LIBERTY
In it with you

Liberty Life Assurance Kenya Limited
Annual Financial Statements and Reports
for the year ended 31 December 2022

Contents

Corporate Information

Liberty Life Assurance Kenya Limited ("the Company") operates in eight towns and cities across Kenya with approximately 307 agents and 139 employees. The Company has provided insurance services to the nation since 1964 and continues to offer a range of life insurance, investment and pension products.

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

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

Our Vision

To be the trusted leader in life insurance in Kenya.

Mission

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

Our Purpose

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

Our Company Values

Involvement: Our humanity and empathy.

Innovation: Our ingenuity and curiosity to do things better.

Integrity: Our fairness and honouring our word.

Insight: Our knowledge and understanding.

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

Directors

	First appointed
Peter Gethi	2009
Abel Munda	2005
Michael du Toit	2008
Stuart Wenman (Resigned 31 August 2022)	2009
Rachel Mbai	2017
Catherine Mitchem (Resigned 31 December 2022)	2017
Rajesh Shah	2018
Andrew Lonmon-Davis	2019

Secretary

Doreen Onwong'a
Qwasha Corporate Services LLP
Nairobi

Corporate Information (continued)

Lawyers
Njoroge Regeru Advocates
Arbor House, Arboretum Drive
P.O Box 46971-00100
Nairobi, Kenya

Registered Office
LR No209/8592/2
Liberty House
Mamlaka Road
P.O. Box 30364-00100
Nairobi, Kenya

Independent auditor
PricewaterhouseCoopers LLP
Certified public accountants
PwC Tower, Waiyak Way/Chiromo Road
Westlands
P.O. Box 43963-00100
Nairobi, Kenya

Principal Bankers
Stanbic Bank Kenya
Stanbic Centre
P.O. Box 30550-00100
Nairobi, Kenya

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

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

Statutory actuary
QED Actuaries & Consultants (Pty) Ltd
1st Floor - The Bridle, Hunts End Office Park, 38
Wierda Road West, Sandton,
Johannesburg 196, South Africa

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

Directors' Responsibility for Financial Reporting

The directors are responsible for the preparation and presentation of financial statements of Liberty Life Assurance Kenya Limited, set out on pages 23 to 105 which comprise the statement of financial position as at 31 December 2022 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, the notes to the financial statements which include a summary of significant accounting policies and other explanatory information.

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

Under the Kenyan Companies Act, 2015, the directors are required to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of the profit or loss of the company for that year. It also requires the directors to ensure the company keeps proper accounting records that disclose with reasonable accuracy the financial position and profit or loss of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31st December 2022 and of its financial performance and cashflows for the year then ended.

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

Approval of the financial statements

The financial statements, as indicated on pages 23 to 105, were approved and authorised for issue by the Board of directors on 16 March 2023.

Peter Gethi
Chairman

16 March 2023
Nairobi

Abel Munda
Managing Director

16 March 2023
Nairobi

Chairman's Statement

I am pleased to present to you the annual report and financial statements for the year ended 31 December 2022.

1. Performance review

The year 2022 saw regional economies begin to recover from the impact of the COVID-19 pandemic. The two previous financial years were deeply impacted by the vagaries of the pandemic and our focus was to protect our customers, our staff and business as a whole.

Global gross domestic product (GDP) growth for 2022 is estimated to have fallen to 3.2% from 6.1% in 2021 on account of a multitude of shocks, ranging from Russia's invasion of Ukraine to China's persistent zero covid measures that saw the world inflation rate rise from 4.7% in 2021 to 8.8% in October 2022(IMF).

Kenyan GDP is estimated to have grown by 5.1% in 2022 compared 6.7% in 2021 on account of declines in domestic and external demand following the electioneering period, impact of the Russia-Ukraine war, low employment levels, inflation pressures, and the negative impact of climate change.

Liberty Life Assurance Kenya Limited, despite the challenges, remained resilient, delivering a reasonable top-line. Despite the impact of the global challenges on the Kenyan economy, the insurance sector included, the Company's Gross Premiums recorded 8% growth year on year, which is mainly attributable to greater contribution of newly launched products and good business retention. This demonstrates solid business fundamentals, with regard to the future of the business. The company recorded a loss of Kshs 70 million (compared to a loss of KShs 157 million in 2021), largely on account of negative investment market performance.

The Board, working with the management, continued to implement measures to return the company to profitability through enhancing customer propositions, better risk management, as well as increased business acquisition and retention. Coupled with an improving economic environment, we are optimistic that this will lead to better performance by the Company in 2023 and beyond.

2. Business environment

The insurance industry weathered business headwinds, ranging from effects of the Covid -19 pandemic, rising interest rates, inflation and poor investment market performance, to record a premium growth of 11.4% in 2022. The long-term insurance business is estimated to have grown by 12.3% in 2022. The insurance industry players continue to churn new products into the market as well as deploying innovative digital capabilities to increase value creation to the customers.

Liberty Life Assurance Kenya Limited, continued to execute the new strategy approved by the Board in 2021, with initiatives that are driving the Company forward through provision of solutions demanded by the marketplace in an agile manner. Technology, sound underwriting practices and robust management of data remain at the core of providing our customers with such solutions in a speedy and seamless fashion.

3. Governance

Mr. Stuart Wenman resigned as a director on 31st August 2022 after serving the Company diligently for 13 years. During his time, the Company made significant strides in strengthening its risk management, investment management and actuarial functions. I take this opportunity to thank Mr. Wenman for his contribution to the company and wish him well in his future endeavors.

Ms Catherine Mitchem resigned from the Board at the end of 2022, for the Company to align with Regulatory requirements. Ms Catherine Mitchem was appointed in 2017 and has been of tremendous service to the Board for the last 5 years. I wish to appreciate her input and invaluable contribution to the Board.

Chairman's Statement (continued)

4. Looking ahead

Looking ahead, Kenyan GDP is expected to grow by 5.7% in 2023 underpinned by private consumption, a pick-up in industrial activity and still strong performance in the services sector. Inflation is expected to remain above the government's target range in the short-term, at least while the current account deficit is projected to remain manageable. However, there is a risk of a continued deterioration of the Kenyan Shilling to US Dollar exchange rate.

Our commitment remains the delivery of relevant and innovative solutions that confer financial freedom to our customers, thus contributing towards national development.

My gratitude goes to our customers for their patronage, our staff for their hard work and unwavering efforts to deliver on our purpose., I recognise and appreciate our shareholders and the rest of our stakeholder universe for their support.

I wish to announce that I will be stepping down as Chairman at our next AGM in 2023 having served in this capacity for the last 11 years. I will nevertheless continue to serve the Board as a non-executive director. I take this opportunity to appreciate my fellow Board members for all their counsel, support and dedication throughout the year and for delivering a strong corporate governance environment.

Peter Gethi
Chairman
16 March 2023

Managing Director's Statement

At Liberty Life, we believe in taking a long-term view in whatever we do, for the benefit of all our stakeholders. This is reflected in our investment towards understanding what their requirements are, particularly our customers, and introducing solutions that cater to their needs in a sustainable manner.

The insurance industry continued to recover from the impact of the Covid 19 pandemic, as evidenced by strong industry growth during 2022. As a business we recorded a growth of 8% in our premium revenue and realized a loss of Ksh. 70 million, which was an improvement from the loss recorded in 2021 of Kshs 157 million. The reduction in the loss as compared to 2021 was on account of stable premium income and an improved claims ratio, positively impacted by reduced Covid claims. The loss was mainly due to the poor investment market performance that saw a rise in interest rates and a falling equity market. Our total assets and policyholders' funds remained flat during the year.

As a customer-centric organization we aspire to consistently improve the lives of our customers by enabling their financial freedom through the various solutions that we offer. During the year we revamped some of our solutions to enhance their value to our customers. We also focused on growing our bancassurance relationships and consolidating our earlier efforts to revamp our agency structure which remains a key sales and distribution channel. These initiatives which seek to deepen the strategic partnership that we are nurturing with our agents and brokers, will continue to deliver value to the business in a sustainable manner.

We have continuously refined our internal processes in line with global best practices to enhance service delivery to our customers. In the immediate term, we are looking at implementing integrated systems that will make it possible to service our customers in a seamless and efficient fashion for increased value. Our Straight Through Processing (STP) – a paperless customer-on- boarding solution that was particularly relevant during the Covid-19 pandemic has served us well as we continue to seamlessly onboard our customers from the comfort of their homes/offices. We continued to invest in digital technology in order to enable our customers to transact and engage with us digitally in respect of premium payments, statement generation and policy loans processing.

Our sustainability agenda which is focused on investment in the communities in which we operate remains on course. During the year, we continued investing in our Corporate Social Investment (CSI) initiatives anchored on the pillars of Education and Health. We intend to further integrate sustainability in the way we run these initiatives so that the lives of the beneficiaries can be altered permanently.

During the year we continued with the implementation journey of our strategic plan whose key focus is creating financial freedom for our customers and employees by leveraging on technology, innovation, and strategic partnerships, as pillars for delivering value to customers.

In conclusion, I wish to recognize the contribution of each member of the Liberty Life family in improving the lives of our customers by enabling financial freedom.

Abel Munda
Managing Director
16 March 2023

Board of Directors and Senior Management

1. Directors

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

Peter Gethi	Chairman
Abel Munda	Managing Director
Michael du Toit**	Non-Executive
Stuart Wenman (Resigned August 2022)	Non Executive Director
Rachel Mbai	Non Executive Director
Catherine Mitchem (Resigned December 2022)	Non Executive Director
Rajesh Shah	Non Executive Director
Andrew Lonmon-Davis**	Non Executive Director

** South African

2. Company Secretary

Ms Doreen Onwong'a

3. Senior Management

Abel Munda	Managing Director
Ronald Nyamosi	General Manager - Finance and Administration
Anna Manyara	General Manager - Sales and Distribution
Musili Kivuitu	General Manager - Risk and Compliance
Mercy Kabangi	General Manager - Marketing and Communication
Felix Ochieng	General Manager - Human Resources
Mohamed Dalal	Chief Information Officer
Patience Muvea	Chief Actuary
Harrison Gongo	General Manager - Operations

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2022 which disclose the state of affairs of Liberty Life Assurance Kenya Limited.

1. Principal activities

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

2. Company results and dividend

Loss for the year was KShs 70 million (2021: KShs 157 million loss).

The directors do not recommend a dividend for the year 2022 (2021: KShs Nil).

3. Directors

The names of the directors who held office during the year and to the date of this report are set out on page 8. In accordance with the Company's Articles of Association, all directors unless retiring and being eligible, offer themselves for re-election.

4. Business overview

From a business point of view, despite challenges brought by the Russia-Ukraine war, rising inflation, negative impact of the climate change, economic slowdown arising from the general elections and slow recovery from the Covid-19 pandemic impact, we had a stable year. Despite the business recording a loss of KShs 70 million during the year (2021: loss of KShs 157 million) which is attributed to poor investment market performance all the other performance parameters remained stable. The Company solvency position remained stable at 2.27.

