts	(520 967)	-	-	-	(520 967)
Acquisition costs	(611 188)	(1 058 423)	-	-	(1 669 611)
Marketing and administration expenses	(965 808)	(1 790 713)	(205 235)	38 937	(2 922 819)
Finance costs	(3 829)	(24 053)	-	15 586	(12 296)
Profit/(loss) before taxation	273 016	965 132	(20 235)	(174 016)	1 043 897
Taxation	(98 920)	(269 031)	-	-	(367 951)
Total earnings/(loss)	174 096	696 101	(20 235)	(174 016)	675 946
Other comprehensive income/(loss)	44	47 081	-	-	47 125
Total comprehensive income	174 140	743 182	(20 235)	(174 016)	723 071
Attributable to non-controlling interests	-	(35 443)	-	-	(35 443)
Total	174 140	707 739	(20 235)	(174 016)	687 628

⁽¹⁾ Consolidation adjustments include the elimination of inter-group transactions.

2. Segment information (continued)

2.2 Segment assets and liabilities by business unit

2021 KShs'000	Long-term business	Short-term business	Holding company	Reporting adjustments ⁽¹⁾	IFRS reported
Total assets	25 298 946	14 148 245	2 581 692	(1 552 575)	40 476 308
Equipment	69 747	113 676	-	-	183 423
Right-of-use assets	15 479	110 272	-	(62 787)	62 964
Intangible assets	126 422	33 941	-	1 254 994	1 415 357
Investment in subsidiary	-	146 557	2 571 541	(2 718 098)	-
Owner-occupied properties	1 216 000	-	-	-	1 216 000
Investment properties held for sale	625 263	-	-	-	625 263
Financial investments	16 596 864	5 693 861	-	-	22 290 725
Policy and staff loans receivable	1 412 342	235 682	-	-	1 648 024
Reinsurer's share of insurance liabilities	166 832	3 226 300	-	-	3 393 132
Other assets	5 069 997	4 587 956	10 151	(26 684)	9 641 420
Total liabilities	22 540 144	9 200 965	39 649	(119 174)	31 661 584
Insurance contract liabilities	6 791 125	7 615 459	-	-	14 406 584
Policyholder liabilities under investment contracts	3 065 074	-	-	-	3 065 074
Investment contracts with discretionary participation features	10 518 825	-	-	-	10 518 825
Other liabilities	2 165 120	1 585 506	39 649	(119 174)	3 671 101

Other financial detail by business unit

2021 KShs'000	Long-term business	Short-term business	Holding company	IFRS reported
Additions to property and equipment (note 5.2)	11 223	41 598	-	52 821
Additions to right-of-use assets (note 6.2)	-	13 005	-	13 005
Additions to intangible assets (note 3)	59 032	15 149	-	74 181
Interest income on financial assets held at amortised cost (note 24.2)	273 476	370 277	-	643 753
Depreciation (note 5 and 6)	27 915	55 270	-	83 185
Amortisation of deferred acquisition costs (note 8)	37 891	840 271	-	878 162

2. Segment information (continued)

2.2 Segment assets and liabilities by business unit (continued)

2020 KShs'000	Long-term business	Short-term business	Holding company	Reporting adjustments ⁽¹⁾	IFRS reported
Total assets	24 505 214	13 880 095	2 598 593	(1 682 673)	39 301 229
Equipment	77 235	106 128	-	-	183 363
Right-of-use assets	24 578	149 912	-	(87 562)	86 928
Intangible assets	121 552	43 380	-	1 254 995	1 419 927
Investment in subsidiary	-	146 557	2 571 541	(2 718 098)	-
Owner-occupied properties	1 018 828	-	-	-	1 018 828
Investment properties	199 600	-	-	-	199 600
Financial investments	18 166 915	5 190 556	-	-	23 357 471
Policy and staff loans receivable	1 462 427	249 846	-	-	1 712 273
Reinsurer's share of insurance liabilities	2 904	3 162 100	-	-	3 165 004
Other assets	3 431 175	4 831 616	27 052	(132 008)	8 157 835
Total liabilities	21 585 082	9 188 454	66 340	(243 832)	30 596 044
Insurance contract liabilities	6 728 593	7 111 631	-	-	13 840 224
Policyholder liabilities under investment contracts	8 900 253	-	-	-	8 900 253
Investment contracts with discretionary participation features	3 928 866	-	-	-	3 928 866
Other liabilities	2 027 370	2 076 823	66 340	(243 832)	3 926 701

Other financial detail by business unit

2020 KShs'000	Long-term business	Short-term business	Holding company	IFRS reported
Additions to property and equipment (note 5.2)	51 208	81 961	-	133 169
Additions to right-of-use assets (note 6.2)	1 088	5 510	-	6 598
Additions to intangible assets (note 3)	59 032	1 447	-	60 479
Interest income on financial assets held at amortised cost	242 265	264 657	-	506 922
Depreciation	34 726	56 463	-	91 189
Amortisation of deferred acquisition costs	43 244	85 285	-	128 529

2. Segment information (continued)

2.3 Segment earnings – results by geographical spread

2021 KShs'000	Kenya	Tanzania	IFRS reported
Net insurance premiums	5 915 677	812 980	6 728 657
Investment returns	2 708 507	140 603	2 849 110
Revenue from contracts with customers and fee income on placement of reinsurance	1 056 314	279 275	1 335 589
Total income	9 680 498	1 232 858	10 913 356
Net claims and policyholder benefits	(5 706 208)	(526 974)	(6 233 182)
Change in policyholders assets and liabilities	965 187	-	965 187
Fair value adjustment to policyholders' liabilities under investment contracts	(854 885)	-	(854 885)
Acquisition costs	(1 333 123)	(353 443)	(1 686 566)
Marketing and administration expenses	(2 437 098)	(344 478)	(2 781 576)
Finance costs	(10 107)	(681)	(10 788)
Profit before taxation	304 264	7 282	311 546
Taxation	(226 614)	(3 105)	(229 719)
Total earnings	77 650	4 177	81 827
Other comprehensive income	-	27 712	27 712
Total comprehensive income	77 650	31 889	109 539
Attributable to non-controlling interests	-	(12 757)	(12 757)
Total comprehensive income attributable to shareholders	77 650	19 132	96 782

Segment assets and liabilities by geographical spread

2021 KShs '000	Kenya	Tanzania	IFRS reported
Total assets	37 099 324	3 376 984	40 476 308
Equipment	171 779	11 644	183 423
Right-of-use assets	54 999	7 965	62 964
Intangible assets	1 401 215	14 142	1 415 357
Investment in subsidiary	-	-	-
Owner occupied properties	1 216 000	-	1 216 000
Investment properties	625 263	-	625 263
Financial investments	22 160 497	130 228	22 290 725
Policy and staff loans receivable	1 648 024	-	1 648 024
Reinsurer's share of insurance liabilities	2 055 412	1 337 720	3 393 132
Other assets	7 766 135	1 875 285	9 641 420
Total liabilities	29 066 662	2 594 921	31 661 583
Insurance contract liabilities	12 476 848	1 929 736	14 406 584
Policyholder liabilities under investment contracts	3 065 074	-	3 065 074
Investment contracts with discretionary participation features	10 518 825	-	10 518 825
Other liabilities	3 005 915	665 185	3 671 100

2. Segment information (continued)

2.3 Segment earnings – results by geographical spread (continued)

Other financial detail

2021 KShs'000	Kenya	Tanzania	IFRS reported
Additions to property and equipment (note 5.2)	48 171	4 650	52 821
Additions to right-of-use assets (note 6.2)	10 160	45 796	55 956
Additions to intangible assets (note 3)	73 487	-	73 487
Interest income on financial assets held at amortised cost (note 24.2)	519 656	124 097	643 753
Depreciation (note 5 and 6)	69 441	13 744	83 185
Amortisation of deferred acquisition costs (note 8)	866 327	11 835	878 162
2020 KShs'000	Kenya	Tanzania	IFRS reported
Net insurance premiums	5 976 205	709 657	6 685 862
Investment returns	1 943 322	118 538	2 061 860
Revenue from contracts with customers and fee income on placement of reinsurance	800 084	309 918	1 110 002
Total income	8 719 611	1 138 113	9 857 724
Net claims and policyholder benefits	(4 692 270)	(259 623)	(4 951 893)
Change in policyholders assets and liabilities	1 263 759	-	1 263 759
Fair value adjustment to policyholders' liabilities under investment contracts	(520 967)	-	(520 967)
Acquisition costs	(1 302 574)	(367 037)	(1 669 611)
Marketing and administration expenses	(2 486 837)	(435 982)	(2 922 819)
Finance costs	(10 902)	(1 394)	(12 296)
Profit before taxation	969 820	74 077	1 043 897
Taxation	(335 400)	(32 551)	(367 951)
Total earnings	634 420	41 526	675 946
Other comprehensive income/(loss)	44	47 081	47 125
Total comprehensive income	634 464	88 607	723 071
Attributable to non-controlling interests	-	(35 443)	(35 443)
Total comprehensive income attributable to shareholders	634 464	53 164	687 628

2. Segment information (continued)

2.3 Segment earnings – results by geographical spread (continued)

Segment assets and liabilities by geographical spread

2020 KShs '000	Kenya	Tanzania	IFRS reported
Total assets	36 402 654	2 898 575	39 301 229
Equipment	168 704	14 659	183 363
Right-of-use assets	67 698	19 229	86 927
Intangible assets	1 400 987	18 941	1 419 928
Investment in subsidiary	-	-	-
Owner occupied properties	1 018 828	-	1 018 828
Investment properties	199 600	-	199 600
Financial investments	23 114 600	242 871	23 357 471
Policy and staff loans receivable	1 712 273	-	1 712 273
Reinsurer's share of insurance liabilities	2 394 034	770 970	3 165 004
Other assets	6 325 930	1 831 905	8 157 835
Total liabilities	28 447 637	2 148 408	30 596 045
Insurance contract liabilities	12 645 868	1 194 356	13 840 224
Policyholder liabilities under investment contracts	8 900 253	-	8 900 253
Investment contracts with discretionary participation features	3 928 865	-	3 928 865
Other liabilities	2 972 651	954 052	3 926 703

Other financial detail

2020 KShs'000	Kenya	Tanzania	IFRS reported
Additions to property and equipment (note 5.2)	128 821	4 348	133 169
Additions to right-of-use assets (note 6.2)	5 955	642	6 597
Additions to intangible assets (note 3)	59 470	1 009	60 479
Interest income on financial assets held at amortised cost (note 24.2)	414 934	91 988	506 922
Depreciation (note 5 and 6)	88 775	2 414	91 189
Amortisation of deferred acquisition costs (note 8)	112 016	16 513	128 529

3. Intangible assets

KShs'000	Group	
	2021	2020
Cost at the beginning of the year	2 021 299	1 956 323
Additions	74 181	60 479
Derecognition	(51 897)	-
Foreign currency translation	2 585	4 497
Cost at the end of the year	2 046 168	2 021 299
Accumulated amortisation at the beginning of the year	(601 372)	(524 288)
Amortisation	(70 573)	(74 040)
Derecognition	43 020	-
Foreign currency translation	(1 886)	(3 044)
Accumulated amortisation at the end of the year	(630 811)	(601 372)
Net carrying value at the end of the year	1 415 357	1 419 927
Summary of net carrying value	Amortisation period (years)	
Goodwill	None	1 254 995
Computer software – purchased ⁽¹⁾	Up to 5	164 932

KShs'000	Group					
	Balance at the beginning of the year	Additions	Derecognition	Amortisation	Foreign currency translation	Balance at the end of the year
2021						
Cost – movement						
Goodwill	1 254 995	-	-	-	-	1 254 995
Computer software – purchased ⁽¹⁾	766 304	74 181	(51 897)	-	2 585	791 173
Total cost	2 021 299	74 181	(51 897)	-	2 585	2 046 168
Accumulated amortisation and impairment – movement						
Goodwill	-	-	-	-	-	-
Computer software – purchased ⁽¹⁾	(601 372)	-	43 020	(70 573)	(1 886)	(630 811)
Total accumulated amortisation and impairment	(601 372)	-	43 020	(70 573)	(1 886)	(630 811)
2020						
Cost – movement						
Goodwill	1 254 995	-	-	-	-	1 254 995
Computer software – purchased ⁽¹⁾	701 328	60 479	-	-	4 497	766 304
Total cost	1 956 323	60 479	-	-	4 497	2 021 299
Accumulated amortisation and impairment – movement						
Goodwill	-	-	-	-	-	-
Computer software – purchased ⁽¹⁾	(524 288)	-	-	(74 040)	(3 044)	(601 372)
Total accumulated amortisation and impairment	(524 288)	-	-	(74 040)	(3 044)	(601 372)

⁽¹⁾ Purchased computer software is not judged to be an integral part of the related hardware and has been recognised as an intangible asset.

3. Intangible assets (continued)

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units (CGU), or groups of CGUs that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the CGU Level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. An impairment loss is recognized whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs of disposal and its value in use. Any impairment recognized on goodwill is not subsequently reversed.

Goodwill impairment testing

Goodwill arose from the acquisition of Alico in 2004 and acquisition of Heritage in 2010 and current allocation to CGUs is as shown below:

KShs'000	2021	2020
Liberty Life Assurance Kenya limited	1 084 647	1 084 647
Heritage insurance Kenya limited	170 348	170 348
Total goodwill	1 254 995	1 254 995

Goodwill relating to Liberty Life Assurance Kenya Limited (formerly Alico) and Heritage Insurance Kenya Limited was tested for impairment on 31 December 2021. The recoverable amount was determined using the best practice in valuing insurance business that comprises embedded value measure and value of future new business. Future net cashflows were discounted to determine the recoverable amount.

Heritage insurance Kenya Limited deals with the general insurance business while Liberty Life Assurance Kenya limited deals with the life business.

The key planning assumptions applied are:	2021	2020
Forecast period	5 years	5 years
Long-term insurance industry growth rate	7.9%	7.0%
Projected Country GDP growth rate	5.0%	5.0%
Projected growth in Market share	21.7%	20.0%
Premium growth rate (CAGR)	14.0%	12.0%
Profit after tax (CAGR)	31.0%	20.0%

(a) Future cashflows: The forecast periods adopted reflect an estimate of future net cashflows based on management judgement and expected market conditions that could be sustainably generated over such a period. A five-year forecast was used as a basis for future value to be generated from new business expected to be acquired. The new business volumes are based on companies approved five-year strategy that is reviewed on rolling basis. Based on the testing performed, no impairment was identified.

(b) Discount rate: The pre-tax discount rate used was based on an assessment of the risks applicable to Liberty Life Kenya Limited. The cost of equity discount rate calculated for the forecast years was 15.30% per annum (2020: 14.80%). The cost of equity assigned to the CGU and used to discount its future cash flows can have a significant effect on its valuation. The risk-free rate used to determine the cost of equity has been derived from the nine-year Kenya government bonds yield curve. The risk-free rate is then adjusted for an equity risk premium derived as 80% of the current equity risk premium assumption of 3.5%. As at 31 December 2021 the nine-year risk-free rate was 12.48% and the equity premium adjustment was 2.80%.

An increase of 1% to the risk discount rate (RDR) applied would result to value in use reducing by Kshs 134 million (2020: KShs 101 million), a decrease of 1% in RDR results to an increase in value of use by KShs 139 million (2020: KShs 106 million).

Goodwill relating to Heritage insurance Kenya limited was based on discounted profits based on approved strategy plan. Key planning assumptions applied are shown on the table below:

3. Intangible assets (continued)

	2021	2020
Forecast period	5 years	5 years
Long-term insurance industry growth rate	7.9%	4.5%
Projected Country GDP growth rate	5.0%	5.0%
Projected growth in Market share	21.7%	15.0%
Premium growth rate (CAGR)	14.0%	8.0%
Profit after tax (CAGR)	31.0%	16.0%

Future after tax profits are expected to range between KShs 565m to KShs 933m. The Goodwill allocated this CGU is KShs 170m. The 2022 undiscounted profits alone at KShs 565m covers the goodwill allocated by more the 3.3 times and therefore it is not necessary to conduct a detailed discounting for time value of money for expected future profits.

4. Properties

4.1 Summary

KShs'000	Notes	Group	
		2021	2020
Owner-occupied properties	4.2	1 216 000	1 018 828
Investment properties	4.3	-	199 600
Total fair value of properties at end of year		1 216 000	1 218 428
Investment properties held for sale	4.4	625 263	633 250
Total properties		1 841 263	1 851 678

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.

4.2 Owner-occupied properties

KShs'000	Group	
	2021	2020
Fair value at the beginning of the year	1 018 828	1 057 958
Fair value adjustment	-	(36 871)
Transfer from investment properties (note 4.3)	199 600	-
Depreciation	(2 428)	(2 259)
Fair value at the end of the year	1 216 000	1 018 828

All owner-occupied properties are located in Kenya.

Owner-occupied properties are marked to fair value at every reporting period as a portion of assets are matching policyholders liabilities.

If owner-occupied properties were stated on the historical cost basis, the carrying amounts would have been Kshs 6 137 000 (2020:Kshs 8 393 000)

4.3 Investment properties

KShs'000	Group	
	2021	2020
Fair value at the beginning of the year	199 600	226 729
Revaluations	-	(27 129)
Transfer to owner-occupied properties (note 4.2)	(199 600)	-
Fair value at the end of the year	-	199 600

4. Properties (continued)

This mainly represents area leased by STANLIB Kenya Limited (SKL) which with effect from 01 January 2021 was no longer leased by SKL.

Refer to the risk management note 4.9.3 for the breakdown by property type.

Location of investment properties:

All investment properties were located in Kenya.

4.4 Investment properties held for sale

The property classified as held-for-sale at 31 December 2021 is split between properties under agreement of sale subject to various conditions precedent being completed of KShs 125 million and the balance of KShs 508 million being actively marketed. It is highly probable that all the properties will be under agreement of sale within the next 12 months. The properties are available for immediate sale in their present condition.

These investment properties are disclosed as held for sale as:

- 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; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The decision was made by the board of directors to dispose of these investments due to an outcome of strategic review by the investment committee.

KShs'000	Notes	Group	
		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 of the year		625 263	633 250

The investment properties held for sale comprise of two residential properties which were leased out and an amount of rental income of Kshs 13 million (2019: Kshs 12 million) earned.

If investment properties held for sale were stated on the historical cost basis, the carrying amounts would have been Kshs 198 236 000 (2020: Kshs 204 631 000).

4.5 Basis of valuation

The Kenyan located properties were independently valued as at 31 December 2021 by various registered professional valuers. The valuation is prepared in accordance with the International Valuation Standards to which the Institution of Surveyors of Kenya (ISK) subscribes to.

The market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

To arrive at a market value, the properties have been valued using income approach method.

4.5.1 Market approach

The market approach is mostly used with every effort made to identify sales and properties for sale in a meaningful market area. Thus, values are based on sales which are most similar and comparable to the appraised property.

4.5.2 Income approach

The income approach uses the discounted cash flow methodology whereby an appropriate capitalisation rate based on reasonable expectation of return in the investment appropriate to the market is obtained. The suitable rate is obtained by analysing actual and prudent property sales versus their rental incomes. This rate is compared with the rate of return investors would expect on net operating income in order to invest in the type of real estate having due regard to other investment opportunities such as stocks, treasury bills, etc.

The net operating income is then discounted back to the valuation date to arrive at the market value of the property.

4. Properties (continued)

4.5 Basis of valuation (continued)

4.5.3 Cost approach

The cost approach is ordinarily used when valuing a facility considered as a Limited Market Property as its appeal is restricted to a particular use. A limited market property can be defined as "a property that has relative few potential buyers at a particular time".

The value is based on the value of the land plus the depreciated value of the cost to replace the existing improvements.

As a basis for the estimate of the Replacement Cost New, comparable building costs provided by local builders, or a cost manual is used. From the Replacement Cost New, the estimated costs of repair/deferred maintenance is deducted. Five forms of depreciation are estimated as follows: - Physical, Functional, Economic Depreciation, Strategic obsolescence and Environmental obsolescence.

The final value estimate by the cost approach is the land value plus the depreciated replacement cost of the buildings.

5. Equipment

5.1 Summary

KShs'000	Notes	Group	
		2021	2020
Equipment	5.2	183 423	183 363
Total equipment		183 423	183 363

5.2 Movement analysis of equipment

KShs'000		Group	
		2021	2020
Cost at the beginning of the year		994 264	887 408
Additions		52 821	133 169
Disposals		(9 552)	(30 207)
Foreign currency translation		2 156	3 894
Cost at the end of the year		1 039 689	994 264
Accumulated depreciation at the beginning of the year		(810 901)	(756 280)
Disposals		9 552	2 877
Depreciation		(53 426)	(54 832)
Foreign currency translation		(1 491)	(2 666)
Accumulated depreciation at the end of the year		(856 266)	(810 901)
Net carrying amount at the end of the year		183 423	183 363
Summary of net carrying value	Depreciation period (years)		
Equipment		183 423	183 363
Computer equipment	3 – 5	76 423	83 675
Fixtures, furniture and fittings	5 – 15	83 223	92 141
Motor vehicles	5	23 777	7 547

Assets with a zero book value were identified and those with no useful future life have been derecognised.