Risk is inherent and the Company is exposed to a variety of risks in the normal conduct of its business. The company's risk universe is broadly categorised into insurance, credit, market and operating risks. In order to effectively manage risk in the business, the Company has implemented a risk management governance framework that is premised on three lines of defence. These are management, being the first line of defence, the Board and its committees being the second line of defence and finally auditors, both external and internal providing the third line of defence. The Company's risk management objectives and policies are detailed in Note 2.

5. Relevant audit information

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

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

6. Auditor

PricewaterhouseCoopers LLP continues in office according to the Company's Articles of Association and Section 721 of the Kenyan Companies Act, 2015.

7. Approval of the financial statements

The financial statements set out on pages 23 to 105 were approved and authorised for issue by the Board of directors on 16 March 2023.

By Order of the Board

Doreen Onwong'a
16 March 2023

Statement on Corporate Governance

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

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

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

The following section of the report includes descriptions of Liberty Life Assurance Kenya Limited corporate governance structures and procedures, along with an explanation of the work of the Board and how they have applied the principles of leadership, effectiveness, accountability and relations with stakeholders.

1. Board of Directors

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

2. Board responsibilities

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

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

3. Board meetings and attendance

The Board met five times during the year to review the financial performance and operations of the company. Other Board meetings are held periodically to discuss topical matters and strategic issues. The Chairman presided over all meetings.

The following table reflects the attendance of Directors at the five Board meetings during 2022. A Director if unable to attend a Board meeting, has the opportunity beforehand to discuss any agenda item with the Chairman. Attendance is expressed as the number of meetings attended out of the number eligible to attend.

Director	Attendance
Peter Gethi (Chairman)	5/5
Abel Munda (Managing Director)	5/5
Michael du Toit	5/5
Stuart Wenman (Resigned August 2022)	3/3
Catherine Mitchem (Resigned December 2022)	5/5
Rachel Mbai	5/5
Rajesh Shah	5/5
Andrew Lonmon-Davis	5/5

Statement on Corporate Governance (continued)

4. Appointment of Directors

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

5. Board evaluation

The Board remains focused on the need for continued improvements in its effectiveness and corporate governance performance and annually conducts board evaluations along the lines of structure, process and effectiveness. The most recent board evaluation was conducted in Q4 of 2022.

6. Board induction, training and support

All newly appointed Directors are taken through an induction programme immediately upon appointment. The Board undertakes an annual Board enhancement training, with sessions covering corporate governance principles, Board enhancements and updates on legislation in relation to the duties of Directors amongst others. Any specific training needs or areas of Board improvement identified from the Board's self-evaluation process are also addressed regularly. In the year, Board members were trained on IFRS 17 requirements, changes in legislation and Data Protection Act.

7. Remuneration

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

8. Conflict of interests

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

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

9. Role of the Chairman vs. the Managing Director

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

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

10. Board committees

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

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

Statement on Corporate Governance (continued)

11 Audit and Risk Committee

The Committee is responsible for the monitoring of risk management, compliance and internal controls as established by the Board and executed by the management of the Company.

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

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

The attendance of Committee members at the six meetings held in the year 2022 was as follows:

Name	Directorship Status	Attendance at meetings
Rajesh Shah (Chairman)	Non - Executive Director	6/6
Michael du Toit	Non - Executive Director	6/6
Stuart Wenman*	Non - Executive Director	4/4
Rachael Mbai	Non - Executive Director	6/6
Andrew Lonmon-Davis	Non - Executive Director	6/6

*Resigned in August 2022.

12 Joint Actuarial Committee (JAC)

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

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

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

The attendance of the Committee members at the six meetings held during the year 2022 was as follows

Name	Directorship Status	Attendance at meetings
Andrew Lonmon-Davis (Chairman)	Non - Executive Director	6/6
Stuart Wenman (Member)*	Non - Executive Director	3/3
Abel Munda (Member)	Managing Director - Liberty Life Assurance	6/6
Godfrey Kioi (Member)	Managing Director - Heritage Insurance	6/6

*Resigned in August 2022.

13 Joint Information Technology Committee

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

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

The members of the Committee, and their attendance at the four meetings held in the year 2022 was as follows:

Statement on Corporate Governance (continued)

Name	Directorship Status	Attendance at meetings
Catherine Mitchem (Chair)	Non - Executive Director - (H.I.K)	4/4
Rajesh Shah	Non - Executive Director	4/4
Abel Munda	Executive Director	4/4
Godfrey Kioi	Executive Director	4/4

14. Investment Committee

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

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

The members of the Committee, and their attendance at the six meetings held in the year 2022 was as follows:

Name	Directorship Status	Attendance at meetings
Michael du Toit (Chairman)	Non-Executive Director	6/6
Abel Munda	Executive Director	6/6
Stuart Wenman (Resigned August 2022)	Non - Executive Director	3/3
Catherine Mitchem (Resigned December 2022)	Non - Executive Director	6/6
Andrew Lonmon-Davis	Non - Executive Director	6/6

15. Management and operational committees

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

Their main areas of focus are:

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

16. Internal control and risk management

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

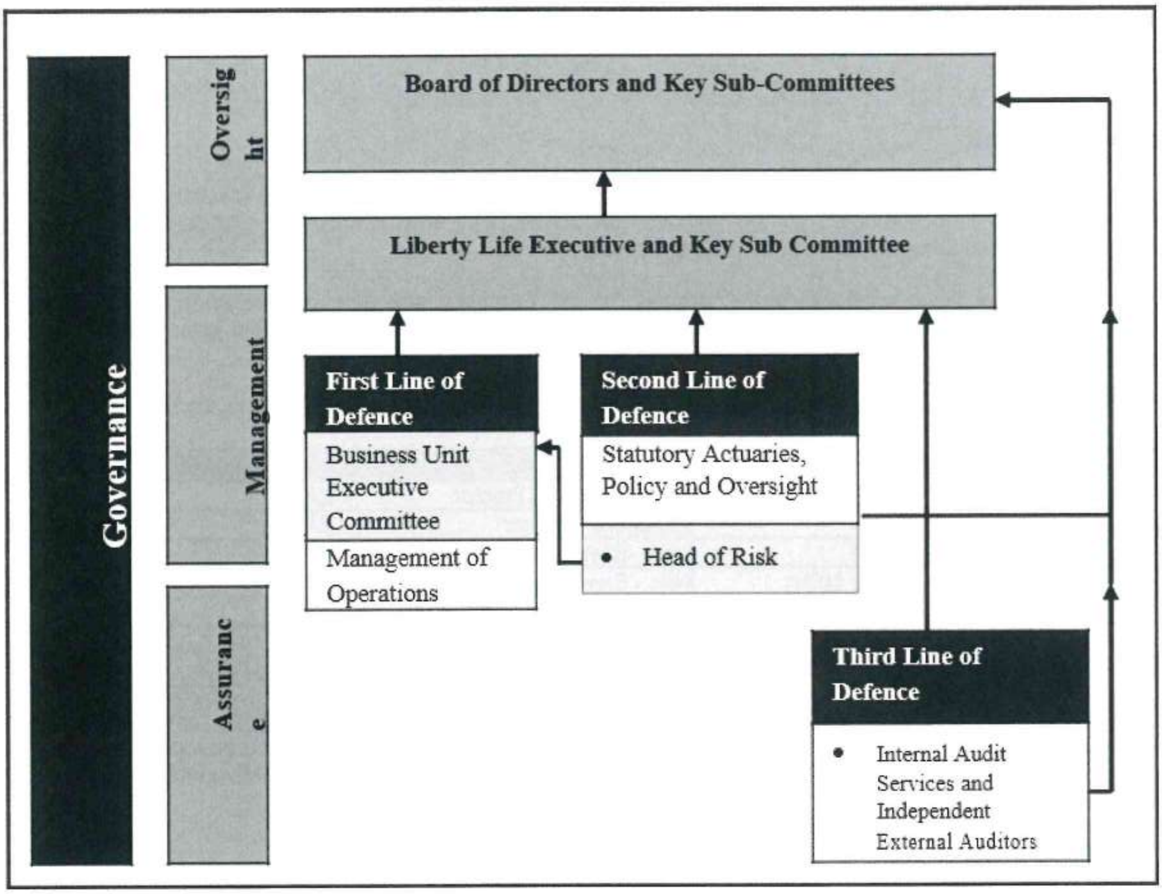
The ultimate responsibility for risk management resides with the Board, which ensures that the Managing Director is responsible and is held accountable for risk management. The Managing Director is supported by risk specialists who instil risk management best practice among all staff.

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

Statement on Corporate Governance (continued)

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

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



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

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

18. Roles and responsibilities within the governance model

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

a) Oversight

Board of Directors and Sub-Committees

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

Statement on Corporate Governance (continued)

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

b) Management committees

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

Management is accountable for:

- Managing day-to-day risk exposures by applying appropriate procedures, internal controls and company policies;

- The effectiveness of risk management and risk outcomes, and for allocating resources to execute risk management activities;

- Tracking risk events and losses, identifying issues and implementing remedial actions to address these issues; and

- Reporting and escalating material risks and issues to the relevant governance bodies as deemed appropriate.

d) Second line of defence - Head of Risk, Legal and Compliance, statutory actuaries policy and oversight functions

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

e) Third line of defence - Assurance

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

The company's key risk management objectives are to:

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

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

The framework is based upon the following principles:

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

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

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

Statement on Corporate Governance (continued)

19. Business ethics

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

20. Strategic drive

The Liberty Life Assurance Kenya Limited Year 2021 to Year 2023 strategy has been developed by Staff and Management in liaison with the Board and was approved in Year 2020. The strategy is reviewed annually and built into the budgeting process for the respective years. At each quarterly Board meeting, the Board is briefed by Management of the progress made to achieve the various checkpoints as detailed in the strategic plan.

Our Community engagements

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

Guided by the Liberty Africa CSI Guidelines (to which Liberty Life and Heritage Insurance are members), the company CSI policy mainly focuses on education as the key pillar, but also incorporates other areas of national importance and has the following key guiding principles:

- Strategic relevance – concerned primarily with education needs in the society.
- Substance – sufficient to make a real, measurable impact on society
- Sustainability – sustainable projects to ensure the impact is felt by the targeted group(s)

The company CSI initiatives also focuses on the Environment and Health support besides education.

Education:

Our CSI initiatives are aligned to the Sustainable Development Goals (SDG) with our key pillar focused on Goal 4 – Quality Education. In line with this we have continued to provide sponsorship opportunities for needy and high performing children from disadvantaged families across the country. The education support is aimed at ensuring the beneficiaries access scholarship from Secondary School and up to university or tertiary level. The Company has been extending the education sponsorship program through continued partnership with the Starehe Boys and Girls Centres.

In 2022 the Scholarship Program helped a total of returning 77 students consisting of secondary school and tertiary students from economically challenged backgrounds as attestation of our commitment to the Sustainable Development Goal (SDG) number 4 - Ensuring Quality Education.

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

Environment:

To support in combating the devastating impact of climate change in Kenya, the company has instituted environment initiative as a key pillar in in its Corporate Social investment operations. The environment is a pillar that feeds to many other aspects of human life. Through this pillar, the CSR team intends to engage staff and select schools through plugging into the government initiative - under the Kenya Forest Service who are the stewards and custodians of the forest in Kenya- to plant more than 15 billion trees across the country by 2032.

Annually, the company CSI teams have joined the insurance industry under the umbrella of Association of Kenya Insurance (AKI) in a tree planting exercise along a buffer zone hived off in the sprawling Ngong Hills forest. Last year, the teams planted 2,200 trees on a 5-acre piece of land adopted by AKI in support of the United Nation (UN) clarion call under the Sustainable Development Goals (SDG) number 13.

Health:

In working to ensure not only the health of clients but also the sustainable health of communities where we are domiciled, the company has a health pillar in its Corporate Social Investment arm. This pillar ensures healthy lives and promotes the well-being for all at all ages through partnerships with like-minded organizations that have the capability and infrastructure to upscale the support needed.

Faraja Cancer Support Trust walk

The Company through its CSI team continued to partner with the Faraja Cancer Support Trust through its annual fund raiser walk. During the year, a team of staff more than 15 took part in the fund raiser walk that featured 21 KM, 10KM and 5KM walk.

Our health pillar picks the cue from the United Nations (UN) Sustainable development Goal 3 that focuses on good health and the overall wellbeing for all. Over the years our initiatives have seen additional activities through: Branch Cancer Awareness Drive, AKI Medical Camp, Mater Heart Run, Nyeri Hospice Walk, RA & Kenya Society for the Blind and Wezesha Charity Climb at Mt. Longonot.

Our staff also continue to partner and participate in various initiatives across the regions in Kenya.

Statement of Appointed/Statutory Actuary

We have conducted a review of the actuarial valuation of the life assurance business of Liberty Life Assurance Kenya Limited as at 31 December 2022 as performed by the Company's Actuarial Function.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act (Cap. 4877), as amended. These principles require prudent provision for future outgo and income under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

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

In our opinion, the life assurance business of the Company was financially sound and the actuarial value of the liabilities in aggregate for life assurance business did not exceed the amount of funds of the life assurance business as at 31 December 2022.

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

QED Actuaries & Consultants (Pty) Ltd

16 March 2023

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

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Liberty Life Assurance Kenya Limited (the Company) set out on pages 23 to 105 which comprise the statement of financial position at 31 December 2022, the statements of comprehensive income, changes in equity, and cash flows for the year then ended and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of Liberty Life Assurance Kenya Limited as at 31 December 2022, and of its financial performance and its 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 financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

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

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Determination of insurance contract liabilities Insurance contract liabilities comprises outstanding claims and policyholder liabilities. The Company's determination of liabilities involves the selection of appropriate assumptions in relation to mortality rates, morbidity, lapses and interest rates. Changes in these assumptions can lead to significant changes in actuarial liabilities. The methodology used can also have a material impact on the valuation of the liabilities. The valuation of insurance contract liabilities was considered a key audit matter as a change in the assumptions used in the valuation would have a material impact on the value of the liabilities.	• Assessed the competence, capabilities and objectivity of the Company's Statutory Actuary and verified their qualifications. • Traced the policyholder valuation input data and on a sample basis policyholder information used in the valuation model back to information contained in the administration and accounting systems. • Considered the methodology and assumptions used by the appointed actuary to compute the policyholders' liabilities and assessed the valuation methods used against generally accepted actuarial practice and entity-specific historical information. • Checked that the policyholders' liabilities reported in the financial statements were consistent with the results of the independent actuarial valuation.

Other information

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

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

pwc

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

Report on the audit of the financial statements (continued)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

pwc

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

Report on the audit of the financial statements (continued)

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

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

Report on other matters prescribed by the Companies Act, 2015

In our opinion the information given in the report of the directors on page 9 is consistent with the financial statements.

Bernice Kimacia

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

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

16 March 2023

Statement of Financial Position as at 31 December 2022

KShs '000	Notes	2022	2021
Assets			
Owner occupied property	3	770 787	770 787
Equipment	4.1.1	96 595	69 748
Investment properties	5.2	445 213	445 213
Right-of-use assets	4.1.2	20 258	15 478
Intangible assets	2	118 268	126 422
Non-current assets held for sale	5.3	118 420	625 263
Deferred acquisition costs		55 872	47 752
Reinsurance assets	8(a)	320 700	166 831
Current tax receivable	24.3	40 357	50 625
Financial investments	6.1	17 840 946	16 596 864
Loans and receivables	6.2	1 158 606	1 412 342
Due from related parties	15(g)	20 633	28 913
Insurance receivables	7	95 628	76 906
Prepayments and other receivables	9	235 592	249 085
Deposits with financial institutions	10	3 717 587	4 326 153
Cash and bank balances	10	352 815	290 567
Total Assets		**25 408 277**	**25 298 949**
Liabilities			
Deferred tax liabilities	12	1 020 115	1 050 272
Long-term policyholder liabilities		19 997 334	20 375 023
Insurance contracts	8(a)	6 456 721	6 791 125
Investment contracts with discretionary participation features	8(a)	2 822 939	3 065 073
Financial liabilities under investment contracts	8 (c)	10 717 674	10 518 825
Lease liabilities	11	23 416	19 187
Creditors arising from reinsurance arrangements		94 511	-
Employee benefits	13	73 826	61 408
Due to related parties	15(g)	39 258	21 473
Insurance and other payables	14	1 341 370	1 012 770
Total Liabilities		**22 589 830**	**22 540 133**
Equity			
Ordinary shareholders' equity		**2 818 447**	**2 758 816**
Share capital	16	742 340	612 340
Retained loss		(304 170)	(304 170)
Statutory reserves	17	1 995 330	2 065 699
Revaluation reserve	17	384 947	384 947
Total Equity and Liabilities		**25 408 277**	**25 298 949**

The annual financial statements and reports on pages 23 to 105, were approved and authorised for issue by the board of directors on the 16 March 2023.

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

Peter Gethi

Rajesh Shah

Abel Munda

Statement of Comprehensive Income

KShs '000	Note	2022	2021
Revenue			
Insurance premiums	18	2 854 870	2 698 981
Reinsurance premiums	18	(289 714)	(342 502)
Net insurance premium revenue		**2 565 156**	**2 356 479**
Commission earned	8(a)	82 379	100 511
Revenue from contracts with customers and fee income on placement of reinsurance	8(c)	325 422	392 437
Investment income	19	1 685 954	1 658 575
Interest income on financial assets using the effective interest rate method	19.1	493 637	370 277
Fair value adjustment to assets held at fair value through profit or loss	20	(1 072 280)	215 019
Total income		**4 080 268**	**5 093 298**
Claims and policyholder benefits under insurance contracts	21.1	(2 985 453)	(4 060 123)
Insurance claims recovered from reinsurers	21.1	267 730	265 510
Change in long-term policyholder assets and liabilities		730 407	965 187
Liabilities under insurance contracts	8(a)	334 404	(62 532)
Investment contracts with discretionary participation features	8(a)	242 134	863 792
Applicable to reinsurers	8(a)	153 869	163 927
Fair value adjustment to policyholders' liabilities under investment contracts	8(d)	(392 816)	(854 886)
Acquisition costs	22	(684 500)	(596 000)
General marketing and administration expenses	23	(1 071 997)	(1 009 111)
Finance costs	11	(2 555)	(2 971)
Loss before income tax		**(58 916)**	**(199 096)**
Income tax (expense) / credit	24.1	(11 453)	41 781
Loss after tax		**(70 369)**	**(157 315)**
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
Net loss on revaluation of land and buildings		-	-
Change in long-term policyholder insurance liabilities - effect of shadow accounting		-	-
Net gains on revaluation	17	-	-
Less: Deferred income tax on revaluation	12	-	-
		-	-
Other comprehensive income for the year net of taxation		-	-
Total comprehensive loss		**(70 369)**	**(157 315)**

The annual financial statements and reports on pages 23 to 105, were approved and authorised for issue by the board of directors on the 16 March 2023.

Statement of Changes in Equity

KShs '000	Share capital	Statutory reserves	Revaluation reserve	Retained loss	Total
Balance at 01 January 2021	**612 340**	**2 223 014**	**384 947**	**(304 170)**	**2 916 131**
Other comprehensive income	-	-	-	-	-
Loss for the year	-	(157 315)	-	-	(157 315)
Balance at 31 December 2021	**612 340**	**2 065 699**	**384 947**	**(304 170)**	**2 758 816**
Other comprehensive income	-	-	-	-	-
Issue of share capital	130 000	-	-	-	130 000
Loss for the year	-	(70 369)	-	-	(70 369)
Balance at 31 December 2022	**742 340**	**1 995 330**	**384 947**	**(304 170)**	**2 818 447**

The annual financial statements and reports on pages 23 to 105, were approved and authorised for issue by the board of directors on the 16 March 2023.

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

Statement of Cash Flows

KShs '000	Note	2022	2021
Cash flows from operating activities			
Cash utilised in operations	25	(1 162 643)	(1 526 980)
Interest income on financial assets using the effective interest rate method		2 106 188	1 864 068
Finance costs		(2 555)	(2 971)
Taxation	24.3	(31 342)	(23 483)
Disposal of financial instruments		6 757 256	14 745 357
Purchases of financial instruments		(6 877 905)	(15 290 951)
Net cash from operating activities		**788 999**	**(234 960)**
Cash flows from investing activities			
Purchase of property and equipment	4.1.1	(53 629)	(14 246)
Proceeds from sale of investment property	5.3	506 843	-
Purchase of other intangible assets	2	(42 323)	(66 588)
Retirement of intangible assets	2	-	10 443
Dividends received		151 440	97 855
Net cash from investing activities		**562 331**	**27 464**
Cash flows from financing activities			
Proceeds on share issue	16	130 000	-
Repayment of lease liabilities	11	(9 626)	(9 916)
Net cash from financing activities		**120 374**	**(9 916)**
Total cash and cash equivalents movement for the year		**1 471 704**	**(217 412)**
Cash and cash equivalents at the beginning of the year		2 136 361	2 353 773
Total cash and cash equivalents at end of the year	10(b)	**3 608 065**	**2 136 361**

Notes to the Financial Statements

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

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

Classification and measurement of financial instruments

IFRS 9 requires an entity to assess its business model to determine the classification of financial assets. A business model refers to how an entity manages its financial assets in order to generate cash flows. Management applies judgement to determine the level at which the business model assessment is applied. Impairment amounts have been disclosed under note 19(ii) and note 7.