Included in Equipment as at 31 December 2021 are fully depreciated assets with a cost of KShs 396 385 325 (2020: KShs 131 423 956).

There were no items of property and equipment that were pledged as security for liabilities.

The amount of contractual commitments for the acquisition of property and equipment is disclosed in note 35 of the annual financial statements.

There was no compensation received from third party in relation to items of property and equipment arising from impairments and loss.

5. Equipment (continued)

5.2 Movement analysis of equipment (continued)

Cash proceeds from surrenders are disclosed in the statement of cashflows.

There were no restrictions on titles to the equipment.

5.2.1 Equipment

KShs'000	Balance at the beginning of the year	Additions	Disposals	Depreciation	Foreign currency translation	Balance at the end of the year
2021						
Cost - movement						
Computer equipment	318 625	21 921	-	-	937	341 483
Fixtures, furniture and fittings	616 608	10 992	-	-	976	628 576
Motor vehicles	59 031	19 908	(9 552)	-	243	69 630
Total cost	994 264	52 821	(9 552)	-	2 156	1 039 689
Accumulated depreciation - movement						
Computer equipment	(234 950)	-	-	(29 417)	(693)	(265 060)
Fixtures, furniture and fittings	(524 130)	-	-	(20 257)	(629)	(545 016)
Motor vehicles	(51 821)	-	9 552	(3 752)	(169)	(46 190)
Total accumulated depreciation	(810 901)	-	9 552	(53 426)	(1 491)	(856 266)
Net carrying amount at the end of the year	183 363	52 821	-	(53 426)	665	183 423
2020						
Cost - movement						
Computer equipment	241 370	102 394	(26 722)	-	1 583	318 625
Fixtures, furniture and fittings	591 868	23 952	(1 081)	-	1 869	616 608
Motor vehicles	54 170	6 823	(2 404)	-	442	59 031
Total cost	887 408	133 169	(30 207)	-	3 894	994 264
Accumulated depreciation - movement						
Computer equipment	(201 444)	-	-	(32 226)	(1 280)	(234 950)
Fixtures, furniture and fittings	(507 776)	-	473	(15 880)	(947)	(524 130)
Motor vehicles	(47 060)	-	2 404	(6 726)	(439)	(51 821)
Total accumulated depreciation	(756 280)	-	2 877	(54 832)	(2 666)	(810 901)
Net carrying amount at the end of the year	131 128	133 169	(27 330)	(54 832)	1 228	183 363

6. Right-of-use assets

6.1 Summary

KShs'000	Notes	Group	
		2021	2020
Right-of-use assets	6.2	62 964	86 928
Total right-of-use assets		62 964	86 928

6. Right-of-use assets (continued)

6.2 Movement analysis of right-of-use assets

KShs'000	Group	
	2021	2020
Cost at the beginning of the year	157 482	149 798
Additions	13 005	6 598
Derecognition	(32 727)	(2 294)
Modifications	-	359
Foreign currency translation	1 691	3 021
Cost at the end of the year	139 451	157 482
Accumulated depreciation at the beginning of the year	(70 554)	(37 640)
Derecognition	24 808	2 294
Depreciation	(29 759)	(34 099)
Modifications	-	(235)
Foreign currency translation	(982)	(874)
Accumulated depreciation at the end of the year	(76 487)	(70 554)
Net carrying amount at the end of the year	62 964	86 928
Summary of net carrying value	Unexpired lease term (years)	
Right-of-use property asset	1 - 10	62 964
		86 928

6.2.1 Right-of-use assets

KShs'000	Balance at the beginning of the year	Additions	De-recognition	Modifications	Depreciation	Foreign currency translation	Balance at the end of the year
2021							
Cost - movement							
Properties	157 482	13 005	(32 727)	-	-	1 691	139 451
Total cost	157 482	13 005	(32 727)	-	-	1 691	139 451
Accumulated depreciation - movement							
Properties	(70 554)	-	24 808	-	(29 759)	(982)	(76 487)
Total accumulated depreciation	(70 554)	-	24 808	-	(29 759)	(982)	(76 487)
Net carrying amount at the end of the year	86 928	13 005	(7 919)	-	(29 759)	709	62 964
2020							
Cost - movement							
Properties	149 798	6 598	(2 294)	359	-	3 021	157 482
Total cost	149 798	6 598	(2 294)	359	-	3 021	157 482
Accumulated depreciation - movement							
Properties	(37 640)	-	2 294	(235)	(34 099)	(874)	(70 554)
Total accumulated depreciation	(37 640)	-	2 294	(235)	(34 099)	-	(70 554)
Net carrying amount at the end of the year	112 158	6 598	-	124	(34 099)	3 021	86 928

7. Interest in subsidiaries

7.1 Summary

The company's interest in its subsidiaries all of which are unlisted, and all of which have the same year-end as the company's, were as follows:

Name of Company	Country of incorporation	Company			
		Beneficial ownership 2021	Beneficial ownership 2020	KShs'000 Carrying amount 2021	KShs'000 Carrying amount 2020
Liberty Life Assurance Kenya Limited	Kenya	100%	100%	1 826 254	1 826 254
The Heritage Insurance Company Kenya Limited	Kenya	100%	100%	741 287	741 287
Heritage Insurance Company Tanzania Limited	Tanzania	60%	60%	-	-
CfC Investments Limited	Kenya	100%	100%	4 000	4 000
				2 571 541	2 571 541

Interest in subsidiaries are non current assets

KShs'000	Company	
	2021	2020
Shares at cost	3 202 333	3 202 333
Impairment provision	(630 792)	(630 792)
Total interest in subsidiaries	2 571 541	2 571 541
7.2 Movement analysis of shares at cost		
Shares at cost		
Shares at cost at the beginning of the year	3 202 333	3 202 333
Shares at cost at the end of the year	3 202 333	3 202 333
Impairment provision		
Impairment provision at the beginning of the year	(630 792)	(630 792)
Impairment provision at the end of the year	(630 792)	(630 792)

Subsidiaries impairment testing

Equity investments in subsidiary companies are measured at cost less any impairment losses. The carrying amount of these investments are assessed annually for impairment indicators. If an indicator exists, for semi-dormant, dormant and investment holding subsidiaries, the subsidiaries impairment is referenced to the net asset value calculated on a fair value basis. Operating subsidiaries are assessed against discounted cash flow models or price earnings valuation techniques referenced to approved business plans.

The impairment provision of KShs 630,792,000 relates to CFC Investment Limited that was taken to align the carrying values of the holding company and the subsidiary's net asset carrying value.

7. Interest in subsidiaries (continued)

The subsidiaries impairment test has been performed and no further impairment was necessary.

7.3 Intergroup balances with subsidiaries at amortised cost

KShs'000	Company	
	2021	2020
Intergroup balances – at amortised cost	(24 796)	(44 469)
Total intergroup balances with subsidiaries	(24 796)	(44 469)
7.3.1 Movement analysis of intergroup balances with subsidiaries		
Intergroup balances – at amortised cost		
Intergroup balances with subsidiaries at the beginning of the year	(44 469)	(12 252)
Advances	(206 982)	(222 217)
Receipts	226 655	190 000
Intergroup balances with subsidiaries at the end of the year⁽¹⁾	(24 796)	(44 469)

⁽¹⁾ Intergroup balances are callable on demand.

The company applies impairment testing, where applicable, utilising an expected credit loss impairment model.

8. Deferred acquisition costs

KShs'000	Group					
	2021			2020		
	Short-term insurance business	Long-term investment contracts	Total	Short-term insurance business	Long-term investment contracts	Total
Balance at the beginning of the year	79 498	37 891	117 389	85 285	43 244	128 529
Cost of new business acquired	859 844	47 749	907 593	78 357	37 891	116 248
Amortisation realised through profit or loss	(840 271)	(37 891)	(878 162)	(85 285)	(43 244)	(128 529)
Foreign currency translation	728	-	728	1 141	-	1 141
Balance at the end of the year	99 799	47 749	147 548	79 498	37 891	117 389
Current	99 799	20 718	120 517	79 498	16 443	95 941
Non-current	-	27 031	27 031	-	21 448	21 448

Deferred acquisition costs are amounts incurred on acquiring insurance contracts, which are amortised to income over the contract period.

9. Financial instruments

9.1 Financial investments

KShs'000	Group	
	2021	2020
At fair value through profit or loss (default)	22 290 725	23 357 471
Equity instruments	3 350 553	3 171 654
Listed	3 298 421	3 122 423
Unlisted	52 132	49 231
At fair value through profit or loss (designated)		
Debt instruments	18 940 172	20 185 817
Unlisted term deposits and corporate bonds	-	7 270
Listed government bonds ^(1,2)	18 940 172	20 178 547
Total financial assets at fair value	22 290 725	23 357 471
Financial assets at amortised cost	1 648 024	1 712 273
Policy and staff loans receivable ⁽⁴⁾	1 648 024	1 712 273
Total financial investments	23 938 749	25 069 744
Current	5 834 158	7 904 952
Non-current	18 104 591	17 164 792

⁽¹⁾ As at 31 December 2021, Liberty Life Assurance Kenya Limited had a total of KShs 1 369 million (2020: KShs 1 399 million) of government securities held under lien in favour of Insurance Regulatory Authority as prescribed by the Insurance Act section 32 (1(a)).

⁽²⁾ As at 31 December 2021, Heritage Insurance Kenya Company Limited had a total of KShs 643 million (2020: KShs 630 million) of government securities held under lien in favour of Insurance Regulatory Authority as prescribed by the Insurance Act section 32.

⁽³⁾ Mortgage and car loans offered to staff members as a benefit which are collateralised LKH and subsidiaries have the first right to recover mortgage deductions from employment income.

⁽⁴⁾ Policy loans are to existing policyholders. These are advanced to policyholders and secured against the insurance contract value. The balances are collateralised given that the contract is surrendered automatically as soon as the loan value equates to the contract value. The proceeds from surrender value are applied to pay off the loan. Under IFRS 9, loss allowances for loan receivables are measured under the general expected credit loss impairment model.

The risk of default occurring over the expected life of the financial instruments has not increased significantly during the year. For the year ended 31 December 2021, any expected impairment losses would therefore be recognised under the 12 months expected credit loss. The mortgage loans and policy loans are assessed to have a low exposure at default due to the security Liberty holds. The borrower has a high probability of meeting cash flow obligations due to the loans being recovered either directly from staff salaries or being limited to the surrender value of policyholder investments respectively. The expected credit impairment loss was immaterial as at 31 December 2021 and 31 December 2020.

⁽⁵⁾ The carrying value of debt instruments which are designated as fair value through profit or loss, that would otherwise be measured at amortised cost, represents the maximum exposure to credit risk.

9.2 Movement analysis of financial investments measured at fair value through profit or loss and measured at amortised cost

KShs'000	Group		
	Fair value through profit or loss	Financial assets measured at amortised cost	Total
2021			
Balance at the beginning of the year	23 357 471	1 712 273	25 069 744
Net additions or advances/(disposals) or (repayments) of financial investments	(3 242 409)	(228 128)	(3 470 537)
Accrued interest on amortised cost instruments	-	163 879	163 879
Fair value adjustments	2 166 695	-	2 166 695
Foreign currency translation	8 968	-	8 968
Balance at the end of the year	22 290 725	1 648 024	23 938 749

KShs'000	Group		
	Fair value through profit or loss	Financial assets measured at amortised cost	Total
2020			
Balance at the beginning of the year	23 843 193	1 791 734	25 634 927
Net additions or advances/disposals or repayments of financial investments	(1 979 265)	(239 538)	(2 218 803)
Accrued interest on amortised cost instruments	-	160 077	160 077
Fair value adjustments	1 477 614	-	1 477 614
Foreign currency translation	15 929	-	15 929
Balance at the end of the year	23 357 471	1 712 273	25 069 744

10. Prepayments, insurance and other receivables

KShs'000	Group		Company	
	2021	2020	2021	2020
Insurance contracts	718 980	861 033	-	-
Outstanding premium receivables -Long term insurance ⁽³⁾	76 906	141 366	-	-
Reinsurance recoveries and deposits	183 769	169 558	-	-
Outstanding premium receivables -Short term insurance ⁽³⁾	458 305	550 109	-	-
Prepayments and other receivables at amortised cost⁽¹⁾	573 222	483 115	-	16 733
Accrued income ⁽²⁾	33 180	90 905	-	-
Prepayments ⁽²⁾	426 904	290 181	-	-
Other debtors ⁽²⁾	107 303	102 029	-	-
Due from group companies	5 835	-	-	16 733
Total prepayments, insurance and other receivables	1 292 202	1 344 148	-	16 733

⁽¹⁾ Balances are net of expected credit loss allowances.

⁽²⁾ These balances are either not subject to expected credit losses or the expected credit loss was assessed and is immaterial.

⁽³⁾ The amount is net of estimated credit loss allowances.

All above balances are current i.e. inflows of economic benefits are expected to occur within one year.

Insurance contracts represents assets that are under IFRS 4. Reinsurance assets represents assets whose insurance contracts are still running and hence within the scope of IFRS 4.

10.1 Movement in impairment losses on outstanding premium receivables -short term insurance

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

KShs'000	2021	2020
Balance at the beginning of the year	(430 239)	(477 902)
Decrease/(Increase) in loss allowance recognised in profit or loss during the period	14 498	(5 889)
Bad debts written off	162 817	53 552
Closing expected credit loss allowance	(252 924)	(430 239)

Due to the amounts being relatively immaterial compared with others, the impairment loss adjustment has not been disclosed on the face of the statement of comprehensive income.

10. Prepayments, insurance and other receivables (continued)

Ageing of outstanding premium receivables -short term insurance

KShs'000	2021	2020
Current	458 305	550 109
1 – 30 days past due	80 304	21 212
31 – 60 days past due	72 998	54 883
61 – 90 days past due	43 514	98 618
More than 90 days past due	56 108	255 526
Impairment allowance	(252 924)	(430 239)
	458 305	550 109

10.2 Movement in impairment losses on outstanding premium receivables -long term insurance

KShs'000	2021	2020
Balance at the beginning of the year	(23 694)	(9 796)
Increase in loss allowance recognised in profit or loss during the period	(50 398)	(13 898)
Closing expected credit loss allowance	(74 092)	(23 694)

Due to the amounts being relatively immaterial compared with others, the impairment loss adjustment has not been disclosed on the face of the statement of comprehensive income.

Ageing of outstanding premium receivables -long term insurance

Carrying amount KShs'000	2021	2020
Current	76 906	141 366
1-30 days past due	19 490	4 168
31- 60 days past due	22 272	5 686
61-90 days past due	13 920	5 082
More than 90 days past due	18 410	8 758
Impairment allowance	(74 092)	(23 694)
	76 906	141 366

Write off policy for outstanding premium receivables

Balances due from policyholders are written off when there is no reasonable expectation of recovery. Conditions for write-off are that:

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

If the ECL rate was to change by 1% increase/decrease the impact on impairments allowance would be Kshs 56 million (2020: Kshs 67 million)

11. Cash and cash equivalents

KShs'000	Group		Company	
	2021	2020	2021	2020
Cash and cash equivalents at amortised cost	7 855 904	5 735 467	10 151	10 319
Cash at bank and on hand	612 015	430 895	10 151	10 319
Short-term cash deposits	7 243 889	5 304 572	-	-
Total cash and cash equivalents	7 855 904	5 735 467	10 151	10 319

Impairments on cash and cash equivalents held at amortised cost are measured on a 12-month expected credit loss basis and reflect the short-term maturities of the exposures. The group and company considers that its cash and cash equivalents has a low probability of default, 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.

12. Long-term policyholder and reinsurance assets and liabilities

KShs'000	Group		
	Policyholder insurance contract liabilities	Reinsurance assets	Investment contracts with DPF ⁽¹⁾
2021			
Balance at the beginning of the year	6 728 593	(2 904)	3 928 866
Inflows	3 497 826	(342 502)	590 137
Premiums	2 455 732	(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 loss/ (income) from insurance operations	343 036	(187 446)	(46 634)

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

KShs'000	Group		
	Policyholder insurance contract liabilities	Reinsurance assets	Investment contracts with DPF ⁽¹⁾
Assumptions and modelling changes	122 749	-	-
Discretionary and compulsory margins and other variances	106 146	(187 446)	(46 634)
New business	114 141	-	-
Balance at the end of the year	6 791 125	(166 831)	3 065 074
Movement for the year through income statement	(62 532)	163 927	863 792
Current	146 005	(166 831)	(50 375)
Non-current	6 645 120	-	3 115 449

⁽¹⁾ The group 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 group, and applied in line with the Principles and Practices of Financial Management (PPFM).

Given the discretionary nature of these investment 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 group and the intention is to hold the instruments to full contract term.

KShs'000	Group		
	Policyholder Insurance contracts 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)	415 367
Premiums	2 403 223	(200 528)	303 506
Investment returns	545 366	-	111 861
Unwinding of discount rate	342 041	-	-
Investments	203 325	-	111 861
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	(358 951)	115 709	9 072
Assumptions and modelling changes	73 184	-	-
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)	3 928 866
Movement for the year through income statement	367 281	(27 385)	960 792
Movement for the year through other comprehensive income	36 929		
Current	144 661	(2 904)	(63 492)
Non-current	6 583 933	-	3 992 358

⁽¹⁾ The group 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 group, and applied in line with the Principles and Practices of Financial Management (PPFM).

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

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 group 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 four 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.

Investment return and discount rate

For pure risk, life annuity, disability in payment and guaranteed endowments business, best estimate discount rates are set at risk free rates consistent with the duration and nature of the cash flows.

For other business, best estimate future investment returns are set for the main asset classes as follows:

- Bonds – the derived bond from the gilt yield curve, at a duration of 10 years, at the balance sheet date, 12.49% (2020: 11.69%);
- Equities – bond rate plus 3.5 percentage points as an adjustment for risk 15.98% (2020: 15.19%);
- Property – bond rate plus 1 percentage point as an adjustment for risk 13.48% (2020: 12.69%); and
- Cash – 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 and these are split into the main product pillars and are further 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 10-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 6.50% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate inflation assumption of 9.50% at 31 December 2021 (2020: 8.69%).

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

Taxation

Assumptions as to the amount and timing of future income tax payments are based upon the applicable tax law and rates effective as at the reporting date and as set out in the Income Tax Act. Allowance is also made for dividends withholding tax at the rate applicable at the reporting date. Deferred taxation liabilities, in particular a provision for future CGT in respect of unrealised capital gains/(losses), have been taken into account using the full face value.

Correlations

No correlations between assumptions are allowed for.

Contribution increases

In the valuation of the policyholder and reinsurance contracts, voluntary premium increases that give rise to expected profits within broad product groups are not allowed for. However, compulsory increases and increases that give rise to expected losses within broad product groups are allowed for.

Embedded investment derivative assumptions

The assumptions used to value embedded derivatives in respect of policyholder contracts are set in accordance with South African actuarial guidance Advisory Practice Note (APN 110). Account is taken of the yield curve at the valuation date. Both implied market volatility and historical volatility are taken into account when setting volatility assumptions. Correlations between asset classes are set based on historical data. Over 2 000 simulations are performed in calculating the liability.

Using the simulated investment returns, the implied volatilities and prices of the following instruments are:

Implied volatilities

The model is a hybrid of the Kenyan and SA markets. The bond data is from the SA market and the volatility is adjusted based on the Kenyan equity volatility compared to the SA equity volatility.

			Implied volatilities %		Price %	
Maturity	Strike	Underlying index	2021	2020	2021	2020
Vanilla put options						
1 year at-the-money	Spot	FTSE/JSE top 40	19,40	18,04	5,25	4,72
1 year	80% of spot	FTSE/JSE top 40	20,97	20,18	0,82	0,70
1 year at-the-money	Forward	FTSE/JSE top 40	19,40	18,04	7,43	6,97
5 year at-the-money	Spot	FTSE/JSE top 40	24,78	22,99	6,19	5,38
5 year	1,04 ⁵ of spot	FTSE/JSE top 40	26,09	24,01	12,58	11,43
5 year at-the-money	Forward	FTSE/JSE top 40	24,78	24,01	18,03	18,18
20 year at-the-money	Spot	FTSE/JSE top 40	28,43	26,55	0,84	0,54
20 year	1,04 ²⁰ of spot	FTSE/JSE top 40	29,57	26,54	4,62	3,23
20 year at-the-money	Forward	FTSE/JSE top 40	28,40	26,55	22,10	24,38
Other put options						
5 year	1,04 ⁵ of spot	60% FTSE/JSE top 40 index, 40% ALBI with annual rebalancing			0,90	1,05
20 year	Present 5-year forward rate as at maturity	Pays out if the 5-year interest rate at the time of maturity (in 20 years' time) is lower than the strike			0,03	0,02

The TOP 40 index referred to above is a capital index whereas the ALBI is a total return index. "Spot" refers to the value of the index at market close at the relevant date. "At-the-money (spot)" means that the strike price of the option is equal to the current market value of the underlying. "At-the-money (forward)" means that the strike price of the option is equal to the market's expectation of the capital index at the maturity date of the option.