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

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

Properties at fair value

Investment and owner-occupied properties are measured at fair value by external valuation appraisers taking into account characteristics of the properties that market participants would take into account when pricing the property at measurement date. The key assumptions in the determination of the fair value are the exit capitalisation and discount rates. Other inputs considered relate to existing tenant terms, location, vacancy levels and restrictions, if any, on the sale or use of the asset. Determination of fair value also considers the current use of the property in terms of its highest and best use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible. In arriving at the carrying amount of investment property, the directors also consider the prevailing market conditions and valuations returned by similar properties in similar locations. Carrying amounts of Investment property and sensitivity analysis have been disclosed under note 5.

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

Policyholder liabilities – investment contracts with discretionary participation features (DPF) carrying amounts of policyholders liabilities with discretionary features have been disclosed under note 8(a).

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

Insurance contract liabilities

The company determines its liabilities on its long-term insurance contracts on a realistic basis, namely the gross premium valuation (GPV) method. The GPV method makes explicit assumptions on expected future debts, investment returns lapses, expenses and bonuses as well as margins for uncertainty on these assumptions. Assumptions used are based on recent experience investigations conducted by the company while taking into consideration prior year assumptions and the outlook of future experience carrying amounts of insurance contract liabilities have been disclosed under note 8(a).

Notes to the Financial Statements

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

Mortality

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

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

Morbidity

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

Withdrawal

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

Income taxes

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

Impairment of receivables measured using amortised cost

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

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.

Notes to the Financial Statements

2. Intangible assets

Summary of net carrying value

KShs '000	2022	2021
Cost at the beginning of the year	671 292	615 147
Additions	42 323	66 588
Derecognition	-	(10 443)
Cost at the end of the year	**713 615**	**671 292**
Accumulated amortisation at the beginning of the year	(544 870)	(493 594)
Amortization on derecognised assets	-	1 643
Amortization charge for the year	(50 477)	(52 919)
Accumulated amortisation at the end of the year	**(595 347)**	**(544 870)**
Net carrying amount at the end of the year	**118 268**	**126 422**

3. Owner occupied property

KShs '000	2022	2021
Balance at the beginning of the year	**770 787**	**694 400**
Reclassification	**-**	**76 387**
	770 787	**770 787**

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

4. Equipment and right-of-use assets

4.1. Summary

KShs '000	Notes	2022	2021
Equipment	4.1.1	96 595	69 748
Right-of-use assets	4.1.2	20 258	15 478
Total equipment and right-of-use assets		**116 853**	**85 226**

Notes to the Financial Statements

4. Equipment and right-of-use assets (continued)

4.1.1. Equipment

KShs '000	Balance at the beginning of the year	Opening balance adjustment	Additions	Depreciation	Balance at the end of the year
2022					
Cost – movement					
Motor vehicles	41 015	-	14 976	-	55 991
Computer equipment	252 611	3 866	36 566	-	293 043
Fixtures, furniture and fittings	456 576	(4 993)	2 087	-	453 670
Leasehold improvements	90 826	-	-	-	90 826
Total cost	**841 028**	**(1 127)**	**53 629**	**-**	**893 530**
Accumulated depreciation – movement					
Motor vehicles	(38 528)	-	-	(4 495)	(43 023)
Computer equipment	(213 283)	(3 866)	-	(17 045)	(234 194)
Fixtures, furniture and fittings	(433 374)	4 993	-	(4 636)	(433 017)
Leasehold improvements	(86 095)	-	-	(606)	(86 701)
Total accumulated depreciation	**(771 280)**	**1 127**	**-**	**(26 782)**	**(796 935)**
Carrying amount	**69 748**	**-**	**53 629**	**(26 782)**	**96 595**

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

Included in equipment and right-of-use assets as at 31 December 2022 are fully depreciated assets with a cost of KShs 692,946,846 (2021: KShs 692,946,846). The notional annual depreciation charge on these asses would have been KShs 98,054,479 (2021: KShs 98,054,479).

No assets have been pledged as collateral.

Notes to the Financial Statements

4. Equipment and right-of-use assets (continued)

4.1.2. Right-of-use assets

KShs '000	Balance at the beginning of the year	Additions	Derecognition	Depreciation	Balance at the end of the year
2022					
Cost – movement					
Land and buildings	33 047	11 864	(8 005)	-	36 906
Total cost	**33 047**	**11 864**	**(8 005)**	-	**36 906**
Accumulated depreciation – movement					
Land and buildings	(17 569)	-	8 005	(7 084)	(16 648)
Total accumulated depreciation	**(17 569)**	-	**8 005**	**(7 084)**	**(16 648)**
Net carrying amount at the end of the year	**15 478**	**11 864**	-	**(7 084)**	**20 258**

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

5. Investment properties

5.1. Summary of all properties

KShs '000	Notes	2022	2021
Investment properties	5.2	445 213	445 213
Owner-occupied properties	3	770 787	770 787
Total property		**1 216 000**	**1 216 000**

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

Investment and owner-occupied properties fair values were obtained from independent valuators who derived the values by determining sustainable net rental income, to which an appropriate exit capitalisation rate is applied. Exit capitalisation rates are adjusted for occupancy levels, age of the building, location and expected future benefit of recent alterations. In arriving at the carrying value of the investment and owner occupied property at end of the year, the directors took into consideration the slow recovery in property values post Covid 19 and the rising interest rates thus resulted into 5% haircut from the value returned by the property valuers.

The exit capitalisation rates applied at 31 December 2022 are between 6.5% to 10% (2021: between 6.5% to 10%). The variance between the exit capitalization rates applied and the ten-year government yield of 13.77% (2021: 9.17%) is explained by the non-observable adjustments included in the valuation.

Notes to the Financial Statements

5. Investment properties (continued)

KShs'000	Total	1% Increase	1% decrease
2022			
Properties below 6.5% capitalisation rate	-	-	-
Properties between 6.5% - 10% capitalisation rate	1 216 000	1 114 578	1 433 029
	1 216 000	**1 114 578**	**1 433 029**

KShs'000	Total	1% Increase	1% decrease
2021			
Properties below 6.5% capitalisation rate	-	-	-
Properties between 6.5% - 10% capitalisation rate	1 216 000	1 088 180	1 378 362
	1 216 000	**1 088 180**	**1 378 362**

5.2. Investment properties

KShs '000	2022	2021
Fair value at the beginning of the year	445 213	521 600
Transfer to owner-occupied properties *	-	(76 387)
Fair value at the end the of the year	**445 213**	**445 213**

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

5.3. Investment properties held for sale

The company retained classification of the Karen Property as non current assets held for sale.

Heritage Court property was successfully disposed within the year for Kshs 507million. This was part of the non current assets held for sale as at beginning of year.

The sale of Karen Property is at an advanced stage with the company having executed a sale agreement with a prospective buyer and received a purchase deposit. The sale transfer process is ongoing and expected to be finalized in 2023.

KShs '000	2022	2021
Balance at the beginning of the year	625 263	633 250
Fair value adjustment	-	(7 987)
Disposal	(506 843)	-
Fair value at the end the of the year	**118 420**	**625 263**

Notes to the Financial Statements

6. Financial investments

6.1 Financial investments

KShs'000	2022	2021
Financial investments	**17 840 946**	**16 596 864**
Equity and long-term debt instruments held at fair value through profit or loss	**15 310 404**	**15 157 756**
Listed equities	2 436 868	3 297 419
Government securities	12 873 536	11 860 337
Treasury bills held at amortised cost	**2 530 542**	**1 439 108**
Treasury bills	2 530 542	1 439 108

KShs '000	2022	2021
a) Equities and long-term debt securities		
Equity securities:		
Listed equities	2 436 868	3 297 419
Listed debt securities:		
Government securities	12 873 536	11 860 337
Total	**15 310 404**	**15 157 756**

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

KShs '000	2022	2021
i) Equity securities:		
At start of year	3 297 419	3 115 655
Additions	154 219	1 655 772
Disposals	(445 465)	(1 754 753)
Fair value (loss)/gain	(569 305)	280 745
As at 31 December	**2 436 868**	**3 297 419**
ii) Listed debt securities:		
At start of year	11 860 337	10 901 215
Additions	4 043 618	7 262 326
Disposals	(2 589 731)	(6 544 077)
Accrued interest	59 745	292 594
Fair value loss	(500 433)	(51 721)
As at 31 December	**12 873 536**	**11 860 337**

Notes to the Financial Statements

6. Financial investments (continued)

KShs'000	2022	2021
Maturity analysis: Government securities		
< 1 year	1 455 106	1 097 636
1 - 5 years	8 568 746	7 187 368
5 - 10 years	2 513 075	3 317 092
> 10 years	336 609	258 241
Total	**12 873 536**	**11 860 337**

b) Commercial paper and treasury bills		
Treasury bills	2 530 542	1 439 108

i) Treasury bills		
At start of year	1 439 108	4 150 045
Additions	2 674 210	2 849 357
Disposals	(1 630 586)	(5 620 153)
Accrued interest	47 810	59 859
As at 31 December	**2 530 542**	**1 439 108**

Maturity analysis		
< 3 months	948 405	507 806
4 - 6 months	832 752	339 037
7 - 9 months	451 585	193 941
10 - 12 months	297 800	398 324
At end of year	**2 530 542**	**1 439 108**

6.2 Financial assets held at amortised cost
Loans and receivables

Mortgage loans	443 995	407 656
Policy loans	657 948	937 649
Staff loans	56 663	67 037
As at 31 December	**1 158 606**	**1 412 342**

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

At start of year	1 412 341	1 447 426
Loan advanced	446 458	565 211
Repayments	(514 048)	(318 568)
Accrued interest	90 115	117 317
Other movements	(276 261)	(399 045)
As at 31 December	**1 158 605**	**1 412 341**

i) Mortgage loans		
At start of year	407 655	399 731
Loan advanced	63 066	57 807
Repayments	(41 034)	(62 757)
Accrued interest	14 305	12 874
As at 31 December	**443 992**	**407 655**

Notes to the Financial Statements

6. Financial investments (continued)

KShs'000	2022	2021
ii) Policy loans		
At start of year	937 649	977 237
Loan advanced	362 896	461 450
Repayments	(458 821)	(214 038)
Accrued interest	75 810	104 443
Other movements	(259 585)	(391 443)
As at 31 December	**657 949**	**937 649**
iii) Staff loans		
At start of year	67 037	70 458
Loan advanced	20 496	45 954
Repayments	(14 194)	(41 773)
Impairment	(16 676)	(7 602)
Total	**56 663**	**67 037**

Cash flow movements in financial instruments:

	2022	2021
Disposals of financial instruments		
Equities	(445 465)	(1 754 753)
Government securities	(2 589 731)	(6 544 077)
Treasury bills	(1 630 586)	(6 127 959)
Mortgage loans	(41 034)	(62 757)
Policy loans	(458 821)	(214 038)
Staff loans	(14 194)	(41 773)
Deposits with financial institutions	(1 577 425)	-
Total Amount	**(6 757 256)**	**(14 745 357)**
Purchase of financial instruments		
Equities	154 219	1 655 772
Government securities	4 043 618	7 262 326
Treasury bills	2 233 611	2 849 357
Mortgage loans	63 066	57 807
Policy loans	362 896	461 450
Staff loans	20 496	45 954
Deposits wih financial institutions	-	2 958 285
Total Amount	**6 877 906**	**15 290 951**

7. Insurance receivables

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

		2022			2021		
	ECL Rate %	**Gross carrying amount**	**Impairment allowance**	**Net carrying amount**	**Gross carrying amount**	**Impairment allowance**	**Net carrying amount**
Current	- %	95 628	-	95 628	76 906	-	76 906
1 - 30 days past due	100 %	6 545	(6 545)	-	19 488	(19 488)	-
31 - 60 days past due	100 %	7 480	(7 480)	-	22 272	(22 272)	-
61 - 90 days past due	100 %	4 675	(4 675)	-	13 920	(13 920)	-
More than 90 days past due	100 %	38 076	(38 076)	-	17 828	(17 828)	-
	-	**152 404**	**(56 776)**	**95 628**	**150 414**	**(73 508)**	**76 906**

Notes to the Financial Statements

7. Insurance receivables (continued)

Movement in impairment losses on insurance receivables

KShs '000	2022	2021
Insurance contracts Gross balance	152 404	150 414
Opening impairment loss allowance	(73 508)	(23 692)
Charge to profit or loss	16 732	(49 816)
Closing impairment loss allowance	(56 776)	(73 508)
Receivables arising out of direct insurance arrangements (Net)	**95 628**	**76 906**

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

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

8. Movement in long term policyholder liabilities and reinsurance assets

8(a). Movement in long term policyholder liabilities and reinsurance assets

KShs'000	Policyholder liabilities insurance contract liabilities	Reinsurance assets	Investment contracts with DPF[1]
2022			
Balance at the beginning of the year	**6 791 125**	**(166 831)**	**3 065 073**
Inflows	**2 967 244**	**(289 714)**	**351 644**
Premiums	2 617 686	(289 714)	237 184
Investment returns	349 558	-	114 460
Unwinding of discount rate	330 859	-	-
Investments	18 699	-	114 460
Outflows	**(3 755 435)**	**350 109**	**(560 656)**
Claims and policyholder benefits under insurance contracts	(2 558 630)	267 730	(426 822)
Acquisition costs associated with insurance contracts	(529 306)	82 379	(22 591)
General marketing and administration expenses	(662 464)	-	(90 562)
Taxation	(5 035)	-	(20 681)
Net income from insurance operations	**453 787**	**(214 264)**	**(33 122)**
Assumption and modelling changes	(207 677)	-	-
Discretionary and compulsory margins and other variances	535 280	(214 264)	(33 122)
New business	126 184	-	-
Balance at the end of the year	**6 456 721**	**(320 700)**	**2 822 939**
Movement for the year through income statement	**334 404**	**153 869**	**242 134**
Current	**267 320**	**(320 700)**	**(45 620)**
Non-current	**6 189 401**	**-**	**2 868 558**

Notes to the Financial Statements

8. Movement in long term policyholder liabilities and reinsurance assets (continued)

8(a). Movement in long term policyholder liabilities and reinsurance assets (continued)

KShs'000	Policyholder liabilities insurance contract liabilities	Reinsurance assets	Investment contracts with DPF[1]
2021			
Balance at the beginning of the year	**6 728 593**	**-**	**3 928 865**
Inflows	**3 497 828**	**(342 502)**	**590 137**
Premiums	2 455 734	(342 502)	243 247
Investment returns	1 042 094	-	346 890
Unwinding of discount rate	319 654	-	-
Investments	722 440	-	-
Outflows	**(3 778 330)**	**366 021**	**(1 407 295)**
Claims and policyholder benefits under insurance contracts	(2 801 404)	265 510	(1 258 719)
Acquisition costs associated with insurance contracts	(430 447)	100 511	(28 086)
General marketing and administration expenses	(595 051)	-	(93 251)
Taxation	48 572	-	(27 239)
Net income from insurance operations	**343 036**	**(187 446)**	**(46 634)**
Assumption 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)**	**3 065 073**
Movement for the year through income statement	**(62 532)**	**163 927**	**863 792**
Movement for the year through other comprehensive income			
Current	**146 005**	**(166 831)**	**(50 376)**
Non-current	**6 645 120**	**-**	**3 115 449**

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

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

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

Process used to decide on assumptions and changes in assumptions

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

Mortality and Morbidity

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

8. Movement in long term policyholder liabilities and reinsurance assets (continued)

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

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

- Treasury Bonds – the derived yield from the NSE yield curve, at a duration of 9 years, at the balance sheet date 13.74% (2021: 12.49%);
- Equities – Treasury Bond rate plus 3.5 percentage points as an adjustment for risk 17.24% (2021: 15.98%);
- Property – Treasury Bond rate plus 1 percentage point as an adjustment for risk 14.74% (2021: 13.48%); and
- Cash – Treasury Bond rate less 1.5 percentage points 12.24% (2021: 10.98%).

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 14.40% per annum in 2022 (2021: 13.10% per annum). Where appropriate the investment return assumption is adjusted to make allowance for investment expenses and taxation.

Expenses

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

Expense inflation

The expense inflation assumption is set taking into consideration, market implied inflation, the expected future development of the number of in force policies, as well as the expected future profile of maintenance expenses. The inflation rate is set at the effective 9-year treasury bond yield curve rate less 3.00% when the treasury bond rate is above 8.50%. The expense inflation rate is set at 60% of the treasury bond rate when this is below 6.5%. At treasury bond rates between 6.5% and 8.5% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate inflation assumption of 10.7% at 31 December 2022 (2021: 9.5%).

Changes in assumptions

Modelling and other changes were made to realign valuation assumptions with expected future experience. These changes resulted in an decrease in the net of reinsurance policyholder liabilities of KShs 208 million in 2022 compared to a net increase of KShs 9.4 million in 2021.

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

KShs '000	2022	2021
Withdrawal assumptions	(108 583)	-
Economic valuation assumptions	(85 120)	(23 603)
Change in renewal expense assumption	63 170	20 952
COVID-19 Reserve Modelling Impact	(121 089)	7 726
Balance of modelling and other changes	43 945	4 311
Total increase in net of reinsurance policyholder liabilities	**(207 677)**	**9 386**

Notes to the Financial Statements

8. Movement in long term policyholder liabilities and reinsurance assets (continued)

8(b). Movement in long term policyholder liabilities

KShs'000	Insurance contract	Investment contracts	Long-term policyholder liabilities: Insurance contract with DPF	Reinsurance liabilities	Total
2022					
Investment-linked (excluding discretionary participation features (DPF))	-	10 053 044	-	-	**10 053 044**
Business with DPF	4 967 086	-	2 822 939	-	**7 790 025**
Non-participating annuities (including disability income in claim)	224 744	664 630	-	-	**889 374**
Retail pure risk (excluding disability income annuities in claim)	1 093 767	-	-	-	**1 093 767**
Institutional risk (excluding group disability income annuities in claim)	171 124	-	-	-	**171 124**
Total long-term policyholder and reinsurance liabilities	**6 456 721**	**10 717 674**	**2 822 939**	-	**19 997 334**
2021					
Investment-linked (excluding discretionary participation features (DPF))	-	10 020 541	-	-	**10 020 541**
Business with DPF	5 419 092	-	3 065 073	-	**8 484 165**
Non-participating annuities (including disability income in claim)	241 961	498 284	-	-	**740 245**
Retail pure risk (excluding disability income annuities in claim)	864 803	-	-	-	**864 803**
Institutional risk (excluding group disability income annuities in claim)	265 269	-	-	-	**265 269**
Total long-term policyholder and reinsurance liabilities	**6 791 125**	**10 518 825**	**3 065 073**	-	**20 375 023**

KShs '000	2022	2021
8(c) Long-term liabilities under investment contracts		
Balance at the beginning of the year	10 518 825	8 900 253
Fund inflows from investment contracts	1 975 952	2 422 799
Net fair value adjustment	392 816	854 886
Fund outflows under investment contracts	(1 844 497)	(1 266 676)
Service fee income	(325 422)	(392 437)
Balance at the end of the year	**10 717 674**	**10 518 825**
Net loss from investment contracts	**(98 591)**	**(32 147)**
Service fee income	325 422	392 437
Shareholder taxation on transfer of net income	89 400	28 166
Acquisition costs	(132 603)	(137 467)
General marketing and administration expenses	(380 810)	(315 283)
8(d). Revenue from contracts with customers	**325 422**	**392 437**
Fund inflow from investment contracts	1 975 952	2 442 799
Net fair value adjustment	392 816	854 886
Fund outflows from investment contracts	(1 844 497)	(1 266 676)
Change in actuarial reserves	(198 849)	(1 618 572)

Notes to the Financial Statements

9. Other receivables

KShs'000	2022	2021
Agency advances	3 507	8 183
Sundry debtors	67 804	109 230
Prepayments	67 327	36 857
Interest receivable on call deposits	91 670	86 880
Stock control	5 284	7 935
Total amount	**235 592**	**249 085**

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

KShs '000	2022	2021
Cash and bank balances	352 815	290 567
Deposits with financial institutions	3 717 587	4 326 153
Total cash and cash equivalents	**4 070 402**	**4 616 720**

10.a Deposits with financial institutions		
0-90 days	2 306 846	1 337 988
91 - 365 days	1 410 741	2 988 165
Total amount	**3 717 587**	**4 326 153**

10.b Cash and cash equivalents		
Deposits with financial institutions	2 306 846	1 337 988
Treasury bills	948 405	507 806
Cash and cash balances	352 815	290 567
Total amount	**3 608 066**	**2 136 361**

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

11. Lease liabilities

KShs '000	2022	2021
Recognised on 1 January	19 187	26 132
Additions	11 300	-
Repayments	(9 626)	(9 916)
Interest on lease liabilities	2 555	2 971
Carrying amount at 31 December	**23 416**	**19 187**
Maturity analysis of lease liabilities		
1 - 2 years	5 770	6 622
2 - 5 years	17 646	12 565
	23 416	**19 187**

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

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

The average lease term was 5.5 years and the average effective borrowing rate was 14% (2021: 14%). Interest rates are fixed at the contract date. All leases have fixed repayments and include additional charges for contingent rent based on a percentage of sales.