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

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 123 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 reserve ⁽¹⁾	121 089	113 363
Balance of modelling and other changes	4 311	81 326
Total increase in net of reinsurance policyholder liabilities	122 749	73 184

⁽¹⁾ This was the reserving required for the anticipated impact of Covid-19 pandemic.

13. Financial liabilities under investment contracts

KShs'000	2021	2020
Balance at the beginning of the year	8 900 253	7 713 693
Fund inflows from investment contracts	2 422 800	2 363 032
Net fair value adjustment	854 885	520 967
Fund outflows from 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
Current	122 822	103 923
Non-current	10 396 003	8 796 330
Net income from investment contracts (prior to deferred acquisition cost)	(32 147)	(203 073)
Service fee income	392 437	147 467
Expenses:		
Shareholder taxation on transfer of net income	28 166	62 842
Acquisition costs	(137 467)	(135 509)
General marketing and administration expenses	(315 283)	(277 873)

14. Deferred taxation

KShs'000	Group	
	2021	2020
Deferred tax assets		
Non-current	187 820	219 764
Deferred tax liabilities		
Non-current	(1 050 886)	(1 117 704)
Total deferred taxation	(863 066)	(897 940)

14.1 Deferred tax movement analysis

KShs'000	Asset/ (liability) at the beginning of the year	Foreign currency translation	(Provision) /release for the year	Asset/ (liability) at the end of the year
2021				
Normal taxation	(897 940)	1 364	33 510	(863 066)
Policyholder liabilities difference between tax and accounting basis	(1 116 597)	-	35 212	(1 081 385)
Property and equipment	19 920	(29)	2 652	22 543
Fair value gains	(25 909)	-	4 224	(21 685)
Prepayments, provisions and other temporary differences	224 646	1 393	(8 578)	217 461
Total	(897 940)	1 364	33 510	(863 066)
2020				
Normal taxation	(812 312)	2 938	(88 566)	(897 940)
Policyholder liabilities difference between tax and accounting basis	(1 041 984)	-	(74 613)	(1 116 597)
Property and equipment	24 068	144	(4 292)	19 920
Fair value gains	(25 895)	-	(14)	(25 909)
Prepayments, provisions and other temporary differences	231 499	2 794	(9 647)	224 646
Total	(812 312)	2 938	(88 566)	(897 940)

15. Short-term insurance liabilities and reinsurance assets

15.1 Short-term insurance liabilities comprise

KShs'000	2021			2020		
	Gross of reinsurance	Reinsurance	Net of reinsurance	Gross of reinsurance	Reinsurance	Net of reinsurance
Outstanding reported claims	3 464 179	(1 296 071)	2 168 108	3 527 639	(1 483 997)	2 043 642
Claims incurred but not reported	813 695	(498 182)	315 513	649 061	(447 840)	201 221
Unearned premiums	3 337 585	(1 432 048)	1 905 537	2 934 931	(1 230 263)	1 704 668
Total short-term insurance liabilities	7 615 459	(3 226 301)	4 389 158	7 111 631	(3 162 100)	3 949 531
Current	7 615 459	(3 226 301)	4 389 158	7 111 631	(3 162 100)	3 949 531
Non-current	-	-	-	-	-	-

15.2 Movement analysis

Outstanding reported claims

Balance at the beginning of the year	3 527 639	(1 483 997)	2 043 642	2 965 871	(1 142 370)	1 823 501
Cash-settled claims	(4 062 526)	1 864 772	(2 197 754)	(3 183 751)	1 366 064	(1 817 687)
Claims provided for	3 979 589	(1 654 181)	2 325 408	3 696 308	(1 669 607)	2 026 701
Foreign currency translation	19 477	(22 665)	(3 188)	49 211	(38 084)	11 127
Balance at the end of the year	3 464 179	(1 296 071)	2 168 108	3 527 639	(1 483 997)	2 043 642

Claims incurred but not reported

Balance at the beginning of the year	649 061	(447 840)	201 221	632 170	(277 602)	354 568
Net movement in IBNR	161 619	(48 458)	113 161	5 713	(161 828)	(156 115)
Foreign currency translation	3 015	(1 884)	1 131	11 178	(8 410)	2 768
Balance at the end of the year	813 695	(498 182)	315 513	649 061	(447 840)	201 221

Unearned premiums

Balance at the beginning of the year	2 934 931	(1 230 263)	1 704 668	2 995 655	(1 289 142)	1 706 513
Premiums received	9 089 120	(4 524 921)	4 602 786	8 337 536	(4 179 169)	4 158 367
Recognised to revenue	(8 712 483)	4 340 304	(4 410 766)	(8 469 729)	4 290 067	(4 179 662)
Foreign currency translation	26 017	(17 168)	8 849	71 469	(52 019)	19 450
Balance at the end of the year	3 337 585	(1 432 048)	1 905 537	2 934 931	(1 230 263)	1 704 668

15. Short-term insurance liabilities and reinsurance assets (continued)

15.3 Claims development

The latest valuation of IBNR was carried out by statutory actuary as at 31 December 2021.

	2015	2016	2017	2018	2019	2020	2021	Total
Accident year	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Estimate of ultimate claims cost								
at end of accident year	1 523 134	1 491 202	3 358 370	1 990 679	2 888 116	2 343 179	3 361 445	16 956 125
one year later	526 628	229 393	2 894 975	1 119 622	1 909 950	1 389 459	-	8 070 027
two years later	196 924	30 175	1 208 213	1 031 250	722 398	-	-	3 188 960
three years later	23 809	65 184	1 165 793	522 617	-	-	-	1 777 403
four years later	23 854	11 358	1 087 891	-	-	-	-	1 123 103
five years later	18 988	9 573	-	-	-	-	-	28 561
six years later	(4 138)	-	-	-	-	-	-	(4 138)
Current estimate of cumulative claims less cumulative payments to date	2 309 199	1 836 885	9 715 242	4 664 168	5 520 464	3 732 638	3 361 445	31 140 041
	(1 877 266)	(1 687 832)	(9 495 796)	(4 314 964)	(5 147 722)	(3 247 221)	(1 905 061)	(27 675 862)
Liabilities in the statement of financial position	431 933	149 053	219 446	349 204	372 742	485 417	1 456 384	3 464 179
Incurred but not reported								813 694
Total gross claims liability included in the statement of financial position	431 933	149 053	219 446	349 204	372 742	485 417	1 456 384	4 277 873

16. Lease liabilities

16.1 Lease liabilities movement analysis

Reconciliation of movement in financing activities disclosed in the statement of cash flows

KShs'000	Group	
	2021	2020
Balance at beginning of the year	99 501	109 792
Finance costs ⁽¹⁾	10 788	12 296
Additions	13 005	8 854
Repayments ⁽¹⁾	(44 094)	(42 919)
Modifications	-	9 290
Terminations	(1 095)	-
Foreign currency translation	758	2 188
Balance at the end of the year	78 863	99 501
Current	30 109	37 988
Non-current	48 754	61 513

⁽¹⁾ Repayment of lease liabilities

16. Lease liabilities (continued)

16.2 Maturity analysis – contractual undiscounted cash flows

As lessee

KShs'000	Group	
	2021	2020
Up to 1 year	54 420	47 050
Between 1 and 5 years	53 807	63 504
Over 5 years	6 385	16 025
Total undiscounted lease liabilities at the end of the year	114 612	126 579

The group leases properties which are typically used as branch offices for the sales force or as administration offices. The leases of office space typically runs for a period of one to ten years. Some leases include an option to renew the lease for an additional period after the end of the initial contract term. If it is reasonably certain that the lessee will renew, this is included in the lease liability on day one.

Some leases provide for additional rent payments that are based on changes in local price indices.

Liberty does not have any leases which have not yet commenced to which it has committed.

The borrowing rate applied to lease liabilities was 14% (2020:14%). The rate was determined at initial adoption in 2019 based on the Central Bank of Kenya borrowing rate which was 9% and loaded a margin of 5%. Thus the weighted average incremental borrowing rate would equate to a similar rate.

17. Employee benefits

17.1 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	50 905	42 303	119 276	83 991	170 181	126 294
Additional provision raised	32 425	44 084	100 877	111 911	133 302	155 995
Utilised during the year	(38 934)	(35 630)	(119 277)	(111 217)	(158 211)	(146 847)
Prior year underprovision	-	-	-	34 591	-	34 591
Foreign currency translation	29	148	-	-	29	148
Balance at the end of the year	44 425	50 905	100 876	119 276	145 301	170 181

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 group and 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 group remuneration 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.

17. Employee benefits (continued)

17.2 Details of funds

The group operates the following retirement schemes for the benefit of its employees.

Defined contribution schemes:

Heritage All Insurance Kenya Staff Retirement Benefits Scheme and the CFC Life Assurance Staff Pension Scheme

Liberty Kenya Holdings Plc and its subsidiaries operate a funded defined contribution pension scheme in terms of section 1 of the Income Tax Act, 1962. The Liberty Defined Contribution Pension Fund offers a benefit to Liberty employees based on the accumulated contributions and investment returns at retirement.

17.3 Transactions between group companies and the funds

17.3.1 The contributions which the group companies have made on behalf of the employees during the year are as follows:

KShs'000	2021	2020
Retirement		
Defined contribution funds	118 962	103 297

17.3.2 The following retirement benefit funds have insurance policies with Liberty Kenya Holdings Plc and its subsidiaries, held as investment policies in the funds. A summary of the transactions follows:

	Fund value	
KShs'000	2021	2020
Heritage All Insurance Kenya Staff Retirement Benefits Scheme and the CFC Life Assurance Staff Pension Scheme – Policy with Liberty life Kenya		
Balance at the beginning of the year	1 401 043	1 123 831
Premiums	192 502	202 562
Fair value adjustments	88 501	200 834
Withdrawals	(239 159)	(126 184)
Balance at the end of the year	1 442 887	1 401 043

17.3.3 The various funds detailed above have contracted Liberty to manage the funds.

KShs'000	2021	2020
The total of fees paid is as follows:		
Administration and consulting fees	25 312	22 493

18. Insurance and other payables

KShs'000	Group		Company	
	2021	2020	2021	2020
Long-term insurance contracts	681 097	343 748	-	-
Outstanding claims and surrenders	339 998	183 835	-	-
Premiums received in advance	341 099	159 913	-	-
Short-term insurance contracts	1 210 790	941 276	-	-
Arising from direct insurance	592 276	479 128	-	-
Arising from reinsurance	618 514	462 148	-	-
Other payables at amortised cost	504 164	1 254 291	14 853	21 871
Sundry payables	464 758	1 223 802	14 853	21 871
Due to group companies	39 406	30 489	-	-
Total insurance and other payables	2 396 051	2 539 315	14 853	21 871
Current	2 396 051	2 539 315	14 853	21 871
Non-current	-	-	-	-

19. Summary of the group's financial, property, insurance and reinsurance assets and long-term policyholder and reinsurance liabilities per class

19.1 Assets

KShs'000	Group					
	Kenya Shilling denominated		Foreign currency denominated		Total	
	2021	2020	2021	2020	2021	2020
Equity instruments	3 298 421	3 122 423	52 132	49 231	3 350 553	3 171 654
Listed equities on the NSE	3 298 421	3 122 423	-	-	3 298 421	3 122 423
Unlisted equities	-	-	52 132	49 231	52 132	49 231
Debt instruments	18 940 172	19 942 945	-	242 872	18 940 172	20 185 817
Unlisted term deposits	-	-	-	7 270	-	7 270
Listed government bonds	18 940 172	19 942 945	-	235 602	18 940 172	20 178 547
Financial assets at amortised cost	1 648 024	1 712 273	-	-	1 648 024	1 712 273
Reinsurance assets	2 055 412	2 394 033	1 337 720	770 971	3 393 132	3 165 004
Prepayments, insurance and other receivables	1 078 427	1 083 492	213 775	260 656	1 292 202	1 344 148
Cash and cash equivalents	6 312 122	4 349 933	1 543 782	1 385 534	7 855 904	5 735 467
Properties	1 841 263	1 851 678	-	-	1 841 263	1 851 678
Total financial, property, insurance and reinsurance assets	35 173 841	34 456 777	3 147 409	2 709 264	38 321 250	37 166 041
Other assets not measured at fair value on a recurring basis			-			
Intangible assets	1 401 215	1 400 986	14 142	18 941	1 415 357	1 419 927
Equipment	171 779	168 704	11 644	14 659	183 423	183 363
Right-of-use assets	54 999	67 699	7 965	19 229	62 964	86 928
Deferred taxation	125 310	182 812	62 510	36 952	187 820	219 764
Deferred acquisition costs	135 713	19 970	11 835	97 419	147 548	117 389
Current taxation	114 563	56 473	43 383	51 344	157 946	107 817
Total assets as per statement of financial position	37 177 420	36 353 421	3 298 888	2 947 808	40 476 308	39 301 229

KShs'000	Company					
	Kenya Shilling denominated		Foreign currency denominated		Total	
	2021	2020	2021	2020	2021	2020
Interest in subsidiaries	2 571 541	2 571 541	-	-	2 571 541	2 571 541
Prepayments, insurance and other receivables	-	16 733	-	-	-	16 733
Cash and cash equivalents	10 151	10 319	-	-	10 151	10 319
Total assets as per statement of financial position	2 581 692	2 598 593	-	-	2 581 692	2 598 593

19. Summary of the group's financial, property, insurance and reinsurance assets and long-term policyholder and reinsurance liabilities per class (continued)

19.2 Liabilities

KShs'000	Long-term policyholder liabilities			
	Insurance contracts	Investment contracts	Investment contracts with DPF	Total
2021				
Investment-linked (excluding discretionary participation features(DPF))	-	10 020 541	-	10 020 541
Business with DPF	5 419 092	-	3 065 074	8 484 166
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	3 065 074	20 375 024
2020				
Investment-linked (excluding discretionary participation features(DPF))	-	8 900 253	-	8 900 253
Business with DPF	-	-	3 928 866	3 928 866
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	3 928 866	19 557 712

20. Fair value hierarchy

20.1 Introduction

The fair value of other receivables, cash and cash equivalents and other payables, that under the IFRS 9 business model approach are held at amortised cost are not included in the hierarchy table as their settlement terms are short-term. These financial instruments are not subject to material market sensitivities.

20.2 Asset hierarchy

The table below analyses the fair value measurement of applicable assets by level.

2021 KShs'000	Level 1	Level 2	Level 3	Total
Equity instruments	3 298 421	-	52 132	3 350 553
Listed equities on the NSE	3 298 421	-	-	3 298 421
Unlisted equities	-	-	52 132	52 132
Debt instruments	-	18 940 172	-	18 940 172
Listed term deposits on exchange	-	18 940 172	-	18 940 172
Unlisted term deposits	-	-	-	-
Investment properties held for sale	-	-	625 263	625 263
Owner-occupied property	-	-	1 216 000	1 216 000
Total assets subject to fair value hierarchy analysis	3 298 421	18 940 172	1 893 395	24 131 988
Other assets not measured at fair value on a recurring basis				
Intangible assets				1 415 357
Equipment				183 423
Right-of-use-assets				62 964
Deferred taxation				187 820
Deferred acquisition costs				147 548
Reinsurance assets				3 393 132
Policy and staff loans receivable				1 648 024
Prepayments and other receivables held at amortised cost				1 292 202
Cash and cash equivalents held at amortised cost				7 855 904
Current taxation				157 946
Total assets as per statement of financial position				40 476 308

20. Fair value hierarchy (continued)

20.2 Asset hierarchy (continued)

The table below analyses the fair value measurement of applicable assets by level.

2020 KShs'000	Level 1	Level 2	Level 3	Total
Equity instruments	3 122 423	-	49 231	3 171 654
Listed equities on the NSE	3 122 423	-	-	3 122 423
Unlisted equities	-	-	49 231	49 231
Debt instruments	-	20 185 817	-	20 185 817
Listed term deposits on exchange	-	20 178 547	-	20 178 547
Unlisted term deposits	-	7 270	-	7 270
Investment properties	-	-	199 600	199 600
Investment properties held for sale	-	-	633 250	633 250
Owner-occupied property	-	-	1 018 828	1 018 828
Total assets subject to fair value hierarchy analysis	3 122 423	20 185 817	1 900 909	25 209 149
Other assets not measured at fair value on a recurring basis				
Intangible assets				1 419 927
Equipment				183 363
Right-of-use-assets				86 928
Deferred taxation				219 764
Deferred acquisition costs				117 389
Reinsurance assets				3 165 004
Policy and staff loans receivable				1 712 273
Prepayments and other receivables held at amortised cost				1 344 148
Cash and cash equivalents held at amortised cost				5 735 467
Current taxation				107 817
Total assets as per statement of financial position				39 301 229

20.3 Liability hierarchy

The table below analyses the fair value measurements of financial instrument liabilities by level.

KShs'000	Level 1	Level 2	Level 3	Total
2021				
Policyholder long-term investment contract liabilities	-	10 518 825	-	10 518 825
Liabilities subject to fair value hierarchy analysis		10 518 825	-	10 518 825
2020				
Policyholder long-term investment contract liabilities	-	8 900 253	-	8 900 253
Liabilities subject to fair value hierarchy analysis		8 900 253	-	8 900 253

20. Fair value hierarchy (continued)

20.4 Fair value disclosure of financial assets and liabilities that are measured at amortised cost

The fair value of financial assets and liabilities which are measured at amortised cost is categorised into the following fair value hierarchies.

KShs'000	Amortised cost	Fair value	Level 1	Level 2	Level 3
2021					
Financial assets measured at amortised cost					
Policy and staff loans receivable – net carrying value	1 648 024	1 468 678	-	-	1 468 678
Cash and cash equivalents – net carrying value	7 855 904	7 855 904	-	-	7 855 904
2020					
Financial assets measured at amortised cost					
Policy and staff loans receivable – net carrying value	1 712 273	1 491 824	-	-	1 491 824
Cash and cash equivalents – net carrying value	5 735 467	5 735 467	-	-	5 735 467

The fair value of prepayments and other receivables, and other payables that are all held at amortised cost approximate their carrying value and are not included in the above hierarchy table as their settlement terms are short-term and therefore from a materiality perspective fair values are not required to be modelled.

20.5 Reconciliation of level 3 assets and liabilities

The table below analyses the movement of level 3 assets for the year.

KShs'000	2021	2020
Balance at the beginning of the year, excluding prepayments and other receivables	1 900 909	1 985 358
Fair value adjustment recognised in profit or loss as part of investment gains ⁽¹⁾	(7 987)	(48 903)
Fair value adjustment recognised in other comprehensive income ⁽¹⁾	-	(36 871)
Foreign currency translation	2 901	2 916
Additions	-	668
Disposals	-	-
Depreciation	(2 428)	(2 259)
Balance at the end of the year, excluding prepayments and other receivables	1 893 395	1 900 909
Properties	1 841 263	1 851 678
Financial instruments – equity	52 132	49 231

⁽¹⁾ Included in the fair value adjustments is a KShs 5 million unrealised loss (2019: KShs Nil million).

No movement analysis is provided for other payables that are included as level 3 liabilities in the fair value hierarchy. These amounts are typically short-term trade creditors and arise in the ordinary course of business. It is impracticable to separate additions and disposals. There are no long-term level 3 designated liabilities.

Notes to the group and company annual financial statements

(continued)

for the year ended 31 December 2021

20. Fair value hierarchy (continued)

20.6 Sensitivity analysis of level 3 assets

20.6.1 Investment and owner-occupied property

Investment and owner-occupied properties fair values were obtained from independent valuers who derived the market values using Income Approach method.

The exit capitalisation rate applied at 31 December 2021 was 8,5% (2020: 8,5%). This compares to the ten-year government yield of 9,17% (2020: 9,42%). The non-observable adjustments included in the valuation can therefore be referenced to the variance to the ten-year government rate. Discount rates in 2021 were between 12,25% to 15,25%.