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

Notes to the Financial Statements

12. Deferred tax liabilities

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% (2021: 30%). Deferred tax liabilities are attributable to the following items:

Year 2022	01 January 2022	Credit to profit or loss	As 31 December 2022
Statutory reserve	885 288	(30 157)	855 131
Revaluation reserve	164 984	-	164 984
	1 050 272	**(30 157)**	**1 020 115**

Year 2021	01 January 2021	Credit to profit or loss	As 31 December 2021
Statutory reserve	952 721	(67 433)	885 288
Revaluation reserve	164 984	-	164 984
	1 117 705	**(67 433)**	**1 050 272**

13. Employee benefits

13.1. Short-term employee benefits

	Leave pay		Short-term incentive schemes		Total	
KShs '000	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Balance at the beginning of the year	17 530	20 265	43 877	54 277	61 408	74 542
Additional provision raised	10 520	4 699	55 728	43 877	66 248	48 577
Utilised during the year	(9 953)	(7 434)	(43 878)	(54 277)	(53 830)	(61 711)
Balance at the end of the year	**18 097**	**17 530**	**55 727**	**43 877**	**73 826**	**61 408**

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

Leave pay

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

Short-term incentive schemes (cash-settled)

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

13.2. Details of funds

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

Defined contribution schemes:

Liberty Defined Contribution Pension Fund

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

Notes to the Financial Statements

13. Employee benefits (continued)

13.3. Transactions between group companies and the funds

13.3.1. The contributions which the company has made on behalf of employees during the year is KShs 47 908 168 (2021: 45 047 686).

13.3.2. Summary of the Liberty Defined Contribution Pension Fund

KShs '000	2022	2021
Liberty Defined Contribution Pension Fund		
Balance at the beginning of the year	702 478	659 777
Contributions	96 192	90 551
Fair value adjustments	11 866	40 058
Withdrawals	(124 683)	(87 908)
Balance at the end of the year	**685 853**	**702 478**

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

14. Insurance and other payables

KShs '000	2022	2021
Accrued expenses	416 518	185 102
Policyholder maturities	180 975	146 571
Provision for unearned premiums	467 332	341 099
Outstanding claims	276 545	339 998
Total other payables	**1 341 370**	**1 012 770**

15. Related party disclosures

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

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 company 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.

Notes to the Financial Statements

15. Related party disclosures (continued)

A. Stanbic Bank Kenya Limited

A1. Financial instrument investments

Stanbic term deposits

KShs '000	2022	2021
Summary of holdings and movements		
Holdings at the beginning of the year	**240 998**	**298 737**
Stanbic Bank Kenya Limited - term deposits	240 998	298 737
Purchases	**2 118 371**	**2 376 613**
Stanbic Bank Kenya Limited-term deposits	2 118 371	2 376 613
Sales	**(1 987 103)**	**(2 434 352)**
Stanbic Bank Kenya Limited-term deposits	(1 987 103)	(2 434 352)
Holdings at the end of the year	**372 266**	**240 998**
Stanbic Bank Kenya Limited - term deposits	372 266	(240 998)

A.2. Financial instrument investments

The company has invested in Stanbic Bank Kenya Limited shares which are traded on the Nairobi stock exchange.

Stanbic equity investments

KShs '000	2022	2021
Summary of holdings and movements		
Holdings at the beginning of the year	**44 284**	**32 202**
Stanbic Bank Kenya Limited-listed equities	44 284	32 202
Purchases	**(3 600)**	**8 551**
Stanbic Bank Kenya Limited-listed equities	3 600	**8 551**
Sales	**(1 925)**	**-**
Stanbic Bank Kenya limited-listed equities	(1 925)	-
Fair value adjustments	**9 453**	**3 531**
Stanbic Bank Kenya Limited-listed equities	9 453	3 531
Holdings at the end of the year	**55 412**	**44 284**
Stanbic Kenya Holdings Plc	55 412	44 284

B. Banking arrangements

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

Summary of cash balances, interest earned and bank charges

KShs '000	2022	2021
Summary of holdings and movements		
Holdings at the beginning of the year	**382 932**	**282 429**
Stanbic Bank Kenya Limited	382 932	282 429
Net movements during the year	**(91 919)**	**100 503**
Stanbic Bank Kenya Limited	(91 919)	100 503
Total	**291 013**	**382 932**

Notes to the Financial Statements

15. Related party disclosures (continued)

C. Income received from related party investments

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

KShs '000	2022	2021
Stanbic Bank Kenya Limited		
Dividend received	3 838	1 255
Rental income	660	615
Heritage Insurance Company Kenya Limited		
Rental income	36 039	31 098
	40 537	**32 968**

D. Bancassurance

Liberty Life Assurance Kenya Limited has a bancassurance business agreement with Stanbic Bank Kenya Limited for the sale and promotion of Life assurance products through the Stanbic Kenya's distribution capability. Premium income in respect of this business in 2022 amounted to KShs 527 million (2021: KShs 473 million). In terms of agreements, Liberty Life Assurance company pays profit share to Stanbic Bank. The amounts to be paid are in most cases dependent on source and type of business. The total combined net profit share amounts accrued as payable to the Stanbic Bank for the year to 31 December 2022 is KShs 68 million (2021: KShs 63 million).

E. Management Services

Liberty Life Assurance Kenya Limited contracts certain management and administration services from Liberty Holdings Limited. Fees paid for services received during the year were KShs 106 million (2021: KSh 111 million).

F. Custodial & Fund management services

Liberty Life Assurance Kenya Limited utilizes custodial services provided by Stanbic Bank. The custody services fees paid during the year was KShs 32.7 million (2021: KShs 32.9 million).

KShs '000	2022	2021
Stanbic Bank Kenya Limited		
Custodial fees	32 759	32 990
	32 759	**32 990**

Liberty pays commission to Stanbic Bank for insurance policies sold through the bank's various distribution channels. The commission paid for the year to 31 December 2022 is KShs 33.8 million (2021: KShs 32.9 million).

G. Outstanding balances with related parties

KShs '000	2022	2021
i) Receivable from:		
Heritage Insurance Company Kenya Limited	19 104	6 801
Liberty Assurance Uganda Limited	838	3 134
Liberty Kenya Holdings Plc	691	16 278
Liberty General Insurance Uganda Ltd	-	2 700
	20 633	**28 913**
ii) Payables to:		
Liberty Kenya Holdings Plc	7 744	-
Liberty Holdings Limited (South Africa)	31 514	21 473
	39 258	**21 473**

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

Notes to the Financial Statements

15. Related party disclosures (continued)

H. Key management personnel

Key management personnel have been defined as follows:

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

Key management compensation

KShs '000	2022	2021
Salaries and other short-term employment benefits	142 137	131 233
	142 137	**131 233**

Directors' remuneration

KShs '000	2022	2021
Fees for services as a director	10 659	18 010
Other emoluments (included in key management compensation above)	38 488	34 820
	49 147	**52 830**

I. Entities significantly influenced or controlled by key management

Insurance products			Premiums received	
KShs '000	**2022**	**2021**	**2022**	**2021**
Life assurance	19 700	9 000	1 110	440

Investment products		Fund value
KShs '000	**2022**	**2021**
Balance at the beginning of the year	163 904	136 717
Premiums received	23 823	30 350
Investment return credited net of charges	4 417	10 090
Commission and other transaction fees	(1 194)	(2 737)
Claims and withdrawals	(10 343)	(10 516)
Balance at the end of the year	**180 607**	**163 904**

16. Share capital

KShs '000	2022	2021
Issued share capital		
Ordinary	612 340	612 340
Addition	130 000	-
Total issued share capital	**742 340**	**612 340**

The total authorised number of ordinary shares is 37,117,000 with a par value of KShs 20 per share. As at 31 December 2022 all issued shares had been fully paid up.

During the year, additional authorised share capital of 7 million shares at par value of Kshs 20 per share were approved, out of which 6.5 million shares were issued and paid.

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

Notes to the Financial Statements

17. Reserves

17.1 Statutory reserve

KShs'000	2022	2021
At start of year	2 065 699	2 223 015
(Deficit)	(100 526)	(224 749)
Deferred tax	30 157	67 433
	1 995 330	**2 065 699**

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

17.2 Revaluation reserve

FShs '000	2022	2021
At start of year	384 947	384 947

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

18. Net insurance premiums

KShs '000	2022	2021
Insurance premium revenue	2 854 870	2 698 981
Reinsurance premium ceded	(289 714)	(342 502)
Net insurance premium revenue	**2 565 156**	**2 356 479**

Life Assurance Business		
Ordinary Life	1 430 618	1 402 710
Pension	237 184	243 247
Group Life	1 312 335	1 179 132
Unearned Premium Reserves	(125 267)	(126 108)
Gross Earned Premiums	**2 854 870**	**2 698 981**
Less: Reinsurance Premiums		
Ordinary Life	(9 156)	(7 073)
Group Life	(280 558)	(335 429)
Reinsurance Premiums	**(289 714)**	**(342 502)**
Net Earned Premiums	**2 565 156**	**2 356 479**

Notes to the Financial Statements

19. Net investment income

KShs '000	2022	2021
i) Investment income		
Rental income from investment property	86 486	119 362
Interest on government securities	1 612 549	1 493 790
Realised investment gains / (loss)	(56 190)	77 381
Dividend income	151 440	97 855
Foreign exchange gain	26 944	12 470
Gross investment income	**1 821 229**	**1 800 858**
ii) Investment expenses		
Fund management and custodial expenses	(97 823)	(108 188)
Investment property expenses	(38 574)	(26 493)
Impairment of financial assets	1 122	(7 602)
Total Investment expenses	**(135 275)**	**(142 283)**
Net investment income	**1 685 954**	**1 658 575**

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

KShs '000	2022	2021
Staff Mortgages	51 357	43 331
Policy Loans	74 803	99 682
Call Deposits	367 477	227 264
Total	**493 637**	**370 277**

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

KShs '000	2022	2021
Investment properties		
Fair value loss on investment property	(2 544)	(7 987)
Financial assets at fair value through profit or loss		
Fair value (loss)/gain on financial assets	(1 069 736)	223 006
Total fair value adjustments to assets held at fair value through profit or loss	**(1 072 280)**	**215 019**

21. Claims and policyholder benefits

21.1. Claims and policyholder benefits under insurance contracts

KShs '000	2022	2021
Insurance claims and policyholder benefits	2 985 453	4 060 123
Insurance claims recovered from reinsurers	(267 730)	(265 510)
Total claims and policyholder benefits	**2 717 723**	**3 794 613**
Comprising:		
Long-term insurance: Retail	**1 521 620**	**1 679 994**
Death and disability claims	63 333	70 136
Policy maturity claims	851 277	961 683
Policy surrender claims	607 010	648 175
Long-term insurance: Institutional	**1 196 103**	**2 114 619**
Death and disability claims	769 281	1 074 429
Scheme terminations and member withdrawals	426 822	1 040 190
Total claims and policyholder benefits	**2 717 723**	**3 794 613**

Notes to the Financial Statements

21. Claims and policyholder benefits (continued)

21.2. Claims and policyholder benefits under insurance and investments contracts

KShs '000	2022	2021
Insurance claims and policyholder benefits	2 985 453	4 060 123
Fund outflows under long-term investment contracts	1 844 497	1 266 676
Total claims and policyholder benefits	**4 829 950**	**5 326 799**
Insurance claims recovered from reinsurers	(267 730)	(265 510)
Net claims and policyholder benefits	**4 562 220**	**5 061 289**
Comprising:		
Long-term insurance: Retail	**1 718 992**	**2 380 826**
Death and disability claims	63 333	70 136
Policy maturity claims	969 755	961 678
Policy surrender claims	685 904	1 349 012
Long-term insurance: Corporate	**2 843 228**	**2 680 463**
Death and disability claims	769 281	808 923
Scheme terminations and member withdrawals	2 036 827	1 819 328
Annuity payments	37 120	52 212
Total claims and policyholder benefits	**4 562 220**	**5 061 289**

22. Acquisition costs

KShs '000	2022	2021
Commissions - Paid	418 870	385 226
Pension fund contribution	15 302	13 684
Allowance costs	76 008	57 686
Group life and medical expenses	23 530	23 593
Channel development incentives	27 785	36 380
Sales campaign & promotion expenses	22 510	10 905
Welfare expenses	8 161	7 908
Premium tax	41 779	37 834
Other direct acquisition costs	50 555	22 784
Total acquisition costs	**684 500**	**596 000**

23. General marketing and administration expenses

KShs '000	2022	2021
Employee costs (note 23.1)	542 991	516 423
Office costs	90 181	131 585
Amortisation of intangible assets (note 2)	50 477	52 919
Depreciation owned assets (note 4.1.1)	26 782	24 161
Training	8 620	9 224
Statutory audit fees	11 250	10 102
Taxation fees	3 088	2 998
Actuarial fees	16 829	12 284
Legal fees	14 333	7 250
External consultant fees	46 720	5 025
Directors fees	10 659	18 010
Management support costs	105 938	111 364
Premium collection charges	17 583	23 490
System costs	117 432	79 000
Sponsorship and awards	9 114	5 276
	1 071 997	**1 009 111**

Notes to the Financial Statements

23. General marketing and administration expenses (continued)

23.1. Employee Costs

KShs '000	2022	2021
Salaries and wages	400 461	395 967
Staff medical costs	32 828	32 815
Staff and management incentive schemes	48 211	28 027
Other Retirement contribution	36 241	40 120
Other staff emoluments	25 250	19 494
Total staff costs	**542 991**	**516 423**

Number of staff		
Permanent salaried staff	139	130
Commission-remunerated agents (tied distribution)	307	347

24. Income tax

24.1. Sources of taxation

KShs '000	2022	2021
	(11 453)	**41 781**
Current year taxation	(41 610)	(25 652)
Deferred taxation (Note12)	30 157	67 433
Total taxation	**(11 453)**	**41 781**
Charged through profit or loss	(11 453)	41 781

24.2. Taxation rate reconciliation

KShs '000	2022	2021
Profit before taxation per statement of comprehensive income	(58 914)	(199 096)
Tax calculated at domestic tax rate 30% (2021: 30%)	(17 674)	(59 729)
Tax effect of:		
Expenses not dedutible for tax purposes	29 127	17 948
Income tax expense/(credit)	**11 453**	**(41 781)**

24.3 Current tax receivable movement

KShs '000	2022	2021
As at 1 January	50 625	52 794
Instalment tax paid	31 342	23 483
Current tax charge for the year	(41 610)	(25 652)
As at 31 December	**40 357**	**50 625**
Comprising		
Current tax receivable	**40 357**	**50 625**

Notes to the Financial Statements

25. Cash utilised by operations

Reconciliation of profit before income tax to cash generated from operations

KShs '000		2022	2021
Reconciliation of total earnings to cash utilised by operations			
Loss before taxation		(58 916)	(199 096)
Adjustments for:			
Interest income on assets using the effective interest rate method	19	(493 638)	(370 278)
Interest income on government securities	19	(1 612 549)	(1 493 790)
Finance costs	11	2 555	2 971
Depreciation property, plant and equipment	4.1.1	26 782	24 161
Depreciation right-of-use asset	4.1.2	7 084	2 255
Amortisation of intangible assets	2	50 477	51 276
Fair value loss on investment property	20	2 544	7 987
Foreign exchange gain	19	(26 944)	(12 470)
Impairment of financial assets	19	(1 122)	7 602
Dividend income	19	(151 440)	(97 855)
Other net investment income	19	1 175 838	(285 068)
Adjustments for non-cash items:			
Insurance contract liabilities		(334 404)	62 532
Movement in investment with DPF contracts		(242 134)	(863 792)
Movement in investment contracts		198 849	1 618 572
Other payables		358 804	252 119
Creditors arising from reinsurance		94 511	(1 299)
Deferred acquisition costs		(8 120)	(9 860)
Reinsurance receivables		(153 869)	(163 927)
Insurance receivables		(18 722)	40 767
Other assets		21 771	(99 787)
Cash utilised by operations		**(1 162 643)**	**(1 526 980)**

26. Contingent liabilities and commitments

i) Taxes

The company has outstanding matters with Kenya Revenue Authority (KRA) as a result of an assessment carried out in 2022. The Company has raised objections to the assessment at Tax Appeal Tribunal (TAT) and is awaiting for hearing proceedings date to be fixed. The Directors have assessed the nature of the tax assessment and are of the opinion that outcome of the appeal will not have material effect on the financial position or earnings of the company.

ii) Unclaimed financial assets

The company has an outstanding matter with the Unclaimed Financial Assets Authority (UFAA) following an audit carried out in 2019.The company challenged the audit findings in the same year and the matter has remained unsettled since then. The Directors are of the opinion that the conclusion of the matter will not have material effect on the financial position or earnings of the company.

27. Subsequent events

There were no events after 31 December 2022 that would have a material effect, adjusting or non-adjusting, on the financial statements.

Risk management

1. Enterprise risk management (ERM) at a glance

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

(a) Overview

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

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

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

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

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

Risk management

1. ERM at a glance (continued)

(a). Overview

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

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

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

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

(b) Risk strategy

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

Risk strategy	Business strategy link
Liberty's risk philosophy is to ensure the sustainable growth of its business, by encouraging profitable risk-taking and ensuring that it operates within the risk appetite.	Liberty's strategic plan is based on strategic objectives and concentrates on the growth of the core business.
Liberty's risk preferences are classified according to: • risks that the company actively seeks as a result of being in the business of underwriting and managing risks (i.e. insurance, market, credit and liquidity risks), all of which are viewed as value-enhancing; 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).	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 company outside risk appetite).
All other risks are avoided as far as possible.	

(c) Risk appetite and risk target

Definition

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

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

Risk management

1. ERM at a glance (continued)

(c) Risk appetite and risk target (continued)

Determining risk appetite

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

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

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

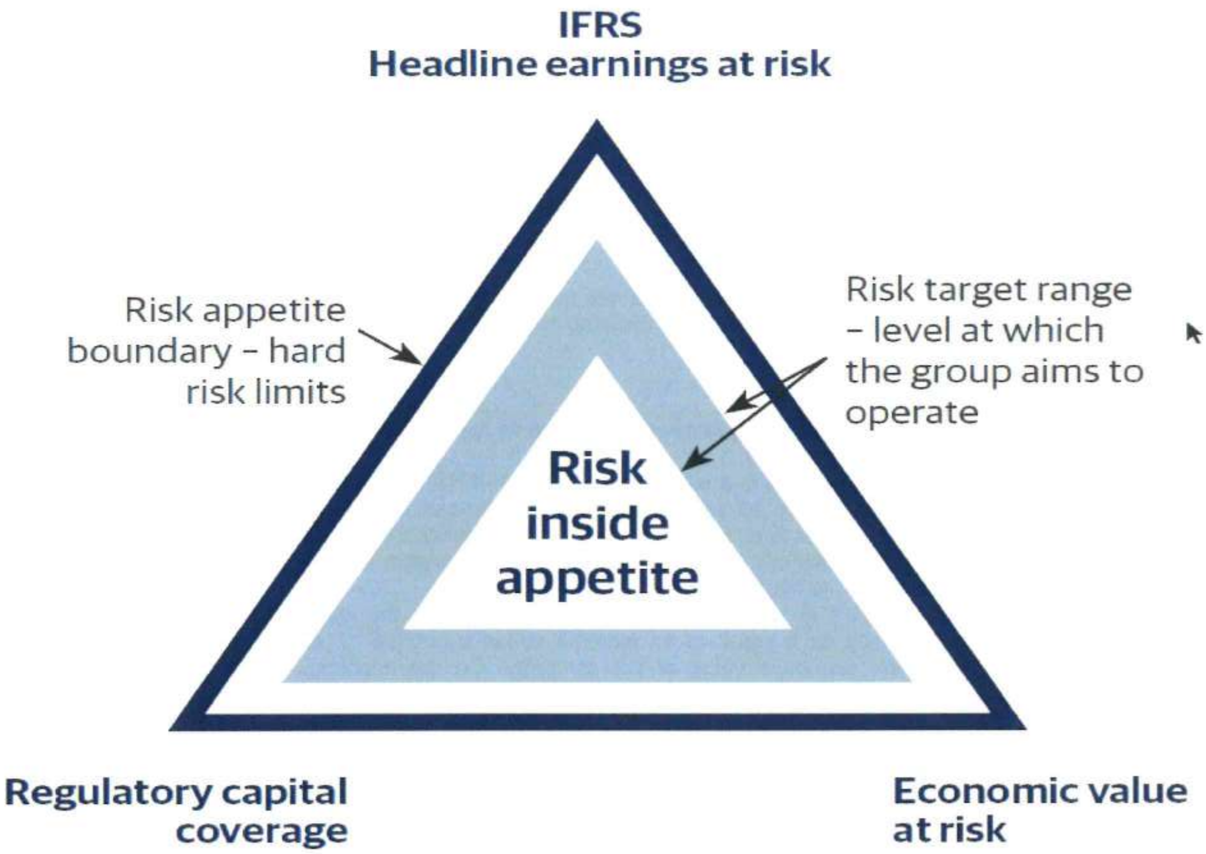
Risk dimensions and measurement

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

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

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

Risk management



Risk management framework

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

Governance of the risk management system

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

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

- The Board monitors and provides oversight on "people" risks (such as those that arise from major business-wide change), customer fairness related risks, technology and information assets and processes, including: infrastructure, applications, information security (including cyber security), disaster recovery, IT investments and IT projects. The Board ensures the integration of technology and information risks into the company's risk management system. The Executive committee is responsible for ensuring appropriate IT process governance and prioritisation of project delivery.