KShs'000	Change in exit capitalisation rate		
	Total	1% increase	1% decrease
2021			
Properties with 8,5% capitalisation rate	1 216 000	1 088 180	1 378 362
Total	1 216 000	1 088 180	1 378 362
2020			
Properties with 8,5% capitalisation rate	1 216 000	1 088 180	1 378 362
Total	1 216 000	1 088 180	1 378 362

The table below indicates the sensitivity of the aggregate market values for a 1% change in the discount rate.

KShs'000	Change in discount rate		
	Total	1% increase	1% decrease
2021			
Total properties	1 216 000	1 088 180	1 378 362
2020			
Total properties	1 216 000	1 088 180	1 378 362

20.6.2 Financial instrument assets

	2021	2020
	KShs'000	KShs'000
Equities		
Unlisted equities	52 132	49 231
Debt		
Policy and staff loans receivables (measured at amortised cost)	1 670 627	1 712 273

Approximately 52% (2020: 57%) of these assets are allocated to policyholder investment-linked portfolios and therefore changes in estimates would be offset by equal changes in liability values.

20. Fair value hierarchy (continued)

20.7 Accounting classifications of financial instruments under IFRS 9 including other measurement basis

The table below reflects the classification of the group's financial assets and financial liabilities split into the IFRS 9 measurement categories. The financial assets categories have been determined based on the contractual cash flow characteristics and business model of the entity. Other measurement basis refers to equity accounting under IAS 28, or balances under IFRS 4.

2021 KShs'000	Fair value through profit or loss		Fair value through OCI	Total fair value	Amortised cost	Other measure- ment basis	Total per statement of financial position
	Designated	Default					
Financial assets							
Financial investments	18 940 172	3 350 553	-	22 290 725	-	-	22 290 725
Policy and staff loans receivables	-	-	-	-	1 648 024	-	1 648 024
Insurance and other receivables	-	-	-	-	146 317	540 080	686 397
Cash and cash equivalents	-	-	-	-	5 735 467	-	5 735 467
Total financial assets	18 940 172	3 350 553	-	22 290 725	7 529 808	540 080	30 360 613
Financial liabilities							
Financial liabilities under investment contracts	10 518 825	-	-	10 518 825	-	-	10 518 825
Insurance and other payables	-	-	-	-	504 163	1 891 887	2 396 050
Total financial liabilities	10 518 825	-	-	10 518 825	504 163	1 891 887	12 914 875

2020 KShs'000	Fair value through profit or loss		Fair value through other comprehen- sive income	Total fair value	Amortised cost	Other measure- ment basis	Total per statement of financial position
	Designated	Default					
Financial assets							
Financial investments	20 185 817	3 171 654	-	23 357 471	-	-	23 357 471
Policy and staff loans receivables	-	-	-	-	1 712 273	-	1 712 273
Insurance and other receivables	-	-	-	-	192 934	861 033	1 053 967
Cash and cash equivalents	-	-	-	-	5 735 467	-	5 735 467
Total financial assets	20 185 817	3 171 654	-	23 357 471	7 640 674	861 033	31 859 178
Financial liabilities							
Financial liabilities under investment contracts	8 900 253	-	-	8 900 253	-	-	8 900 253
Insurance and other payables	-	-	-	-	1 254 291	1 285 024	2 539 315
Total financial liabilities	8 900 253	-	-	8 900 253	1 254 291	1 285 024	11 439 568

20. Fair value hierarchy (continued)

20.8 Group's valuation process

The group's appointed asset managers have qualified valuers that perform the valuations of financial assets and appointed independent valuers to determine fair values of properties required for financial reporting purposes, including level 3 fair values. These valuations are reviewed and approved every reporting period by the investment committees of the respective subsidiaries.

The fair values of level 3 instruments are determined using valuation techniques that incorporate certain assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include the assumed risk adjusted discount rate applied to estimate future cash flows and the liquidity and credit spreads applied to debt instruments. Changes in these assumptions could affect the reported fair value of the financial instruments.

20.9 Valuation techniques used in determining the fair value of assets and liabilities classified within level 2

INSTRUMENT	VALUATION BASIS/TECHNIQUES	MAIN ASSUMPTIONS
Unlisted term deposits, illiquid listed term deposits and senior secured term facility	DCF	Bond and interbank swap interest rate curves Issuer credit ratings Liquidity spreads
Investment policies	Quoted put/surrender price provided by the issuer, adjusting for any applicable notice periods (DCF)	Price – not applicable Bond interest rate curves
Policyholder investment contracts liabilities – unit-linked policies	Current unit price of underlying unitised financial asset that is linked to the liability, multiplied by the number of units held	Not applicable
– fixed term annuities	DCF	Bond and interbank swap interest rate curves Own credit/liquidity
Commercial paper	DCF	Discount curve Credit spread
Cash equivalents - short term deposits	Market to market Yield curves	Bonds and interbank swap interest curve
Cash on hand	Face value	Not applicable

20. Fair value hierarchy (continued)

20.10 Valuation techniques used in determining the fair value of assets and liabilities classified within level 3

INSTRUMENT	VALUATION BASIS/ TECHNIQUES	MAIN ASSUMPTIONS
Investment and owner-occupied properties	Income approach.	Exit capitalisation and discount rates Price per square metre Long-term net operating income margin Vacancies Market rental trends (Market rental growth ranges: 4,0% to 5,5%) Economic outlook Location
	Sale price (if held for sale)	Not applicable
Unlisted equities and debt, including associates and joint ventures – measured at fair value	DCF/earnings multiple	Cost of capital Bond and interbank swap interest rate curves Consumer price index Gross domestic product If a property investment entity, then assumptions applied are as above under investment and owner- occupied property
	Net asset value	Not applicable
	Recent arm's length transactions	Not applicable
Unlisted term deposits and illiquid listed term deposits	DCF	Bond and interbank swap interest rate curves Issuer credit ratings Liquidity spreads
Investment policies	Probabilistic valuation methodology DCF	Face value Premium burden Life expectancy Bond and interbank swap interest rate curves
Policy and staff loans receivable	DCF	Prime interest rate Term
Prepayments and other receivables	DCF Age Analysis	Applicable risk-free rate Applicable credit margin Expected cash flows
Other payables	DCF Age Analysis	Applicable credit margin including Liberty's own credit risk

The significant unobservable inputs used in the fair value measurement of the entity's securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

21. Share capital and share premium

Authorised share capital

535 707 499 ordinary shares with a par value of KShs 1 per share

KShs'000	Group		Company	
	2021	2020	2021	2020
<i>Issued share capital</i>				
535 707 499 ordinary shares with a par value of KShs 1 per share	535 707	535 707	535 707	535 707
Share premium	1 490 480	1 490 480	1 490 480	1 490 480
Total issued share capital and share premium	2 026 187	2 026 187	2 026 187	2 026 187

The closing price for a Liberty Kenya Holdings Plc ordinary share on 31 December 2021: KShs 7,00 (2020: KShs 7,70).

22. Revenue

KShs'000	Group	
	2021	2020
Insurance premiums	11 411 462	11 176 458
Long-term	2 698 979	2 706 729
Short-term	8 712 483	8 469 729
Reinsurance premiums	(4 682 805)	(4 490 596)
Long-term	(342 501)	(200 528)
Short-term	(4 340 304)	(4 290 068)
Net insurance premiums	6 728 657	6 685 862
Fund inflows from long-term investment contracts	2 422 800	2 363 032
Net premium income from insurance contracts and inflows from investment contracts	9 161 186	9 048 894
Long-term insurance	4 779 278	4 869 234
Retail- individual life	2 284 766	2 556 075
Institutional- group life and pensions	2 494 512	2 313 159
Short-term insurance	4 381 908	4 179 660
Medical risk	955 783	927 446
Motor, property and other	3 426 125	3 252 214
<i>Comprising:</i>		
Recurring premium income and inflows from investment contracts	8 079 068	8 871 426
Retail- individual life	2 156 261	2 253 103
Institutional- group life and pensions	1 540 898	2 438 663
Medical risk	955 783	927 446
Motor, property and other	3 426 125	3 252 214
Single premium income and inflows from investment contracts	1 082 118	177 468
Retail	121 433	60 126
Institutional	960 686	117 342
Net premium income from insurance contracts and inflows from investment contracts	9 161 186	9 048 894

23. Revenue from contracts with customers and fee income from placement of reinsurance

23.1 Summary

KShs'000	Group	
	2021	2020
Revenue from contracts with customers (note 23.2)	392 437	150 622
Fee income on placement of reinsurance (note 23.3)	943 152	959 380
Total	1 335 589	1 110 002

23.2 Revenue from contracts with customers

KShs'000	Group	
	2021	2020
Service fee revenue from long-term policyholder investment contracts		
Service fee income from investment contracts	392 437	147 467
Fee revenue		
Other revenue	-	3 155
Total revenue from contracts with customers	392 437	150 622

23.3 Fee income on placement of reinsurance

KShs'000	Group	
	2021	2020
Short-term re-insurance arrangements		
Service fee income from reinsured business	842 641	855 942
Long-term re-insurance arrangements		
Service fee income from reinsured business	100 511	103 438
Total fee income from placement of reinsurance	943 152	959 380

Fee income earned on long-term and short-term insurance businesses represents mainly fees earned on reinsurance agency arrangements. These fees are recognised consistently over the contract fulfillment period.

Service fee income on policyholder investment contracts comprises of both administration and asset management services and is recognised over time as services are rendered, with reference to the contract terms (agreed fee and service). These fees are generally recognised on a daily basis as these services are rendered consistently over the contract period and include utilisation of skilled professionals' time and applicable support services, including IT systems.

Other fee income is recognised over time when earned.

24. Investment income and interest income on financial assets using the effective interest rate method

24.1 Investment income

KShs'000	Group	
	2021	2020
Non-financial assets at fair value through profit or loss		
Investment properties – rental income	2 092	116 195
Sundry income	44 557	15 008
Total investment income	46 649	131 203

KShs'000	Company	
	2021	2020
Dividends from subsidiaries	200 000	185 000
The Heritage Insurance Company Kenya Limited	200 000	185 000

24.2 Interest income on financial assets using the effective interest rate method

KShs'000	Group		Company	
	2021	2020	2021	2020
At amortised cost				
Policy and staff loans receivable – interest income	163 879	160 077	-	-
Interest income on cash and cash equivalents	479 874	346 845	-	-
Total interest income on financial assets using the effective interest rate method	643 753	506 922	-	-

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

KShs'000	2021	2020	2021	2020
Investment properties	(7 987)	(53 879)	-	-
Investment properties	-	(27 129)		
Held-for-sale	(7 987)	(26 750)		
Financial assets at fair value through profit or loss (default)	2 166 695	1 477 614	-	-
Financial instruments at fair value through profit or loss	2 166 695	1 477 614	-	-
Total fair value adjustments to assets held at fair value through profit or loss⁽¹⁾	2 158 708	1 423 735	-	-

⁽¹⁾ Included in the fair value adjustments for 2021 was KShs 97 million (2020: KShs 143 million) related to dividends received, and KShs 1 878 million (2020: KShs 2 003 million) related to interest income.

26. Claims and policyholder benefits

KShs'000	2021	2020
Insurance claims and policyholder benefits	8 201 331	6 792 094
Long-term	4 060 123	3 090 073
Short-term	4 141 208	3 702 021
Fund outflows under long-term investment contracts	1 266 676	1 549 972
Total claims and policyholder benefits	9 468 007	8 342 066
Insurance claims recovered from reinsurers	(1 968 149)	(1 840 201)
Long-term	(265 510)	(8 766)
Short-term	(1 702 639)	(1 831 435)
Net claims and policyholder benefits	7 499 858	6 501 865
Comprising:		
Long-term insurance – retail	2 380 827	2 268 758
Death and disability claims	70 136	35 716
Policy maturity claims	932 636	952 887
Policy surrender claims	1 378 055	1 280 155
Long-term insurance – institutional	2 680 462	2 362 521
Death and disability claims	808 923	447 171
Scheme terminations and member withdrawals	1 819 328	1 890 749
Annuity payments	52 211	24 601
Short-term insurance	2 438 569	1 870 586
Medical risk	670 573	554 784
Motor, property and other	1 767 996	1 315 802
Total claims and policyholder benefits	7 499 858	6 501 865

27. Acquisition costs

KShs'000	2021	2020
Long-term insurance	596 000	611 188
Insurance contracts	458 533	475 654
Investment contracts	137 467	135 534
Short-term insurance	1 090 566	1 058 423
Total acquisition costs	1 686 566	1 669 611
Incurred during the year	1 715 997	1 657 330
Deferred acquisition costs	(907 593)	(116 248)
Amortisation of deferred acquisition costs	878 162	128 529

28. General marketing and administration expenses

KShs'000	Group		Company	
	2021	2020	2021	2020
Employee costs	1 504 488	1 553 430	53 958	19 635
Office costs	1 110 461	1 067 374	136 252	168 128
Training and development costs	9 224	59 907	-	-
Other	157 404	242 108	-	17 472
Total general marketing and administration expenses	2 781 577	2 922 819	190 210	205 235
Amortisation of intangible assets (refer note 3)	70 573	74 040	-	-
Loss on derecognition of intangible asset	8 877	-	-	-
Asset management fees	50 272	96 192	-	-
Audit fees – current year	23 977	21 981	3 260	2 831
Consulting fees and outsource arrangements	327 663	315 424	11 004	8 585
Depreciation of equipment (refer note 5)	53 426	54 832	-	-
Depreciation of right-of-use assets (refer note 6)	29 759	34 099	-	-
Directors fees	59 312	60 923	21 338	16 636
Other property charges	10 715	110 040	-	-
Other related Kenya taxes	73 875	99 750	-	-
Regulatory levies	73 875	99 750	-	-
Employee costs	1 504 488	1 553 430	53 958	35 818
Salaries and wages	1 175 017	1 114 637	53 958	35 818
Medical aid contributions	77 207	79 527	-	-
Staff and management incentive schemes	133 302	190 615	-	-
Other retirement contributions	118 962	103 297	-	-
Other	-	65 354	-	-
Number of staff				
Permanent salaried staff and commission-remunerated agents (tied distribution)	737	767	2	2
In Kenya	680	710	2	2
In Tanzania	57	57	-	-

29. Finance costs

KShs'000	Group	
	2021	2020
Interest on lease liabilities at amortised cost	10 788	12 296
Total finance costs	10 788	12 296

30. Details of non-wholly-owned subsidiaries that have significant non-controlling interests

30.1 Non-controlling interests in subsidiaries

Name of subsidiary	Principal place of business	Percentage of ownership interest held by non-controlling interest %		Profit/(loss) allocated to non-controlling interest KShs'000		Accumulated non-controlling interests KShs'000	
		2021	2020	2021	2020	2021	2020
Heritage Insurance Company Tanzania Limited	Tanzania	40	40	1 670	16 611	312 824	300 067

The entity has a 31 December year-end.

30.2 Summarised financial information – non-controlling interests' share

KShs'000	Heritage Insurance Company Tanzania Limited	
	2021	2020
Statement of financial position		
Non-current assets	242 215	127 053
Current assets	3 132 646	2 771 522
Current liabilities	(2 541 180)	(2 148 407)
Comprehensive income		
Total revenue ⁽¹⁾	2 697 361	2 623 339
Total comprehensive income	12 757	35 443

⁽¹⁾ Total revenue includes investment gains/(losses), rental income and interest income.

30.3 Significant restrictions

Heritage Insurance Company Tanzania Limited is a short-term insurance licensed entity that is regulated by the Tanzanian Insurance Regulatory Authority and therefore subject to statutory capital requirements set by the regulator. These require that the entity holds a prescribed minimum capital and dividend distributions are only available from excess net assets over the required minimum capital.

31. Taxation

31.1 Sources of taxation

KShs'000	2021	2020
Kenyan normal taxation	226 613	335 415
Current year taxation	235 931	253 801
Current year deferred taxation	(9 318)	81 614
Foreign normal taxation	3 106	32 550
Current year taxation	27 298	25 598
Current deferred taxation	(24 192)	6 952
Total taxation	229 719	367 965
Charged through profit or loss	229 719	367 951
Charged through other comprehensive income	-	14

31.2 Taxation rate reconciliation

KShs'000	2021	2020
Profit before taxation per statement of comprehensive income	311 545	1 043 897
Taxation per statement of comprehensive income	229 719	367 951
%		
Effective rate of taxation	73.7	35.2
<i>Adjustments due to:</i>		
Income exempt from normal taxation ⁽¹⁾	0.1	0.3
<i>Non-tax deductible expenses:</i>		
Provisions and non deductible expenses	(44.2)	(9.5)
The effect of foreign tax rates	-	-
Overprovision of taxes in respect of prior years	0.4	-
Change in Kenya company income tax rate	-	(0.7)
Combined rate of Kenya/Tanzanian taxation	30.0	25.3

⁽¹⁾ Relates mainly to dividends received.

All significant transactions that are accounted for in other comprehensive income (OCI) for both 2021 and 2020 attracted tax at the standard tax rates with the exception of the foreign currency translation reserve which does not attract taxation as it emerges on consolidation of foreign subsidiaries.

For year 2020, the Kenya government decreased the income tax rate from 30% to 25% as part of Covid 19 impact relief measures.

32. Cash (utilised in)/generated from operations

Reconciliation of total earnings to cash utilised by operations

KShs'000	Notes	Group		Company	
		2021	2020	2021	2020
Total earnings		81 827	675 946	9 790	(20 235)
Adjustments for:					
Interest income on financial assets using the effective interest rate method	24	(523 693)	(506 922)	-	-
Finance costs	29	10 788	12 296	-	-
Taxation	34	229 719	367 951	-	-
Net fund inflows after service fees on policyholder investment contracts	12	763 687	665 593	-	-
Deferred acquisition costs on new business	8	(907 593)	(116 248)	-	-
		(345 265)	1 098 616	9 790	(20 235)
Adjustments for non-cash items:					
Policyholder asset and liability transfers	12	(110 302)	(742 792)	-	-
Net movement on short-term insurance liabilities net of reinsurance	15	432 835	31 604	-	-
Amortisation of deferred acquisition costs	8	878 162	128 529	-	-
Amortisation of intangible assets	3	70 573	74 040	-	-
Depreciation of equipment	5	53 426	54 832	-	-
Depreciation of right-of-use assets	6	29 759	34 099	-	-
Depreciation of owner-occupied properties	4	2 428	2 259	-	-
Loss on termination/cancellation of right-of-use assets		6 824	11 422	-	-
Loss on derecognition of intangible assets		8 877		-	-
Fair value adjustments to assets held at fair value through profit and loss	9	(2 158 708)	(1 423 735)	-	-
		(1 131 391)	(731 126)	9 790	(20 235)
Working capital changes:		(183 412)	84 801	(9 958)	17 695
Prepayments, insurance and other receivables	10	(68 114)	74 113	16 733	(16 733)
Insurance and other payables and employee benefits	18	(115 298)	10 688	(26 691)	34 428
Cash (utilised in)/generated from operations		(1 314 803)	(646 325)	(168)	(2 540)

33. Taxation paid

KShs'000	Group		Company	
	2021	2020	2021	2020
Taxation (receivable)/payable at the beginning of the year	107 817	(34 216)	-	-
Taxation payable at the beginning of the year	-	(65 098)	-	-
Taxation receivable at the beginning of the year	107 817	30 882	-	-
Taxation attributable	(263 229)	(279 399)	-	-
Taxation receivable at the end of the year	(157 946)	(107 817)	-	-
Taxation payable at the end of the year	-	-	-	-
Taxation receivable at the end of the year	(157 946)	(107 817)	-	-
Taxation paid	(313 358)	(421 432)	-	-

34. Related party disclosures

The group is controlled by Liberty Holdings Limited incorporated in the South Africa. The ultimate parent of Liberty Holdings Limited is Standard Bank Group Limited, which is incorporated in South Africa. There are other companies which are related to Liberty Kenya Holdings Plc through common shareholdings or common directorships.

Liberty Kenya Holdings Plc and its subsidiaries is referred to as 'Liberty' or the 'group'; Liberty Kenya Holdings Plc is referred to as the 'company'; Stanbic Bank Kenya Limited is referred to as 'Stanbic'.

Key management personnel

Key management personnel have been defined as follows:

- Liberty Kenya Holdings Plc directors and directors of subsidiary companies.

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.

Post-employment benefit plans

Refer to note 17.

A. Stanbic Bank Kenya Limited

A.1 Financial instrument investments

Stanbic term deposits and corporate bonds	Group		Company	
	Fair value		Fair value	
	2021	2020	2021	2020
KShs'000				
Summary of holdings and movements				
Holdings at the beginning of the year	512 508	315 151	-	-
Term deposits	512 508	229 748	-	-
Corporate bonds	-	85 403	-	-
Purchases	2 384 261	1 564 898	-	-
Term deposits	2 384 261	1 564 898	-	-
Corporate bonds	-	-	-	-
Sales	(2 517 021)	(1 367 541)	-	-
Term deposits	(2 517 021)	(1 282 138)	-	-
Corporate bonds	-	(85 403)	-	-
Fair value adjustments	-	-	-	-
Term deposits	-	-	-	-
Corporate bonds	-	-	-	-
Holdings at the end of the year	379 748	512 508	-	-
Term deposits	379 748	512 508	-	-
Corporate bonds	-	-	-	-

34. Related party disclosures (continued)

A. Stanbic Bank Kenya Limited (continued)

A.2 Financial instrument investments

Stanbic equity investments KShs'000	Group		Company	
	Fair value		Fair value	
	2021	2020	2021	2020
Summary of term deposits holdings and movements				
Holdings at the beginning of the year	30 876	213 552	-	-
Stanbic Bank Kenya Limited	30 876	38 330	-	-
STANLIB Fahari I-Reit	-	175 222	-	-
Sale of Fahari I-Reit mandate	-	(175 222)	-	-
Purchases	8 551	-	-	-
Stanbic Bank Kenya Limited	8 551	-	-	-
Sales	-	-	-	-
Stanbic Bank Kenya Limited	-	-	-	-
Fair value adjustments	4 857	(7 454)	-	-
Stanbic Bank Kenya Limited	4 857	(7 454)	-	-
Holdings at the end of the year	44 284	30 876	-	-
Stanbic Bank Kenya Limited	44 284	30 876	-	-

A.3 Banking arrangements

Liberty Kenya Holdings Plc makes use of banking facilities provided by Stanbic Bank.

Summary of cash balances, interest earned and bank charges

KShs'000	Group					
	Cash balances		Interest earned		Bank charges	
	2021	2020	2021	2020	2021	2020
Holdings at the beginning of the year	92 807	203 976	-	174 379	-	-
Liberty Kenya Holdings Plc	10 319	12 859	-	-	-	-
Liberty Kenya Holdings subsidiaries	82 488	191 117	-	174 379	-	-
Net movements during the year	59 532	(111 169)	16 767	181 744	5 448	22 231
Liberty Kenya Holdings Plc	(168)	(2 540)	-	-	57	57
Liberty Kenya Holdings subsidiaries	59 700	(108 629)	16 767	181 744	5 391	22 174
Holdings at the end of the year	152 339	92 807	-	356 123	-	-
Liberty Kenya Holdings Plc	10 151	10 319	-	-	-	-
Liberty Kenya Holdings subsidiaries	142 188	82 488	-	356 123	-	-
Total	152 339	92 807	-	356 123	5 448	22 231

34. Related party disclosures (continued)

A. Stanbic Bank Kenya Limited (continued)

A.4 Bancassurance

Liberty has bancassurance business agreements with Stanbic Bank for the manufacture, sale and promotion of insurance, investment and health products through the Stanbic Bank's Kenya distribution capability. New business premium income in respect of this business in 2021 amounted to KShs 1 216 million (2020: KShs 1 640 million). In terms of the agreements, Liberty's group subsidiaries pay profit shares to various Stanbic operations. The amounts to be paid are in most cases dependent on source and type of business and are paid along geographical lines. The total combined net profit share amounts accrued as payable to Stanbic Bank Kenya for the year to 31 December 2021 is KShs 181 million (2020: KShs 273 million).

The bancassurance business agreements are evergreen agreements with a 24-month notice period for termination – as at the date of the approval of these financial statements, neither party had given notice.

A.5 Health risk product

The Heritage Insurance Company Kenya Limited runs a health risk product aimed at employer groups within Kenya. During the year, Stanbic Bank Kenya Limited contracted to use this product as a benefit for their employees. 2021 premium income was KShs 421 million (2020: KShs 399 million).

A.6 General short term insurance

Stanbic Bank Kenya Limited contracted to insure with Liberty various short term insurance risks. 2021 premium income was KShs 783 million (2020: KShs 724 million).

A.7 Commission paid to Stanbic

Liberty pays commission to Stanbic Insurance Agency Limited for insurance policies sold through the bank's distribution channels. The commission paid for the year to 31 December 2021 is KShs 157 million (2020: KShs 149 million).

A.8 Operating lease income

Stanbic Bank Kenya Limited leases a portion of a property from Liberty in Nairobi, total lease receipts for 2021 KShs 0,6 million (2020: KShs 0,6 million).

A.9 Group Life and disability

LKH insures various employee risks of Stanbic Bank Kenya. Premiums received and claims paid are KShs 427 million (2020: KShs 116 million) and KShs 417 million (2020: KShs 171 million) respectively, for the year ended 31 December 2021.

A.10 Custodial services

Custodial fees of KShs 39 million (2020: KShs 32 million) were paid to Stanbic Bank Kenya Limited for services rendered.

B. Liberty Holdings Limited and group subsidiaries

B.1 Operating lease income

STANLIB Kenya Limited leases a portion of a property from Liberty in Nairobi, total lease receipts for 2021 was nil (2020: KShs 9 million).

B.2 Management services - Liberty Holdings Limited

Liberty contracts certain management and administration services from Liberty Holdings Limited. Fees paid for these services were KShs 186 million (2020: KSh 196 million).

34. Related party disclosures (continued)

B. Liberty Holdings Limited and group subsidiaries (continued)

B.3 Outstanding balances with related parties

Amounts included in Other Receivable / (Other Payables) regarding related parties

KShs'000	Group		Company	
	2021	2020	2021	2020
Receivable from:				
Stanbic Bank Kenya Limited	-	16 733	-	16 733
Liberty General Insurance Uganda Limited	5 835	2 592	-	1
Liberty General Insurance Company Limited (Malawi)	-	2 205	-	-
	5 835	21 530	-	16 734
Payable to:				
Liberty Holdings Limited (South Africa)	(38 013)	(29 165)	(23 894)	-
Stanbic Bank Kenya Limited	(491)	(1 306)	-	-
Stanlib Kenya Limited	(902)	-	(902)	-
	(39 406)	(30 471)	(24 796)	-

There were no provisions carried with respect to balances from related parties and no loss allowance was recognised in expense in year 2021 (2020: nil).

Outstanding balances are unsecured and are repayable in cash.

C. Key management personnel of Liberty, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

C.1 Liberty and subsidiary directors' aggregate compensation paid by the group or on behalf of the group for services rendered to Liberty and its subsidiaries:

KShs'000	Group		Company	
	2021	2020	2021	2020
Fixed remuneration	121 282	107 356	39 167	35 818
Cash portion of package	104 868	89 957	35 405	29 264
Other benefits	9 468	10 783	3 762	6 554
Retirement contributions	6 946	6 616	-	-
Variable remuneration awards ⁽¹⁾	18 887	23 806	-	-
Non-executive directors' fees	59 312	60 087	21 118	16 637
Total	199 481	191 249	60 285	52 455

⁽¹⁾ In order to align incentive payments with the performance period to which they relate, the above variable remuneration relates to the year under review irrespective of when payment is made.

34. Related party disclosures (continued)

C. Key management personnel of Liberty, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management (continued)

C.2 Entities significantly influenced or controlled by key management

- i. Aggregate details of insurance, annuity and investment transactions between Liberty and any subsidiary with key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Insurance products	Aggregate insured cover		Premiums received	
	2021	2020	2021	2020
KShs'000				
Life	1 369 592	3 142 071	7 930	8 245
Morbidity	-	-	-	-
Investment products	Fund value			
	2021		2020	
KShs'000				
Balance at the beginning of the year	5 757	4 616		
Appointments and resignations	-	-		
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		

35. Commitments

35.1 Capital commitments

	2021	2020
Equipment and internally generated computer software	108 215	142 320
Under contracts	-	-
Authorised by the directors but not contracted	108 215	142 320

The above 2021 capital commitments will be financed by available bank facilities, existing cash resources and internally generated funds.

Throughout the group there are various low value item leases for computer equipment. The obligations outstanding at 31 December are not material.

36. Contingent liability

As a diverse financial services group operating in two East Africa jurisdictions in ever changing and highly regulated environments, the group has identified certain possible obligations attributable primarily to potential liabilities arising from matters relating to litigation, potential litigation and proceedings relating to customers' claims. The Directors are of the opinion that such litigation will not have a material effect on the financial position or profits of the group and company.

The Heritage Tanzania subsidiary has gross tax disputes with Tanzania Revenue Authority of Kshs 41 million. The proportionate share of this amount to Liberty has been recognised as a contingent liability as it will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. The company has filed an appeal in relation to all the disputed amounts.

Liberty Life Assurance Kenya Limited has a tax dispute case with Kenya Revenue Authority (KRA) over direct commissions paid to its agents, from whom Withholding Tax was deducted. KRA had issued a preliminary assessment of Pay as You Earn of KShs 158 million, opining the agents should have been treated as employees. The company appealed and matter was referred to Tax Appeal Tribunal (TAT).

By a judgement delivered on 30th April 2021, the TAT upheld the Company's appeal thereby setting aside KRA's objection decision of 12th June 2019. KRA has since appealed the TAT and at the date of this report, the appeal case is yet to be determined.

Unclaimed Financial Assets Authority (UFAA) conducted compliance audit of holders of unclaimed financial assets. Preliminary findings on Liberty Life Assurance Kenya Limited was an amount of KShs 136 million. The company challenged the finding and the matter is still pending discussion with the authority to close out on the contentious issues.

In the opinion of the Directors, no material liability is expected to arise from the disputed above items.

Risk management (continued)

for the year ended 31 December 2021

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Risk management

for the year ended 31 December 2021

Enterprise risk management (ERM) at a glance

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

Risk categories	Risk governance	
Strategic and business Section 2	First line of defence Business unit management	<ul style="list-style-type: none"> • Manage day-to-day risk origination and management in accordance with risk policy and strategy • Identify and assess risks and implement management's response • Report and escalate material risks and issues to governance bodies • Track losses and implement remedial actions
Insurance Section 3		
Market Section 4	Second line of defence Heads of compliance, risk and actuarial functions and statutory actuaries	<ul style="list-style-type: none"> • Provide oversight of and challenge to the first line of defence • Propose risk policy and strategy • Champion implementation of risk policy and strategy • Provide assurance to board and regulators
Credit Section 5		
Liquidity Section 6	Third line of defence Independent assurance providers – internal and external audit and other independent service providers	<ul style="list-style-type: none"> • Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy and effectiveness of the risk management framework
Operational Section 7		
Business conduct Section 8		
Compliance and Legal Section 9		

1. Enterprise risk management

1.1 Overview

Liberty has adopted an Enterprise Risk Management (ERM) approach which enables the group 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 solvency 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 and business, insurance, market, credit, liquidity, operational, business conduct and compliance and legal risk. Risks are controlled at the level of individual exposures and at portfolio level.

The group'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 risk 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 follows in sections 2 to 9.

The management of concentration risk is critical across many of the significant risk categories. Information on the key concentration risks follows in section 10.

Section 11 provides information on the sensitivity of IFRS earnings to selected risk events, while section 1.7 (Capital Management) indicates the group'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 all business unit executives are responsible and are held accountable for risk management within all operations. Liberty's risk management system is functioning effectively and the group continues to be managed within risk appetite.

Risk management (continued)

for the year ended 31 December 2021

1. Enterprise risk management (continued)

1.2 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 risk-based 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

Liberty's risk philosophy is to ensure the sustainable growth of its business, by encouraging profitable risk-taking and ensuring that it operates within risk appetite.

Liberty's risk preferences are classified according to:

- risks that the group 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; and
- risks 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).

All other risks are avoided as far as possible.

Business strategy link

Liberty's strategy plan is based on strategic objectives and concentrates on the growth of the core business.

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.

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 group outside risk appetite).

1.3 Risk appetite and risk target

Definition

Risk appetite is defined as the maximum amount of risk that the group is prepared to accept in pursuit of its business objectives. As such, risk appetite defines the group'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 group aims to take within which to optimise returns. The risk target range is set at a level within the group 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.

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 group'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 group.

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 group'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 ratio of the available regulatory capital of the group to the sum of the regulatory capital requirements across all entities within the group. 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 group. 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.

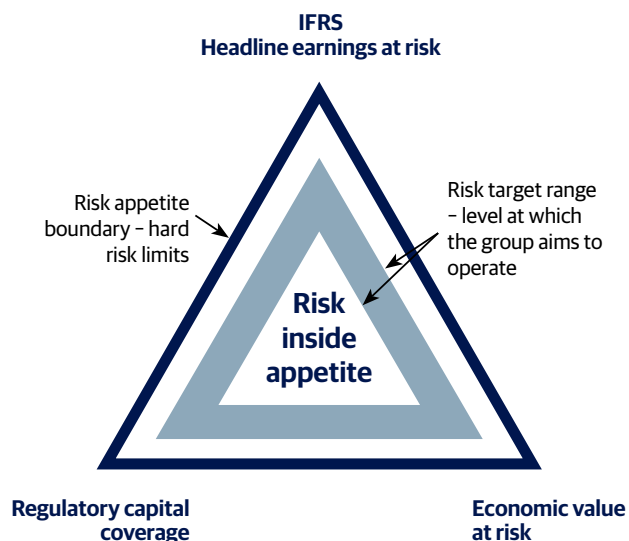
Liberty's risk profile is monitored continuously with full bottom up assessments being performed quarterly and reported to management and to the subsidiary boards. Consideration is given to the risk profile relative to risk limits in determining whether specific management actions are required.

Risk management (continued)

for the year ended 31 December 2021

1. Enterprise risk management (continued)

1.3 Risk appetite and risk target (continued)



1.4 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 or one of its sub-committees. Other policies, procedures and guidelines are approved by the appropriate management structure.

1.5 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 subsidiary 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.

This model is illustrated in the diagram preceding section 1. It essentially gives three independent views of risk and its implementation, ensures that risk management is embedded in the culture of Liberty and provides assurance to the board and senior management that risk management is effective.

Risk management (continued)

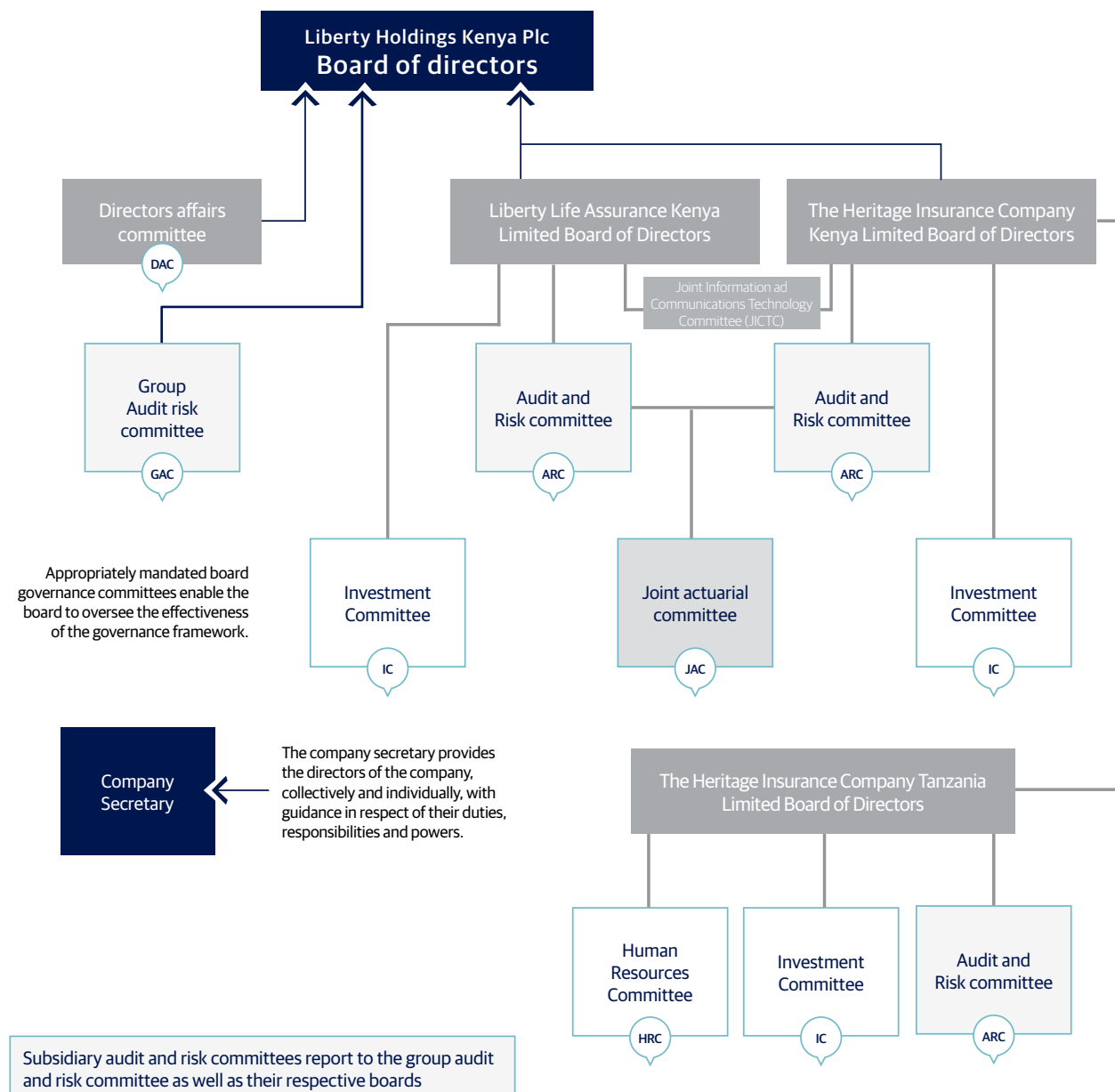
for the year ended 31 December 2021

1. Enterprise risk management (continued)

1.5 Governance of the risk management system (continued)

Governance structures at Liberty

Our board is ultimately accountable for effective governance within Liberty Kenya. Furthermore, the board is responsible for establishing clearly defined roles and responsibilities, thereby ensuring that its responsibilities are delegated to the appropriate individuals, functions or committees.



Risk management (continued)

for the year ended 31 December 2021

1. Enterprise risk management (continued)

1.5 Governance of the risk management system (continued)

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

- The audit and risk committees (ARC) are responsible for providing the respective 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's are also responsible for reviewing compliance with risk policies and for the overall risk profile of Liberty. The committees also have primary responsibility for risks relating to the production of financial statements and for compliance and legal risks.
- The respective boards monitor 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 through Joint Information and Technology Committee (JITC) ensures the integration of technology and information risks into the group's risk management system. The Executive committees are responsible for ensuring appropriate IT process governance and ensuring prioritisation of project delivery.
- The investment committees are delegated authority by the relevant boards to review and approve or make recommendations to the Board on the investment management of the company and policyholder assets and managing investment risk such as market risk, credit risk, asset-liability matching risk and oversighting that management adhere to the approved investment policies and mandates. These committee's are also responsible for providing recommendations to the ARC regarding all risk and control related issues that require escalation to the board.

1.6 Understanding Liberty's risks

1.6.1 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 operating subsidiaries 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 operating subsidiaries approved strategic objectives or on critical processes identified by the group.

Risks identified and assessed within the operating subsidiaries are aggregated at group level to ensure that the group understands where operating subsidiaries are focusing 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.

1.6.2 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 group's sensitivity to these scenarios which:

- alerts management of potential adverse unexpected outcomes related to a variety of risks;
- assesses the group's ability to maintain minimum specified levels of capital based on the board approved risk appetite;
- assesses the group'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 group's risk profile through a forward-looking assessment of the group's risk exposure under stressed conditions;
- validates assumptions in respect of the group'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; and

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.

1.6.3 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 boards 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 specific mitigation methods for specific risks are covered in later sections.

1.6.4 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 operating subsidiary and the group 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 group's risk exposure relative to risk appetite and risk target on each risk measure is reported to the ARC.

If the group is operating outside the risk target range, appropriate actions to return to within the range are considered. If the group 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.

Risk management (continued)

for the year ended 31 December 2021

1. Enterprise risk management (continued)

1.6 Understanding Liberty's risks (continued)

1.6.5 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.

The top risks listed below have not changed materially over the year. All the top risks and their related mitigation actions are overseen by the board and the ARC.

Specific risks	Management actions
Non-compelling customer and adviser value proposition Classification: <ul style="list-style-type: none"> Strategic and business risk Insurance risk 	Management is focusing on: <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.
Erosion of the Liberty brand Classification: <ul style="list-style-type: none"> Strategic and business risk 	
Not identifying the right opportunities and executing on building operations of value for Liberty's chosen markets Classification: <ul style="list-style-type: none"> Strategic and business risk 	
Poor investment performance relative to customer expectations Classification: <ul style="list-style-type: none"> Strategic and business risk Business conduct risk 	<ul style="list-style-type: none"> Liberty 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.
Substantial complexity due to inadequate legacy management and an inadequate control environment for new initiatives Classification: <ul style="list-style-type: none"> Strategic and business risk Operational risk 	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.
Disruption to the insurance business model and inability to adapt in an agile manner Classification: <ul style="list-style-type: none"> Strategic and business risk Operational risk 	Liberty continues to drive initiatives that will ensure it remains future fit and operates effectively in the evolving external operating environment.

Risk management (continued)

for the year ended 31 December 2021

1. Enterprise risk management (continued)

1.6 Understanding Liberty's risks (continued)

1.6.5 Liberty's top risks (continued)

Specific risks	Management actions
<p>Instability in the Kenya socio-political & economic environment aggravated by the advent of the Covid-19 pandemic.</p> <p>Classification:</p> <ul style="list-style-type: none"> Insurance risk Market risk Credit risk Operational risk Strategic and business risk 	<p>Liberty maintains a strong capital position and manages its asset/liability matching position within risk limits. In addition, Liberty performed stress tests during the course of 2021 which included, upper end mortality outcomes, scenarios of negative economic impact in Kenya and distressed financial markets to prepare and ensure capital sustainability for the potential impacts on the business.</p>
<p>Changes in the operating environment as a result of the changing regulatory landscape. Non-compliance of regulation by competitors, resulting in unfair competition.</p> <p>Classification:</p> <ul style="list-style-type: none"> Strategic and business risk Compliance and legal risk 	<p>Liberty continues to develop strategic responses to new and emerging regulation. Liberty has adopted a full compliance policy and encourages regulation in a fair and consistent manner.</p>
<p>Data risk</p> <p>Classification:</p> <ul style="list-style-type: none"> Operational risk Compliance and legal risk 	<p>Liberty has established a robust data and information management capability and continues to enhance governance in this regard.</p>
<p>Inadequate cyber security and resilience</p> <p>Classification:</p> <ul style="list-style-type: none"> Operational risk Compliance and legal risk 	<p>Investment continued to enhance Liberty's cyber security and update plans based on changes to the threat landscape and technology enhancements.</p>
<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 2021 to enhance risk practices and risk culture by embedding risk management in business processes. Ongoing alignment to the broader Liberty Group IT architecture.</p>

Risk management (continued)

for the year ended 31 December 2021

1. Enterprise risk management (continued)

Emerging risks

The following emerging risks have been identified as relevant to Liberty's business and pose both risks and present opportunities:

- **Climate change:** The direct physical impact of climate change as well as the second order impact of transitioning to a low carbon economy presents risks and opportunities to Liberty. Changing stakeholder demands, including ESG-related issues, are considered as part of a group-wide approach to managing climate change risk;
- **De-globalisation:** Geopolitical shifts and the COVID-19 pandemic may result in a shift from globalisation to nationalism and protectionism.

Emerging risks involve a high degree of uncertainty (i.e. timeframe and severity). Liberty is in the process of investigating the potential risks and opportunities associated with these risks to inform the appropriate actions.

1.7 Capital management

1.7.1 Capital management strategy

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

Due to varying requirements of different stakeholders, the group reports and manages capital on several different bases. The capital management process ensures that the group's available capital exceeds the capital required both currently and going forward and to ensure that the group always has unfettered access to its 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 loan funding or sell assets to reduce debt.

Capital and gearing ratio

KSh's'000	2021	2020
Due to group companies (note 7.3)	24 796	44 469
Insurance and other payables (note 18)	14 853	21 871
less:		
Prepayments, insurance and other receivables (note 10)	-	(16 733)
Cash and cash equivalents (note 11)	(10 151)	(10 319)
Net debt	29 498	39 288
Total equity	2 542 043	2 532 253
Gearing ratio	1.16%	1.55%

Group

The subsidiaries are regulated by the Kenyan Insurance Act, 2015, the Tanzanian Insurance Act, 2009, Companies Act, 2015, as well as regulations issued by the Kenya Retirement Benefit Authorities and Insurance Regulatory Authorities.

The objectives when managing capital are to:

- comply with the capital and solvency requirements as set out in the Kenyan Insurance Act, 2015 and Tanzania Insurance Act, 2009;
- safeguard the companies' ability to continue as going concerns, so that they can meet policyholder commitments 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 Kenyan Insurance Act, 2015 requires general insurance companies to hold the minimum level of paid up capital of KShs 600 million by 30 June 2020. The Companies are also required to maintain minimum required solvency ratio of 200% and above by 31 December 2020. Both requirements have been met by The Heritage Insurance Company Kenya Limited.

Long-term insurance businesses in Kenya are required to maintain solvency ratio of 200% and above by 31 December 2020. The insurance Act further requires Life Companies to hold minimum paid up capital of KShs 400 million by 30 June 2020. Both requirements have been met by Liberty Life Assurance Kenya Limited.

The Tanzanian Insurance Act, 2009, requires each insurance company to hold the minimum level of paid up capital of TShs 2,657 million for the year ended 31 December 2021. As at year end, the Heritage Insurance Company (T) Limited had a share capital of 80,000 fully paid up shares totalling to TShs 8 billion. This was well in excess of the minimum requirement. Further, Companies are required to maintain solvency margin where admitted assets exceed admitted liabilities plus 20% of previous year's net written premiums. The company's ratios were within regulatory requirement.

Available capital is the amount by which the value of the assets exceeds the value of liabilities, both measured on a prescribed basis. The group 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 group. The capital buffer is managed to support risk target levels, strategic initiative requirements and the dividend policy of the group. The group's dividend policy takes cognisance of capital requirements at a group level. Similarly, all dividends sourced from regulated entities are only approved where they do not compromise capital adequacy at each legal entity level.

The group's capital position is reported quarterly to the board. The board considers reports from the head of the actuarial function and appointed statutory actuary before dividends are declared by Liberty Kenya Holdings Plc subsidiaries.

Risk management (continued)

for the year ended 31 December 2021

1. Enterprise risk management (continued)

1.7 Capital management (continued)

1.7.2 Available capital (continued)

1.7.2 Available capital

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

Available capital and solvency capital requirements.

The following table summarises the available capital (or "own funds") and the solvency capital requirements ("SCR") for the group's insurance licensed subsidiaries.

	Long Term business	
Liberty Life Assurance Kenya Limited	2021	2020
Available capital (or "own funds") (KShs'000)	2 130 479	2 466 220
Risk-based capital requirement (KShs'000)	1 012 489	1 149 340
Solvency ratio (times)	2.10	2.15
Target SCR coverage ratio (times) ⁽¹⁾	2.5 – 3.5	2.5 – 3.5

⁽¹⁾ The target solvency range is set at a level, which once attained, the company will consider paying dividends.

	Short term business	
Heritage Insurance Company Kenya Limited	2021	2020
Available capital (or "own funds") (KShs'000)	3 544 051	3 367 528
Risk-based capital requirement (KShs'000m)	1 005 282	952 581
Solvency ratio (times)	3.53	3.54
Target SCR coverage ratio (times)	2.5 – 3.5	2.5 – 3.5

	Short term business	
Heritage Insurance Company Tanzania Limited	2021	2020
Available capital (or "own funds") (KShs'000)	1 676 198	1 603 898
Total liabilities and minimum requirement (KShs'000)	1 326 442	1 300 159
Solvency margin	349 746	303 739
Solvency ratio	126%	219%

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 business units' strategic planning processes provide a bottom-up view.

Risks identified and assessed within the operating subsidiaries are aggregated and ranked at group level to ensure that the group understands where operating subsidiaries are focusing their time and attention.

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

3. Insurance risk

3.1 Definition

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 group'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 sections 3.5 to 3.7.

3.2 Ownership and accountability

The management and staff in all the group companies 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 and appointed actuaries, where applicable, and the heads of risk in the subsidiaries provide independent oversight of compliance with the group's risk management policies and procedures and the effectiveness of the group's insurance risk management processes.

Risk management (continued)

for the year ended 31 December 2021

3. Insurance risk (continued)

3.2 Ownership and accountability (continued)

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

- Subsidiary audit and risk committees;
- LKH audit and risk committee;
- Joint actuarial committee supporting the audit and risk committees.

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 respective company boards 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 group and its subsidiaries' balance sheets; and
- approving the reinsurance, underwriting and claims management strategies and overseeing the implementation of those strategies.

The statutory and appointed actuaries, provide oversight of the insurance risks undertaken by the Group in Kenya by:

- 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;
- provide a financial condition report in Kenya which is a regulatory report approved by the Board where they provide their opinion and recommendations on all aspects of risk and risk management in the company; 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.

3.3 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.

3.3.1 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 group is willing to accept risks. Once a policy has been sold, the group is placed on risk for the duration of the contract and the group 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 group's balance sheet. The product development and approval process ensure that:

- risks inherent in new products are identified and quantified;
- 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 group 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.

3.3.2 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 claims and deaths.

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 group'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 section 11.

Risk management (continued)

for the year ended 31 December 2021

3. Insurance risk (continued)

3.4 Reporting

Each relevant subsidiary prepares quarterly reports that include information on insurance risk. The reports are presented to the relevant risk and actuarial committees for review and discussion. Major insurance risks are incorporated into a report by the CRO on the group'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.

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 in the subsidiary companies.

3.5 Policyholder behaviour risk

This is the risk of policyholders' behaviour within the insurance entities deviating from that 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 future charges generally exceeds the deferred and future costs that the group applies to the modelling of policyholder benefits in these events. However, with certain products the general principle does not always apply.

For institutional business, the policyholder behaviour risk is that clients may renew the policies at lower rates than expected or that membership attrition within schemes is faster than expectations and/or that benefit and premium increases are lower than expected resulting in reduced risk premiums and/or charges. This may lead to loss of scale resulting in increased cost ratios reducing the profit margin earned by the Group on those contracts.

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.

In the calculation of solvency capital requirements, allowance is made for the following risks in respect of policyholder behaviour:

- The risk that the actual level of terminations is different from expected;
- The risk of a termination catastrophe to capture a run-on-a-bank type of scenario; and

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. In addition, opportunities to switch to new generation Liberty products are periodically made available to existing policyholders.

3.6 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 undeterminable 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, longevity risks and non-life (short-term insurance) risks.

The group 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 continues to acquire and retain specialist skills and to actively drive specific risk selection initiatives.

3.6.1 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 group 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.

Risk management (continued)

for the year ended 31 December 2021

3. Insurance risk (continued)

3.6 Underwriting risks (continued)

Actual claims experience is monitored on a monthly basis so that deteriorating experience can be timeously identified. 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. Applications with sums assured above the free cover limit (FCL) are required to undergo medical tests for underwriting decisions to be made appropriately. However, the annually reviewable terms on institutional business enable premiums to keep pace with emerging claim experience.

For individual business and if the sum assured exceeds the free cover limit testing is carried out based on the assessment of the risk and the amount the sum assured exceeds the free cover limit.

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 group 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. Given that a large proportion of the group's business is long-term individual risk business, where the proportion of the risk that is reinsured is fixed for life at the inception of the policy, the group's overall reinsurance result is heavily influenced by historic reinsurance arrangements. 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 normally excluded from the catastrophe reinsurance (e.g. epidemics, pandemics, 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.

Although the recent mortality experience in certain pockets is above expectation on the whole, the experience is well within statistical expectations. Liberty continues to monitor and gain insight from its experience to drive appropriate management action in underwriting, claims and pricing and react timeously to ensure appropriate risk selection.

Risk management (continued)

for the year ended 31 December 2021

3. Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.2 Covid-19 impacts

The COVID-19 pandemic impacted the Liberty Kenya Holdings Group by presenting both risks and opportunities to the long term and short term operations of the Group. There was a general reduction in new business volumes in all the insurance entities of the Group due to the economic impacts of the pandemic. Liberty Life Kenya experienced an increase in life and retrenchment claims as a result of heightened mortality and lay-offs due to the economic impacts of the pandemic on the various insured institutions and individuals. The investment markets were also initially adversely impacted particularly the equity markets and remain volatile. The pandemic also resulted in increased policy withdrawals and lapse rates particularly for investment linked products. In order to mitigate the expected short-term impacts of the pandemic on the long-term insurance business, a COVID-19 pandemic reserve was set up during 2020 in line with the Liberty Group scenario of how the COVID-19 pandemic is expected to unfold as informed by extensive research. This reserve is continuously reviewed for adequacy in line with the unfolding experience and as new information becomes available.

The Group's short-term insurance operation domiciled in Kenya (Heritage) experienced an improved claims ratio on its medical book during the COVID-19 pandemic. This is largely attributed to fewer outpatient hospital visits during the pandemic. However, an increase in the hospital visits was noted over time and this book continues to be managed prudently in line with the Group approach. Motor Private policyholders were rewarded through cashbacks as a form of providing relief to policyholders and also to reflect the reduced risks from the restricted movement as a result of government actions to mitigate the pandemic. New business volumes reduced yet renewal rates improved on most classes due to policyholders valuing insurance protection more and choosing to stay with their insurers. The impact and trends of the COVID-19 pandemic on the Group's short-term insurance operation in Tanzania were not that pronounced. The Group did not have any material exposure to business interruption claims as a result of the COVID-19 pandemic in any of its short-term operations largely due to contract wording that excludes cover for pandemics.

3.6.3 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 group 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 group manages the longevity risk by:

- annually monitoring the actual longevity experience and identifying trends over time;
- making allowance for future mortality rates falling in the pricing of new business and the measurement of policyholder liabilities. This allowance will be based on the trends identified in experience investigations and external data; and
- regularly verifying annuitants are still alive.

Claims on disability income business also give rise to annuity payments which are contingent on the claimants being alive and their continued disablement. The claims management of the disability income business is covered under morbidity risk.

3.6.4 Retrenchment risk

The Group 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. This risk is at its highest during difficult economic conditions such as the COVID-19 induced adverse economic impacts that were experienced in 2021 resulting in more people being unemployed than usual. The Group mitigates this risk by adequately pricing for it and designing retrenchment products benefit structures in a way that allows the Group to manage the retrenchment risk appropriately such as limiting the maximum period over which the benefit is payable before the policyholder is re-employed.

Risk management (continued)

for the year ended 31 December 2021

3. Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.5 Non-life (general) insurance

Liberty has two subsidiaries, namely Heritage Kenya and Heritage Tanzania, which conducts general insurance business in the East Africa region, including medical expense cover.

The following classes of short-term insurance business are covered:

Class of business definition

Medical expense	Cover for personal medical expenses.
Fire	Cover against loss or damage to property due to fire, explosion, storm and other occurrences customarily included.
Motor	Cover for losses arising out of the use of motor vehicles, inclusive of third-party risks but exclusive of transit risks.
Liability	Provides indemnity for actual or alleged breaches of professional duty arising out of the insured's activities, indemnifies directors and officers of a company against court compensation and legal defence costs, provides indemnity for the insured against damages consequent to a personal injury or property damage.
Personal accident	Provides financial compensation for the insured person sustaining bodily injury, solely and directly caused by accidental, violent, visible and external means, and which shall within 12 calendar months result in death, disablement or the incurring of medical expenses.
Other	Classes of business not included under those listed above. These include engineering, workmen's compensation, marine and aviation, theft, agriculture, bonds, goods in transit and glass.

The following table summarises the premiums earned and claims loss ratios incurred for the classes of short-term insurance business.

Class of insurance business	2021		2020	
	Gross premiums earned KShs'000	Gross claims loss ratio %	Gross premiums earned KShs'000	Gross claims loss ratio %
Medical expense	2 034 197	65	1 917 289	56
Fire	2 150 362	42	2 054 237	9
Motor	1 938 190	67	1 866 165	58
Personal liability and personal accident	1 286 237	17	1 119 672	28
Other	1 303 497	28	1 512 367	67
Total	8 712 483	47	8 469 730	43

There has been a significant increase in the claims loss ratio in the medical class of business arising from increased hospital visits after reopening of lockdowns in Heritage Kenya. Additionally, both businesses had a sharp rise in claims arising from additional unexpired risk reserves (AURR) that affected fire, motor and accident classes of business. Further, there were significant fire claims in two of our clients in Heritage Tanzania.

Risk management (continued)

for the year ended 31 December 2021

3. Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.5 Non-life (short-term) insurance (continued)

g. Underwriting risks associated with short-term insurance

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claim. For a pool of insurance contracts, the principal risks are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserve set aside for policyholders' liabilities proves to be insufficient.

Pricing risk

Pricing risk is managed by carefully establishing criteria by which each potential customer is allocated to the appropriate risk category, applying the underwriting rules, and by establishing prices appropriate to each risk category. Underwriting performance is measured by monitoring the claims loss ratio which is the ratio of claims to premiums.

Reserving risk

For claims that have been reported by the financial position date, expert assessors estimate the expected cost of final settlement. For expected claims that have not been reported by the financial position date an incurred but not reported (IBNR) provision is calculated using appropriate techniques. Consideration is also given to any stipulated minimum IBNR prescribed by regulations.

Using the experience of a range of specialist claims assessors, provisions are reviewed at least annually to ensure they are sufficient.

Reinsurance risk

Reinsurance is used to manage insurance risk and consequently the Group is exposed to the credit risk of the reinsurers. The Group acknowledges the existence of reinsurance domestication / localisation laws in Kenya and Tanzania 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 and Tanzania there are minimum regulatory compulsory cessions to named local reinsurers. These requirements to an extent restrict the Group to use only the approved reinsurers in these markets to the extent required by the regulations. The Group 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.

Catastrophic risk

Catastrophic risk has the potential to cause significant loss or impact on current year earnings and capital through a single event or a number of correlated events.

Reinsurance and the diversification of types of short-term insurance offered are used to reduce risks from single catastrophic events or accumulations of risk. Various reinsurance arrangements are in place, with retention levels and catastrophe cover levels varying by line of business.

The aggregate risk exposure to medical expenses is managed through claim limits by loss event within the terms of each policy.

3.7 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. For short-term insurance, allowance is made for the expected expense ratio in pricing and assessing the profitability of policyholder contracts. 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 group 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 group'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 group 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 group to sell business on a profitable basis will be impaired. This not only has capital implications but can also affect the group's ability to function as a going concern in the long-term.

Risk management (continued)

for the year ended 31 December 2021

4. Market risk

4.1 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, property values and inflation as well as any changes in the implied volatility assumptions associated with these variables.

4.2 Ownership and accountability

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

The investment committees, which are sub-committees of the boards, are 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 committees 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 group and reports material risks to the respective ARCs.

4.3 Risk identification, assessment and measurement

Identification of market risk is fundamental to the group'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 group 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 group 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 group 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.

4.4 Risk management

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

- The policyholder asset/liability mismatch risk for both long-term and short-term policyholders. This occurs if the group'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 group'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. In extreme cases whereby the asset values become lower than the guaranteed liabilities beyond certain thresholds, then the shareholder may have to fund the excessive asset shortfall until the funding position returns to healthy levels.

4.4.1 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 LKH shareholders, within a clearly defined investment mandate.

The subsidiary boards through the investment committees, approve 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 group's risk appetite.

4.4.2 Asset/liability management portfolio (ALM Portfolio)

The group 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 group risk appetite.

4.5 Alignment of market risk exposure to risk appetite statement

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

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

4.6 Risk reporting

On a quarterly basis, the investment committees review market risk reports and assesses the adequacy and effectiveness of market risk management processes across the group, highlighting material exposures to the respective boards.

Risk management (continued)

for the year ended 31 December 2021

4. Market risk (continued)

4.7 Summary of group assets subject to market risk

The following table summarises the group'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 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 group would be exposed to reputational risk if returns are poor. In addition, the group is exposed to any embedded derivatives (e.g. minimum investment return guarantees) provided on benefits linked to these assets. The embedded derivatives liabilities have been included in "Other policyholder liabilities".
- Other policyholder liabilities – liabilities where shareholders bear the market risk but have largely hedged the risk via suitable matching assets. Annuities, guaranteed investment plans, embedded derivative liabilities and negative shilling reserves (excluding those on portfolios of risk contracts with a policyholder asset at portfolio level) have all been included here.
- Short term insurance liabilities due on general insurance where shareholders bear the market risk.
- 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.

Risk category KShs'000	Attributable to				
	Total assets	Long-term policyholder investment- linked (including DPF) liabilities	Other long-term policyholder liabilities ⁽³⁾	Short-term insurance liabilities	Residual liabilities and shareholders' interests
2021					
Assets subject to market risk only	5 191 816	2 784 261	2 236 421	53 134	118 000
Equity price	3 350 553	1 984 998	1 312 421	53 134	
Property price ⁽¹⁾	1 841 263	799 263	924 000	-	118 000
Assets subject to market and credit risk	33 129 433	10 792 178	4 186 364	6 870 224	11 280 667
Interest rate	29 736 301	10 792 178	4 019 533	3 643 923	11 280 667
Reinsurance assets ⁽²⁾	3 393 132		166 831	3 226 301	
Other assets not included in the asset class table (refer note 19.1)	2 155 058	3 147	368 340	692 101	1 091 470
Total	40 476 308	13 579 587	6 791 125	7 615 459	12 490 136
Percentage (%)	100	34	17	19	31

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

⁽²⁾ Reinsurance assets are current and future modeled 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 policyholder 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.

Risk management (continued)

for the year ended 31 December 2021

4. Market risk (continued)

4.7 Summary of group assets subject to market risk (continued)

Risk category KShs'000	Attributable to				
	Total assets	Long-term policyholder investment- linked (including DPF) liabilities	Other long-term policyholder liabilities ⁽³⁾	Short-term insurance liabilities	Residual liabilities and shareholders' interests
2020					
Assets subject to market risk only	5 023 333	2 539 184	2 303 150	-	180 999
Equity price	3 171 655	2 030 934	1 084 722	-	55 999
Property price ⁽¹⁾	1 851 678	508 250	1 218 428	-	125 000
Assets subject to market and credit risk	30 632 981	10 285 038	4 138 098	5 828 566	10 381 279
Interest rate	27 467 977	10 285 038	4 135 194	2 666 466	10 381 279
Reinsurance assets ⁽²⁾	3 165 004		2 904	3 162 100	-
Other assets not included in the asset class table (refer note 19.1)	3 644 915	4 897	287 345	1 283 065	2 069 608
Total	39 301 229	12 829 119	6 728 593	7 111 631	12 631 886
Percentage (%)	100.0	32.6	17.1	18.1	32.1

⁽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 policyholder 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.

Risk management (continued)

for the year ended 31 December 2021

4. Market risk (continued)

4.8 Market risk by product type

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

4.8.1 Investment-linked (excluding insurance contracts with 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 group's policyholders.

- For IFRS defined investment contracts, the group 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 group 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 Portfolio.
- A significant portion of investment-linked business has embedded derivatives in the form of minimum investment return guarantees or guaranteed minimum death benefits. This risk is managed by the ARC.
- 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.

4.8.2 Non-participating annuities

Non-participating annuities provide fixed and guaranteed payments with a small proportion of the policies having an inflation adjustment. These liabilities are backed entirely by fixed income securities. The key risks Liberty Kenya faces on this book of business are longevity risk (risk annuitant will live longer than expected) and financial risk, in particular interest rate risk. Interest rate risk would occur where the actual interest earned on investments or when reinvesting matured bonds is lower than the guaranteed rates in the annuities. Liberty Kenya manages this risk by ensuring that there is proper matching of the annuity liabilities with appropriate assets.

4.8.3 Long-term insurance contracts with DPFs

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

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 group recognises the full value of the backing assets as a liability. The guaranteed portion of the liability is sensitive to interest rates. The group bears equity risk to the extent that equities are held to back the guaranteed portion of liabilities. The group 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 group'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.

4.8.4 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 ALM Portfolio.

Risk management (continued)

for the year ended 31 December 2021

4. Market risk (continued)

4.9 Market risk by asset or liability class for financial instruments

4.9.1 Interest rate risk

The tables below show financial instrument assets and liabilities directly and primarily exposed to interest rate risk.

Physical cash on hand, 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 group's net exposure to interest rate yield curve risk is provided in the sensitivities analysis in section 11.

Financial instrument assets by term to maturity and type of interest

(Debt instruments, policy loans, cash and cash equivalents)

Amount by maturity date KShs'000	2021			2020		
	Fixed	Floating	Total	Fixed	Floating	Total
Within 1 year	13 748 699	170 800	13 919 499	12 796 259	1 840 900	14 637 159
1 – 5 years	8 732 018	-	8 732 018	3 474 179	-	3 474 179
6 – 10 years	4 193 882	-	4 193 882	5 377 968	-	5 377 968
11 – 20 years	1 469 858	-	1 469 858	2 735 489	-	2 735 489
Over 20 years	-	-	-	-	-	-
Variable	52 051	-	52 051	977 237	-	977 237
Total	28 196 508	170 800	28 367 308	25 361 132	1 840 900	27 202 032

Financial instrument policyholder liabilities by term to maturity

Amount by maturity date KShs'000	2021	2020
Within 1 year	462 974	40 432
1 – 5 years	2 422 621	2 109 754
5 – 10 years	11 087 987	10 678 933
Total	13 973 582	12 829 119

The financial instrument liabilities comprise investment linked policyholder contracts and the majority of the interest rate exposure is consequently to the policyholder.

Risk management (continued)

for the year ended 31 December 2021

4. Market risk (continued)

4.9 Market risk by asset or liability class for financial instruments (continued)

4.9.2 Currency risk

The majority of the group's assets are Kenya shilling denominated.

The following table shows a breakdown of Liberty's foreign assets by currency.

Foreign currency exposure KShs'000

	2021	2020
United States Dollar	162 302	7 382
Tanzanian Shilling	2 982 206	2 664 489
Total financial, property and insurance assets by currency	3 144 508	2 671 871

4.9.3 Property market risk

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

The group's exposure to property holdings at 31 December is as follows:

KShs'000	2021	2020
Investment properties held for sale	625 263	832 850
Owner-occupied properties	1 216 000	1 018 828
Gross direct exposure	1 841 263	1 851 678
Net exposure	1 841 263	1 851 678
<i>Concentration use risk within directly held properties is summarised below:</i>		
Office buildings	1 216 000	1 218 428
Other property	625 263	633 250
Gross direct exposure	1 841 263	1 851 678

Directly held properties have been classified according to their main value in use.

4.10 Diversification benefits

The group'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.

Risk management (continued)

for the year ended 31 December 2021

5. Credit risk

5.1 Definition

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.

5.2 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.

5.3 Management and measurement

The board has delegated credit risk management to the subsidiary investment committees.

Day-to-day management of credit risk is internally managed in Tanzania and in Kenya has been mandated to external asset managers in Kenya. The investment committees are made up of professionals with experience from the banking sector as well as representatives from Liberty Kenya Holdings Plc 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 committees exercise 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 group 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 respective subsidiary boards.

5.4 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.

5.5 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 group 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 respective subsidiary management.

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

Risk management (continued)

for the year ended 31 December 2021

5. Credit risk (continued)

5.6 Credit exposure

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

KShs'000	A- and above	BBB+	BBB	BBB-	BB+	BB	BB- and below	Not rated	Total
2021									
Debt instruments	18 940 172	-	-	-	-	-	-	1 648 024	20 588 196
Listed term deposits	18 940 172							-	18 940 172
Unlisted term deposits					-			-	-
Loans								1 648 024	1 648 024
Reinsurance assets	166 831				3 226 301	-			3 393 132
Insurance and other receivables					-	1 044 198		-	1 044 198
Cash and cash equivalents	4 326 153	-	2 419 953		1 109 798				7 855 904
Total assets bearing credit risk	23 433 156	-	2 419 953	-	4 336 099	1 044 198	-	1 648 024	32 881 430
Local	23 246 786	-	1 034 419	-	3 565 128	866 659	-	1 073 161	29 786 153
Foreign	186 370		1 385 534		770 971	177 539		574 863	3 095 277
2020									
Debt instruments	20 093 087	-	-	-	7 270	-	-	4 969 387	25 069 744
Listed term deposits	20 093 087	-	-	-	-	-	-	3 207 883	23 300 970
Unlisted term deposits	-	-	-	-	7 270	-	-	49 231	56 501
Loans	-	-	-	-	-	-	-	1 712 273	1 712 273
Reinsurance assets	2 904	-	-	-	3 162 100	-	-	-	3 165 004
Insurance and other receivables	-	-	-	-	-	1 042 966	-	11 001	1 053 967
Cash and cash equivalents	1 619 776	574 559	2 521 242		1 019 890	-	-	-	5 735 467
Total assets bearing credit risk	21 715 767	574 559	2 521 242	-	4 189 260	1 042 966	-	4 980 388	35 024 182
Local	21 529 397	574 559	1 135 708	-	3 418 289	750 797	-	4 931 157	32 339 907
Foreign	186 370	-	1 385 534	-	770 971	292 169	-	49 231	2 684 275

5.7 Reinsurance assets

Reinsurance is used to manage insurance risk and consequently the group is exposed to the credit risk of the reinsurers. The group acknowledges the existence of reinsurance domestication / localisation laws in Kenya and Tanzania whereby in Kenya 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 both Kenya and Tanzania there are minimum regulatory compulsory cessions to named local reinsurers as well as the per policy cession requirement in Tanzania. These requirements to an extent restrict the Group to use only the approved reinsurers in these markets to the extent required by the regulations. The Group 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.

5.8 Insurance and other receivables

The group has formalised procedures in place to collect or recover amounts receivable. In the event of default, these procedures include listing with the credit reference bureau and the use of debt collectors. 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.

5.9 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.

Risk management (continued)

for the year ended 31 December 2021

6. Liquidity risk

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

6.2 Ownership and accountability

The group's liquidity risk policy establishes common principles of managing liquidity risk across the group and is approved by the respective boards. The policy, including requirements in respect of risk metrics and contingency planning, is implemented under the oversight of the group liquidity risk function.

6.3 Risk identification, assessment and measurement

The group'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 identification of contingent liquidity requirements necessitates an assessment of relevant liabilities as well as new and existing product designs. Assurance functions at group and in-country are actively involved in reviewing new product designs to ensure a thorough understanding of the liquidity risk implications of each product.

6.6 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 group'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.

	2021		2020	
	%	KShs'000	%	KShs'000
Financial, property and insurance asset liquidity				
Liquid assets (realisable within one month e.g. cash, listed equities, term deposits)	78	29 813 591	78	29 036 437
Medium assets (realisable within six months e.g. unlisted equities, certain unlisted term deposits)	6	2 274 961	5	2 002 793
Illiquid assets (realisable in excess of six months e.g. investment properties)	16	6 232 698	17	6 298 963
	100	38 321 250	100	37 338 193

The Liquidity assessment at 31 December 2021 indicates a healthy surplus of sources of liquidity available to meet stressed outflows across the LKH balance sheet.

6.4 Risk management

The Investment committees manage the group's material liquidity risks in accordance with applicable regulations and the Liquidity Risk Strategy, as approved by the subsidiary boards. The risk is managed within approved risk limits and with oversight from assurance functions both at group and in-country.

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 group 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.

6.5 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.

Risk management (continued)

for the year ended 31 December 2021

6. Liquidity risk (continued)

6.7 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 group's financial instrument liabilities and the expected liability cash flows arising out of long-term insurance and investment contracts. Note 15 of the annual financial statements shows the anticipated settlement profile of short-term insurance liabilities on a best estimate basis.

6.7.1 Maturity profile of financial instrument liabilities

The table below summarises the maturity profile of the financial instrument liabilities of the group 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. Lease liabilities are shown in a separate table in note 16.

KShs'000	Contractual cash flows (excluding policyholder liabilities, derivative liabilities and lease liabilities)					
	0 – 3 months ⁽¹⁾	3 – 12 months	1 – 5 years	5 – 10 years	Variable	Total
2021						
Insurance and other payables	730 783	1 665 268	-	-	-	2 396 051
Total	730 783	1 665 268	-	-	-	2 396 051
Percentage portion (%)	30	70	-	-	-	100
2020						
Insurance and other payables	892 829	1 646 486	-	-	-	2 539 315
Total	892 829	1 646 486	-	-	-	2 539 315
Percentage portion (%)	35	65	-	-	-	100

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

6.7.2 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) and disability income annuities in payment where applicable.

The liabilities in respect of embedded derivatives are assumed to run off in the same proportion as the investment-linked cash flows that give rise to them.

Risk management (continued)

for the year ended 31 December 2021

6. Liquidity risk (continued)

6.7 Liability profile (continued)

Expected cash flows (KShs'000)	Insurance contracts		Reinsurance assets and liabilities	Investment contracts with DPF	Investment contracts
	Policyholder liabilities	Policyholder assets			
2021					
Investment-linked liabilities					
Within 1 year	(148 807)	-	-	(49 532)	122 823
1 – 5 years	461 740	-	-	137 509	2 285 112
5 – 10 years	1 152 614	-	-	1 244 445	4 147 759
10 – 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	-	-	3 065 074	10 518 825
Non-investment-linked liabilities/(assets)					
Within 1 year	294 810			-	-
1 – 5 years	1 948 743		(166 831)	-	-
5 – 10 years	2 857 341			-	-
10 – 20 years	1 986 960			-	-
Over 20 years	793 226			-	-
Effect of discounting cash flows	(4 757 611)			-	-
Total non-investment-linked liabilities/(assets)	3 123 469	-	(166 831)	-	-
Total long-term insurance policyholder liabilities	6 791 125	-	(166 831)	3 065 074	10 518 825
Total surrender value of long-term insurance policyholder liabilities	3 668 244			3 030 191	10 518 825

Risk management (continued)

for the year ended 31 December 2021

6. Liquidity risk (continued)

6.7 Liability profile (continued)

Expected cash flows (KShs'000)	Insurance contracts		Reinsurance assets and liabilities	Investment contracts with DPF	Investment contracts
	Policyholder liabilities	Policyholder assets			
2020					
Investment-linked liabilities					
Within 1 year	(147 437)	-	-	(63 491)	103 923
1 – 5 years	457 488	-	-	176 261	1 933 493
5 – 10 years	1 142 001	-	-	1 595 152	3 509 527
10 – 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)	-	-
5 – 10 years	2 831 031	-	-	-	-
10 – 20 years	1 968 664	-	-	-	-
Over 20 years	785 922	-	-	-	-
Effect of discounting cash flows	(4 713 804)	-	-	-	-
Total non-investment-linked liabilities/(assets)	3 094 709	-	(2 904)	-	-
Total long-term insurance business liabilities/ (assets)	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

6.8 Capital requirements

The group'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 is ultimately a subsidiary of Standard Bank Group Limited, it is also included in the group wide liquidity risk stress testing and planning undertaken by Standard Bank.

Risk management (continued)

for the year ended 31 December 2021

7. Operational risk

7.1 Definition

Liberty 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 group 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.

7.2 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 group'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.

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.

7.3 Insurance cover for operational risk

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

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

7.4 Capital requirements

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

7.5 Reporting

The preparation of quarterly risk reports forms an integral part of monitoring the group'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.

7.6 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 group 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 group's broader risk management system.

Liberty's information security and cyber program was intensified in the latter part of 2018 continuing into 2020, 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.

Risk management (continued)

for the year ended 31 December 2021

7. Operational risk (continued)

7.6 Management of key operational risks (continued)

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 group.

The group 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 group 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

8.1 Definition

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.

8.2 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 customer fairness committee, supported by the executive committees in each operating subsidiary, 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 Industry Body Association to improve the outcomes for all customers and will continue to work with them to achieve this.

8.3 Risk reporting

The preparation of quarterly business conduct risk reports forms an integral part of monitoring the group'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.

8.4 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.

Risk management (continued)

for the year ended 31 December 2021

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 within the operating subsidiaries with oversight from the group 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 group. 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 a combination of specialist group-wide forensics and compliance capabilities and by strengthening the risk culture to pro-actively 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

10.1 Introduction

Concentration risk is the risk that the group is exposed to financial loss which, if incurred, would be significant due to the aggregate (concentration) exposure the group has to a particular asset, counterparty, customer or service provider.

In addition to concentration risks detailed in previous sections, the group has identified the risks detailed below.

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

	2021		2020	
	%	KShs	%	KShs
Self managed	19	5 923 237	25	8 110 456
Sanlam East Africa Limited	26	8 273 937	26	8 563 256
ICEA Lion Asset Managers Limited	56	17 790 718	49	15 983 177
Total financial, property and reinsurance assets	100	31 987 892	100	32 656 889

⁽¹⁾ This includes assets managed by other asset managers utilising Stanlib Linked Investment Services Provider platform.

Risks associated with asset managers are:

- poor fund performance resulting in the reduced ability of the group to retain and sell investment-linked products;
- adoption of poor credit policies exposing the group 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.

These aspects are considered and monitored by the investment committees.

10.2 Kenya

The group was founded in Kenya over 50 years ago and has, during this time, concentrated mainly on providing life and short-term insurance products to Kenyan customers. A subsidiary was established in Tanzania and has been operating for the last 25 years with focus only on short-term insurance products. Consequently, both the group's asset base and liabilities contain significant Kenyan sovereign risk.

Section 4.9.2 and note 18.1 to the annual financial statements summarise the exposures to foreign currency and indicate the shilling concentration risk.

Risk management (continued)

for the year ended 31 December 2021

11. Sensitivity analysis

The group's earnings and available capital are exposed to insurance and market risks amongst others through its insurance and asset 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 group. 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 group follows a dynamic asset/liability matching strategy (within the risk appetite constraints set by the board). The nature of the exposures and associated hedging instruments lead to non-linear sensitivity impacts. Caution is therefore advised in interpreting these sensitivity disclosures in earnings or capital resilience analyses.

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, but extreme sensitivities are considered by the GRC and are used in the calculation of capital requirements.

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 annuity contracts
Morbidity	A level percentage change in the expected future morbidity rates
Withdrawal	A level percentage change in the expected future withdrawal rates
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
Implied option volatilities	A change in the implied short-term equity, property and interest rate option volatility assumptions
Equity price	A change in local and foreign equity prices
Shilling currency	A change in the KSh/Tsh exchange rate to all applicable currencies

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 and implied option volatility sensitivities are applied similarly but the assumptions used in the measurement of policyholder contract values that are dependent on interest rate yield curves and implied option 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 group (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.

Risk management (continued)

for the year ended 31 December 2021

11. Sensitivity analysis (continued)

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	(3 212)
Assured lives	-2	(3 212)	(3 212)	3 212
Annuitant longevity ^{(1), (2)}	+4	705	705	(705)
	-4	(691)	(705)	705
Morbidity	+5			
	-5			
Withdrawals	+8	(25 440)	(25 440)	25 440
	-8	26 760	25 440	(25 440)
Expense per policy	+5	69 425	69 425	(69 425)
	-5	(68 875)	(69 425)	69 425
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)

⁽¹⁾ Annuitant life expectancy increases i.e. annuitant mortality reduces.

⁽²⁾ Annuitant life expectancy reduces i.e. annuitant mortality increases.

Risk management (continued)

for the year ended 31 December 2021

11. Sensitivity analysis (continued)

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 ^{(1), (2)}	+4	689	689	(689)
	-4	(676)	(676)	676
Morbidity	+5	-	-	-
	-5	-	-	-
Withdrawals	+8	(21 385)	(21 385)	21 385
	-8	22 387	22 387	(22 387)
Expense per policy	+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)	79 759
	-12	210 030	210 030	(92 357)
Equity prices	+15	467 348	467 348	93 470
	-15	(467 348)	(467 348)	(93 470)

⁽¹⁾ Annuitant life expectancy increases i.e. annuitant mortality reduces.

⁽²⁾ Annuitant life expectancy reduces i.e. annuitant mortality increases.

Appendix A – Detailed accounting policies

for the year ended 31 December 2021

The accounting policies summarise those policies, and the potential impacts of new IFRS standards or interpretations, which are useful to users of these financial statements. These should be read in conjunction with 'Accounting principles (including accounting policy elections)', 'Key judgements in applying assumptions on application of accounting policies', as well as with reference to the 'Summary of the group's assets and liabilities by measurement basis'. Accounting policies for which no choice is permitted in terms of IFRS have been included only if management concluded that the disclosure would assist users in understanding the financial statements as a whole, taking into account the materiality of the item being discussed. Accounting policies which are not applicable from time to time have been removed but will be included if the type of transaction occurs in the future.

1. New IFRS standards and amendments

1.1 New standards and interpretations effective and adopted during the year ended 31 December 2021

The following new standards and amendments have been issued by the IASB.

The group and company will comply with the new standards and amendments from the effective date.

Standard	Effective date
<i>Interest rate benchmark reform-phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)</i> The amendment clarifies how to classify debt and other liabilities as current or non-current. The objective of the amendment is aimed to promote consistency in applying the requirements by helping entities determine whether, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendment also includes clarifying the classification requirements for debt an entity might settle by converting it into equity.	1 January 2021
<i>IFRS 9 Financial Instruments General hedge accounting (GHA)</i> The revised general hedge accounting requirements are better aligned with an entity's risk management policies, provide additional opportunities to apply hedge accounting and allow various simplifications in achieving hedge accounting. The IASB is currently still researching the accounting model to cover situations where a group manages its risk dynamically (i.e. when the risk position being hedged changes frequently and is hedged by an open portfolio of changing assets and liabilities).	1 January 2021

Above standards did not have a significant impact on the group's and company's financial statements.

1.2 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2021

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 group and company does not plan to early adopt these standards. These are summarised below:

- Those not expected to have a significant impact on the financial statements of Group and Company.

Detailed accounting policies (continued)

for the year ended 31 December 2021

1. New IFRS standards and amendments (continued)

Standard	Effective date
<i>Onerous contracts: Cost of fulfilling a contract (Amendment to IAS 37)</i>	
The changes specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract examples would be direct labor and materials or an allocation of other costs that relate directly to fulfilling contracts.	1 January 2022
<i>Property, plant and equipment: Proceeds before intended use (Amendment to IAS 16)</i>	1 January 2022
The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.	
<i>Annual improvements to IFRS standards 2018-2020</i>	1 January 2022
The annual improvements provide a streamlined process for dealing efficiently with a collection of amendments to IFRSs. The primary objective is to enhance the quality of standards, by amending existing Standards to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. Amendments are made through the annual improvements process when the amendment is considered non-urgent but necessary	
<i>Reference to Conceptual Framework (Amendment to IFRS 3)</i>	1 January 2023
The amendments updated the reference to the Conceptual Framework. They also added to IFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Board added this exception to avoid an unintended consequence of updating the reference. Without the exception, an entity would have recognized some liabilities on the acquisition of a business that it would not recognize in other circumstances. Immediately after the acquisition, the entity would have had to derecognize such liabilities and recognize a gain that did not depict an economic gain.	
<i>Classification of liabilities as current or non-current (Amendment to IAS 1)</i>	1 January 2023
The amendments clarify how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances.	
<i>Sale or contribution of assets between an investor and its associate or company (Amendments to IFRS 10 and IAS 28)</i>	
The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary	Effective date has not been confirmed

Detailed accounting policies (continued)

for the year ended 31 December 2021

b. Those expected to have a significant impact on the financial statements of Group and Company.

Standard	Scope	Potential impact to the Group and Company
IFRS 17 Insurance Contracts Effective for years commencing 1 January 2023 with three transitional approaches permitted, namely: <ul style="list-style-type: none"> • retrospective; • modified retrospective; and • fair value approach. Early adoption is permitted.	<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. 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.</p> <p>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> <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.</p> <p>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.</p> <p>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> <p>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 over time.</p> <p>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. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on the adoption of IFRS 17.</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 IFRS 17 subledger and a data platform to receive, harmonise, enrich and deliver data to the ledger systems in compliance with IFRS reporting requirements.</p> <p>The group continues to develop its key judgments in the interpretation of the standard and items such as coverage units, applicable taxation to best estimate cash flows and transition approaches.</p> <p>The group is required to produce its first financial results under IFRS 17 for periods commencing 1 January 2023, with restated comparative information.</p> <p>Project governance</p> <p>Liberty Holdings Limited 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.</p> <p>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> <p>IFRS 17 implementation progress</p> <p>The group 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. This is mainly a consequence of the requirement to, where applicable, incorporate any changes to estimates of future contractual fulfillment cash flows into the CSM. This then systematically impacts future margin release rather than the current treatment of impacting the profit or loss in the year of change.</p> <p>Management anticipate developing a better understanding of the expected transition balance sheet during 2022. The group has elected to use the PAA approach for contracts that have a coverage period of 12 months or less.</p> <p>The group 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.</p> <p>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).</p> <p>Liberty Kenya Holdings Plc company will not be impacted as it is an investment company and does not issue insurance contracts.</p>

Detailed accounting policies (continued)

for the year ended 31 December 2021

2. Basis of consolidation

The group annual financial statements consolidate the annual financial statements of the company and its subsidiaries.

Type	Measurement
Interests in subsidiaries	<p>Subsidiaries are defined as entities that are controlled by the group. In order for control to exist, the group must have:</p> <ol style="list-style-type: none"> 1. power over the investee; 2. exposure or rights to variable returns from involvement with the investee; and 3. the ability to use power over the investee to affect the amount of the group's returns. The group must possess all three elements to conclude that it controls an investee. Refer to key judgements for assessment of control. <p>Subsidiaries are consolidated from the date on which control is transferred to the group (effective date of acquisition) and are no longer consolidated from the date that control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in profit or loss. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the group. Intergroup transactions, balances and unrealised gains and losses are eliminated on consolidation.</p>
Separate financial statements	<p>Interests in subsidiary companies in the company financial statements comprise shares, which are measured at cost less any required impairment. Acquisition costs are recorded as an expense in the period in which they are incurred, except for the costs to issue debt or equity securities, which are part of the consideration transferred. The carrying amounts of these investments are reviewed annually for impairment. Intergroup balances with subsidiaries, under the IFRS 9 business model assessment for 2018, are measured at amortised cost. These are subject to the expected credit loss impairment model.</p>
Business combinations	<p>The group uses the acquisition method of accounting to account for the acquisition of subsidiaries.</p> <p>The cost of an acquisition is measured as the sum of the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange.</p> <p>The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The cost of an investment in a subsidiary is adjusted to reflect changes in consideration arising from contingent consideration amendments.</p> <p>Transaction costs are recognised within profit or loss as and when they are incurred.</p> <p>Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.</p> <p>The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill.</p> <p>The group elects to measure non-controlling interests on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets on an acquisition-by-acquisition basis.</p> <p>If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.</p>
Interests in associates	<p>An associate is an entity over which the group has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investment.</p> <p>Judgement is applied in assessing which entities the group has the ability to significantly influence. In the case of voting rights, it is generally demonstrated by the group holding 20% or more of the voting power of the investee.</p> <p>Interests in associates are accounted for at cost less any impairment in the company financial statements. The carrying amounts are reviewed annually for impairment.</p>
Transactions with non-controlling interests	<p>The group applies a policy of treating transactions, including partial disposals with non-controlling interests that do not result in the gain or loss of control, as transactions with equity owners of the group. For purchases of additional interests from non-controlling interests, the excess of the purchase consideration over the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity. Profits or losses on the partial disposal of the group's interest in a subsidiary to non-controlling interests are also accounted for directly in equity.</p>

Detailed accounting policies (continued)

for the year ended 31 December 2021

3. Foreign currencies

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

3.1 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.

3.2 Group foreign operations

Assets and liabilities of group foreign operations whose functional currency is different from the presentation currency are translated from their respective functional currency into the group's presentation currency at closing rates ruling at statement of financial position date. The income and expenditure and equity movements are translated into the group's presentation currency at rates approximating the foreign exchange rates ruling at the date of the various transactions.

All resulting translation differences arising from the consolidation and translation of foreign operations are recognised in other comprehensive income and accumulated in equity as a foreign currency translation reserve.

When a foreign operation is partially disposed of or sold, the cumulative amount of the exchange differences in the foreign currency translation reserve relating to that foreign operation is reclassified from the reserve to profit or loss when the gain or loss on disposal is recognised.

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

4. Financial instruments

Initial recognition and measurement

Financial instruments at fair value through profit or loss are initially recognised at fair value and the transaction costs are immediately recognised in profit or loss. All other financial instruments are measured initially at fair value plus directly attributable transaction costs and fees. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

4.1 Financial assets

Financial assets include financial investments, assets held - for - trading and for hedging, interests in associates and interests in joint ventures measured at fair value through profit or loss, repurchase agreements, scrip and collateral assets, components of receivables that are not measured under IFRS 4, cash and cash equivalents and intercompany balances.

Detailed accounting policies (continued)

for the year ended 31 December 2021

4. Financial instruments (continued)

4.1 Financial assets (continued)

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 group and 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 includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.</p>
Held - for - trading	<p>Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.</p>
Designated at fair value through profit or loss	<p>Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise.</p>
Fair value through profit or loss (default)	<p>Financial assets that are not classified into one of the abovementioned financial asset categories; and/or where the business model is that performance is assessed on a fair value basis.</p>

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)	<p>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).</p>
Fair value through OCI	<p>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.</p> <p>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.</p> <p>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).</p>

Detailed accounting policies (continued)

for the year ended 31 December 2021

4. Financial instruments (continued)

4.1 Financial assets (continued)

Held for trading (derivatives)	Fair value, with gains and losses arising from changes in fair value recognised in fair value adjustments.
Designated at fair value through profit or loss	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 the financial asset are recognised in the income statement as part of fair value gains or losses on financial instruments.

Impairment

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

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. The Group has not used the low credit risk exemption for any financial instruments in the year ended 31 Dec 2021

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are considered to have a low probability of default.
Stage 3 (credit impaired assets)	<p>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:</p> <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.

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

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

Cash and cash equivalents

Cash and cash equivalents comprise:

- 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 through profit or loss 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 through profit or loss, 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 group has elected to apply the simplified approach for trade receivables that do not contain a significant financing component, contract assets and lease receivables. This means that the entity assesses lifetime losses on day one and does not have to do the three-stage testing as per the general ECL calculation. Prepayments are not financial instruments as defined.

Detailed accounting policies (continued)

for the year ended 31 December 2021

4. Financial instruments (continued)

4.2 Financial liabilities (continued)

Reclassification

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

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 group has also transferred substantially all risks and rewards of ownership.

4.2 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	Financial liabilities are designated to be measured at fair value if in doing so it would eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Held-for-trading	<ul style="list-style-type: none"> Fair value, with gains and losses arising from changes in fair value recognised in fair value adjustments on financial instruments.
Designated at fair value through profit or loss	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Amortised cost using the effective interest method recognised in interest expense.

Other payables

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

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.

Detailed accounting policies (continued)

for the year ended 31 December 2021

4. Financial instruments (continued)

Derecognition

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

4.3 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.

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 group 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.

Detailed accounting policies (continued)

for the year ended 31 December 2021

5. Insurance and investment contracts (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.
Unlisted equities and debt (including unlisted variable rate preference shares)	.	Fair valued using appropriate valuation techniques such as DCF analysis or recent arm's length market transactions in respect of the equity instrument.
Fixed deposits and negotiable certificates of deposit	Face value and DCF model..	The NCD cash flows are projected either by using the applicable fixed coupon, or by extrapolating the future variable coupon using an applicable market implied curve. These coupons are then valued using a market implied swap discount curve adjusted for the probability of default.

5. 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.

5.1 Insurance and investment contract classification

The group 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 group 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 group 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 • short-term insurance. <p>Insurance contracts where another insurer (or reinsurer) accepts significant insurance risks from the group 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.

Detailed accounting policies (continued)

for the year ended 31 December 2021

5. Insurance and investment contracts (continued)

5.2 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 group; 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 group, 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 group 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 group. All components in respect of DPFs are included in the policyholder liabilities.

5.3 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. 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, group 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> <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>

Detailed accounting policies (continued)

for the year ended 31 December 2021

5. Insurance and investment contracts (continued)

5.3 Insurance contract classification (continued)

5.3.1 Long-term insurance contracts

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 6. The shadow accounting adjustment to policyholder insurance contracts is recognised in other comprehensive income to the extent that the unrealised gains or losses, together with any related taxation on owner occupied properties backing policyholder insurance liabilities are also recognised directly in other comprehensive income.</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. Any deficiency is immediately charged to profit or loss as part of claims incurred.</p> <p>Contracts entered by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered by the group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.</p>

Detailed accounting policies (continued)

for the year ended 31 December 2021

5. Insurance and investment contracts (continued)

5.3.2 Short-term insurance

Provision for unearned premiums on short-term contracts	The provision for unearned premiums represents the portion of the current year's premiums that relates to risk periods extending into the following year. The unearned premiums are calculated using the 365ths method, except for those insurance contracts where allowance is made for uneven exposure.
Claims	<p>The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims. Estimates are made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input for assessments of individual cases reported to the company. At the end of each reporting period, prior year claim estimates are reassessed for adequacy and changes are made to the provision. Both of these provisions are discounted to present day which is in line with current accounting standards that indicate that discounting presents a more market consistent view of financial obligations.</p> <p>The provision for IBNR is an estimate of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to this date. The primary technique adopted by management in estimating this cost is that of using the past claims reporting and settlement trends to predict future claims for which the company will be liable. A range of actuarial methods such as the Basic Chain-Ladder, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement pattern of claims. Given the uncertainty associated with setting these assumptions, it is standard actuarial practice to also calculate a risk margin that is added to the best estimate IBNR reserves to allow for this uncertainty and ensure that adequate provisions are held to meet obligations as they arise. This risk margin requires the application of actuarial judgement in determining an appropriate level of sufficiency that considers materiality and the potential shortcomings and nature of the valuation process, as well as the volume, relevance and accuracy of the historical data available. At present, the risk margin has been determined using a stochastic reserving process parameterised such that the reserve is expected to be sufficient to meet 75% of all expected outcomes in the presence of adverse deviation.</p>
Deferred acquisition costs (DAC)	Commissions that vary and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as an asset. All other costs are recognised as expenses when incurred.
Liability adequacy test	Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs.
Provision for reported claims and claims incurred but not reported (IBNR)	<p>Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.</p> <p>The group's own assessors or contracted external assessors individually assess claims. The claims provisions include an estimated portion of the direct expenses of the claims and assessment charges.</p> <p>Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the group at that date (IBNR claims). This provision is calculated using the chain ladder run-off triangle technique. These provisions for claims are not discounted for the time value of money due to the expected short duration to settlement.</p>

Detailed accounting policies (continued)

for the year ended 31 December 2021

5. Insurance and investment contracts (continued)

5.4 Investment contracts

Measurement and initial recognition	<p>The group issues investment contracts, as follows:</p> <table border="1"> <tr> <td data-bbox="442 409 1230 824"> 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 through profit or loss. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. The group's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a investment-linked financial liability is determined using the current unit price multiplied by the number of units attributed to the policyholder at the statement of financial position date. If an investment contract is subject to a put or surrender option exercisable at the reporting date, the fair value of the financial liability is never less than the amount payable on the put or surrender option. </td><td data-bbox="1230 409 1449 824"> 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. </td></tr> </table>	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 through profit or loss. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. The group's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a investment-linked financial liability is determined using the current unit price multiplied by the number of units attributed to the policyholder at the statement of financial position date. If an investment contract is subject to a put or surrender option exercisable at the reporting date, the fair value of the financial liability is never less than the amount payable on the put or surrender option.	With fixed and guaranteed benefits (term certain annuity). Future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. Profit on initial recognition is amortised over the life of the contract.
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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.		

5.5 Reinsurance contracts held

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

Amounts recoverable from or due to 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.

5.6 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 contracts are under IFRS 9. The group gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables.

5.7 Salvage and subrogation reimbursements

Some insurance contracts permit the group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property. Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

Detailed accounting policies (continued)

for the year ended 31 December 2021

6. Non-financial assets

6.1 Investment properties

Non-current assets, 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.	<p>These are accounted for as follows:</p> <p>Non-current assets held as investments for the benefit of policyholders as part of the group's investment management and life insurance activities are not classified as held for sale as ongoing investment management implies regular purchases and sales in the ordinary course of business.</p> <ul style="list-style-type: none"> Immediately before classification as held for sale or for distribution, the assets are remeasured in accordance with the group's accounting policies and tested for impairment. Thereafter, all the assets in the category are measured at the lower of their carrying amount and fair value less costs to sell (this is an accounting policy choice and is not limited to only the non-current assets). Impairment losses on initial classification as held for sale or for distribution as well as subsequent gains and losses on remeasurement of these assets or disposal groups are recognised in profit or loss. Assets are presented separately in the statement of financial position. Property and equipment and intangible assets once classified as held for sale, are not depreciated or amortised. <p>In presenting the group's non-current assets and liabilities as held for sale, intercompany balances are eliminated in full.</p> <p>In the event that the held for sale operation ceases to be classified as held for sale, the disposal group shall be measured at the lower of:</p> <ul style="list-style-type: none"> Its carrying amount before the asset was classified as held for sale or as held for distribution to owners, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale or as held for distribution to owners, and <p>Its recoverable amount at the date of the subsequent decision not to sell or distribute. (i.e. after any impairment losses that have been recognised in accordance with IAS 36)</p>
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6.2 Owner-occupied properties

Nature	Measurement	Depreciation
Owner-occupied properties are held by the group 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. If the open-market valuation information cannot be reliably determined, the group 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 utilised.

Detailed accounting policies (continued)

for the year ended 31 December 2021

6. Non-financial assets (continued)

6.3 Leases

The core principal of accounting for leases is that the lessees and lessor should recognise all rights and obligations arising from lease arrangements on the statement of financial position. There is no classification of leases for lessees as either operating or finance leases and introduces a single lessee accounting model, where a right-of-use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The group's lessee accounting policies are:

- leases of low value assets; and
- leases with a duration of twelve months or less.
- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the group, 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;
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

6.4 Equipment

The group's equipment provides it with the necessary infrastructure to operate effectively. Equipment principally comprises computer equipment and fixtures and fittings. The cost of these assets is recognised in the income statement over time as a depreciation charge, on straight-line basis over the useful lives. Where purchased software is an integral part of the related hardware, it is accounted for as equipment, however, where that software is not integral to the related hardware, it is accounted for as an intangible asset. Depreciation periods are detailed in note 5 of the group annual financial statements.

6.5 Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 (CGUs).

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.

7. 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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Detailed accounting policies (continued)

for the year ended 31 December 2021

8. Other significant accounting policies

8.1 Employee benefits

Type of benefit	Description
Leave pay provision	The group recognises a liability for the amount of accumulated leave if the group 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 group has a present or constructive obligation and the amount can be reliably measured.
Pension obligations (defined contribution plans)	<p>The group operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the group companies pay fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the 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 group and employees. The group and all its employees also contribute to the appropriate National Social Security Fund, which is also a defined contribution scheme. The group's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.</p>

8.2 Revenue recognition

Revenue is recognised either when the performance obligation has been satisfied ("point in time") or as control of the goods or service is transferred to the customer ("over time"). This requires an assessment of the group and 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 group and 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 group and company applies a revenue recognition method that faithfully depicts the group and company's performance in transferring control of the service to the customer. Due to the nature of the group'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 group recognises revenue at a point in time.

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 group considers both the likelihood and the magnitude of the potential revenue reversal.

As a result of the contracts which the group enters into with its customers, a number of different assets are recognised on the group's statement of financial position. Further details are included in note 10 of the group annual financial statements. Payment terms and conditions included in customer contracts are typically due in full within 30 days.

Detailed accounting policies (continued)

for the year ended 31 December 2021

8. Other significant accounting policies (continued)

Revenue type	Description	Recognition and measurement
Insurance premium income (recognised under IFRS 4)	Life-insurance premiums and short-term (including health) insurance premiums	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 short-term insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium.
		Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the financial reporting date and is computed using the 365ths method. Premiums gross of any taxes or duties levied on premiums.
Investment income (for financial instruments, and for rental income)	Comprises dividends, rental income, and interest	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.
		Rental income – accounted for on a straight-line basis under IFRS 16 Leases.
		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
Revenue recognition from contracts with customers		
Revenue from contracts with customers arises from transactions not associated with financial instruments, insurance contracts or investment properties.		
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
Fee income on placement of reinsurance	Fee income earned from reinsurers on placement of short-term and long term reinsurance contracts.	Recognised over the term of the contract.

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 23 of the group annual financial statements for the details of amounts recognised in profit or loss.

Detailed accounting policies (continued)

for the year ended 31 December 2021

8. Other significant accounting policies (continued)

8.3 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 over provisions.

The group is subject to taxation in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The group 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:

- relating to goodwill;
- arising from initial recognition of assets or liabilities which affect neither accounting nor taxable profits or losses; and
- relating to investments in subsidiaries and joint arrangements (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

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.

8.4 Provisions

Provisions are recognised when the group has a known present legal or constructive obligation of uncertain timing or amount, as a result of past events and it is probable that an outflow of the group resources will be required to settle the obligation and a reliable estimate of the

amount of the obligation can be made. Judgement is applied as to the quantum and timing of these resources considering all available information. 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.

8.5 Segment information

The results of the business units are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance.

The primary segments operate within two main geographic clusters, being Kenya (including the operations of the long-term and short-term insurance subsidiaries) and Tanzania (being the operations of the short-term insurance subsidiary). The Kenyan long-term insurance business includes the results of our investment and savings products. The results of our health products are included with the results of the two short-term insurance subsidiaries. The group's IFRS 8 reportable segments are aligned to these operations.

8.6 Assets held for sale

Non-current assets, 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 and are accounted for as follows:

- Non-current assets held as investments for the benefit of policyholders as part of the group's investment management and life insurance activities are not classified as held for sale as ongoing investment management implies regular purchases and sales in the ordinary course of business.
- Immediately before classification as held for sale or for distribution, the assets are remeasured in accordance with the group's accounting policies and tested for impairment. Impairment losses on initial classification as held for sale or for distribution as well as subsequent gains and losses on remeasurement of these assets or disposal groups are recognised in profit or loss.
- Assets are presented separately in the statement of financial position.
- Property and equipment and intangible assets once classified as held for sale, are not depreciated or amortised.
- In presenting the group's non-current assets and liabilities as held for sale, intercompany balances are eliminated in full.

8.7 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.