Risk management

Governance of the risk management system (continued)

- The Audit and Risk Committee (ARC) is responsible for providing the Boards with oversight relating to risk and control matters, and reviews Liberty's risk and control philosophy, strategy, frameworks, policies and processes and effectiveness of the risk management system. The ARC is also responsible for reviewing compliance with risk policies and for the overall risk profile of Liberty. The Committee also has primary responsibility for risks relating to the production of financial statements and for compliance and legal risks.
- The Investment Committee is delegated authority by the Board to provide oversight of the company's investment position. This committee is also responsible for providing recommendations to the ARC regarding all risk and control related issues that require escalation to the Board.
- The Joint IT Committee and the Audit & Risk Committee are responsible for ensuring appropriate IT process governance and prioritisation of project delivery.

(d) Understanding Liberty's risks

Risk identification and assessment process

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

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

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

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

Stress testing

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

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

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

Risk mitigation

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

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

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

Risk management

Risk response, monitoring and reporting

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

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

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

Liberty's top risks

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

Risk strategy	Business strategy link
Insufficient scale and distribution capability Classification: • Strategic and business risk • Insurance risk • Business conduct risk	Management is focusing on: • enhancing the relationship management model across all distribution channels; and • enhancing intermediary experience through servicing and tools; and • building loyalty and increasing value add services to distribution channels.
Inadequate solutions and customer value proposition Classification: • Strategic and business risk • Insurance risk	The Company has undertaken to: • review of legacy products to simplify and enhance value to customers; and • develop effective end-to-end solutions to target customer segments.
Low returns to customers and shareholders below expectations Classification: • Strategic and business risk • Market risk • Business conduct risk	The Company continues to enhance investment capabilities by: • Investment propositions continue to be diversified and focused on optimizing returns to customers and shareholders; and • enhancing tracking of key levers, performance monitoring and benchmarking.
Instability in the socio political & economic environment aggravated by Covid 19 pandemic, climate change and conflicts Classification: • Insurance risk • Market risk • Credit risk • Operational risk	The Company maintains strong capital and liquidity positions. It manages its asset/liability matching position within risk limits. In addition, the Group and Company performed stress tests during the course of 2022 which included a scenario of negative economic impact in Kenya as well as a scenario involving distressed financial markets to prepare for the potential impacts on the business.
Changes in the operating environment as a result of the changing regulatory landscape Classification: • Strategic and business risk • Compliance and legal risk	The Company continues to develop strategic and pragmatic responses to new and emerging regulation while ensuring there are adequate processes and controls to maintain a zero-tolerance to non-compliance with existing legislations. Enhancement of regulatory interactions and engagements continues to enable the company remain as a model citizen.

Risk management

Risk strategy	Business strategy link
Substantial complexity due to inadequate legacy management and an inadequate control environment Classification: • Operational risk • Insurance risk • Business conduct risk	Complexity reduction through simplification of legacy system, products and processes while maintaining focus on effective end-to-end solutions on new initiatives. Management has rationalised several products and systems in recent years reducing the associated operational complexity and risk. Digitization and automation remain as key strategic pillars.
Increased data risk and privacy requirements Classification: • Operational risk • Compliance and legal risk	Management continues to put in place: • data governance and classification aligned to business practices; and • review of critical third-party suppliers and enhancing assessment of compliance; and • enhanced controls to mitigate impact on exposures to regulations.

(e) Capital management

Capital management strategy

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

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

Company

The Board of Directors are responsible for providing oversight to the systems and processes in place to ensure compliance with the regulatory framework as established by the Insurance Regulatory Authority. The company is primarily regulated by the Insurance Act, 1987, Companies Act, 2015, and the Retirement Benefit Authority Act, 1997 and related regulations and guidelines issued by these regulators.

The objectives when managing capital are to:

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

The Insurance Act requires Long-term insurance businesses to:

- maintain solvency ratio of 200% and above by 1st January 2022.
- hold minimum paid up capital of KShs 400 million by the 1st January 2022.

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

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

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

Risk management

Available capital

The company 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 Liberty Life Assurance Kenya Limited.

	Long Term business	
Liberty Life Assurance Kenya Limited	**2022 KShs'000**	**2021 KShs'000**
Available capital (or "own funds")	2 270 381	2 130 479
Minimum required capital	1 000 492	1 012 489
Solvency ratio (times)	2.27	2.10
Target SCR coverage ratio (times)	**2.5-3.5**	**2.5-3.5**

Capital Adequacy Ratio (CAR)	**2022 KShs '000**	**2021 KShs '000**
Credit Risk Capital	474 946	445 182
Market Risk Capital	495 720	564 400
Insurance Risk Capital	231 201	213 427
Operations Risk Capital	217 322	224 957
Risk Based Capital	**941 729**	**974 814**
Total Capital Available (TCA)	**2 270 381**	**2 130 479**
Absolute Amount Minimum	400 000	400 000
Volume of Business Minimum	1 000 492	1 012 489
Risk Based Capital Minimum	941 729	974 814
Minimum Required Capital	1 000 492	1 012 489
Minimum Required Capital	**1 000 492**	**1 012 489**
Capital Adequacy Ratio (%)	227 %	210 %
Solvency ratio (times)	**2.27**	**2.10**

The Company's solvency is computed in accordance with the Insurance Regulatory Authority Risk Based Capital model. In the year under review, the Company's solvency ratio was 227% (2021: 210%).

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.

Risk management

2. Strategic and business risk (continued)

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

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

3. Insurance risk

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. These could have adverse impacts on the company's earnings and capital if different from those assumed.

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

Ownership and accountability

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

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

There are Board committees in place to provide oversight on all aspects of insurance risk. These committees are:

- Audit and Risk Committee;
- Joint Actuarial Committee supporting the Audit and Risk Committee.

Managing insurance risk includes:

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

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

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

Risk identification, assessment, measurement and management

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

Risk management

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

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

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

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

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

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

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

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

Reporting

The company prepares quarterly reports that include information on insurance risk. The reports are presented to the Audit and Risk Committee (ARC) for review and discussion. Major insurance risks are incorporated into a report by the Head of Risk on the company's overall risk which is submitted to the ARC. In addition, the Joint Actuarial Committee reviews actuarial methodology and assumptions used in mitigating insurance risk. Where it is deemed necessary, material insurance risk exposures are escalated to the Board.

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

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

Policyholder behaviour risk

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

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

Risk management

Policyholder behaviour risk

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

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

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

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

Underwriting risks

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

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

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

Mortality and morbidity risk

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

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

a. Pricing

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

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

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

b. Terms and conditions

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

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

Risk management

Mortality and morbidity risk (continued)

c. Underwriting

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

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

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

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

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

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

d. Claims management

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

e. Reinsurance

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

Regular reviews, which consider risk appetite, are conducted on reinsurance arrangements for new and existing business. The levels of reinsurance purchased for new business written in 2022 were broadly similar to those in recent years. The terms of the reinsurance arrangement in place for the long-term individual risk business allows for reinsurance terms e.g. reinsurance retention limits to be reviewed annually for the business in force. In some instances where underlying policyholder benefits are annually renewable, for example institutional business, reinsurance is annually renewable.

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

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

f. Allowance in policyholder liabilities and capital requirements

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

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

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

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

Risk management

Mortality and morbidity risk (continued)

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

Longevity risk

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

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

The company manages the longevity risk by:
- annually monitoring the actual longevity experience and identifying trends over time;
- annually verifying annuitants are still alive.

Retrenchment risk

The company offers retrenchment risk cover products, which means it takes on the risk associated with retrenchment. This risk involves the possibility of higher-than-expected benefits and lower-than-predicted re-employment rates, leading to longer payment periods for claims. The risk is heightened during difficult economic times, such as the current global recession caused by the Russia-Ukraine conflict, high inflation, and the impact of the COVID-19 Pandemic. To manage this risk, the company sets appropriate prices and structures its retrenchment product benefits in a way that limits the maximum period for payments before re-employment. This helps the company effectively manage the retrenchment risk.

Expense and new business risks

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

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

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

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

In the measurement of policyholder liabilities, a margin as described in the accounting policies is added to the best estimate expenses. In the calculation of capital requirements, allowance is made for the following risks in respect of expenses:
- the risk that the actual level of expenses is different from expected; and
- the risk that the rate at which the company's expenses increase is greater than assumed relative to the rate of inflation. The risk that inflation is higher than expected is treated as a market risk.

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

Risk management

4. Market risk

Definition

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

Ownership and accountability

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

The Investment Committee, which is a committee of the Board, is charged with providing oversight to ensure that market risk remains within approved risk limits.

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

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

Risk identification, assessment and measurement

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

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

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

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

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

Risk management

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

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

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

Risk management

Assets comprising Shareholder capital

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

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

Asset/liability management (ALM)

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

Alignment of market risk exposure to risk appetite statement

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

Market risk targets are set within risk appetite. These targets guide the setting of market risk limits for the ALM. During 2022, the company remained within market risk limits.

Risk reporting

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

Summary of company assets subject to market risk

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

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

		Attributable to			
Risk category KShs '000	**Total assets**	**Long-term policyholder investment-linked (including DPF) liabilities**	**Other policyholder liabilities[3]**	**Non-controlling interests**	**Residual liabilities and shareholders' interests**
2022					
Assets subject to market risk only	**3 771 289**	**1 788 180**	**1 864 689**	**-**	**118 420**
Equity price	2 436 869	1 496 180	940 689	-	-
Property price[1]	1 334 420	292 000	924 000	-	118 420
Assets subject to market and credit risk	**20 600 971**	**11 653 100**	**4 219 012**	**-**	**4 728 859**
Interest rate	20 280 271	11 653 100	3 898 312	-	4 728 859
Reinsurance assets[2]	320 700	-	320 700	-	-
Other assets not included in the asset class table	1 036 017	369	471 984	-	563 664
Total	**25 408 277**	**13 441 649**	**6 555 685**	**-**	**5 410 943**
Percentage (%)	**100 %**	**53 %**	**26 %**	**- %**	**21 %**

Risk management

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

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

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

(3) Negative exposure to the various risk categories can occur in 'Other policy holder liabilities' since the present value of future inflows can exceed the present value of future benefits and expenses resulting in a negative liability. The company 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.

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

KShs '000	2022	2021
Deferred taxation	1 020 115	1 050 272
Lease liabilities	23 416	19 187
Employee benefits	73 826	61 408
Related party balances	39 258	21 473
Creditors arising from reinsurance arrangements	94 511	-
Insurance and other payables	1 341 370	1 012 770
Ordinary shareholders' equity	2 818 447	2 758 816
	5 410 943	**4 923 926**

Market risk by product type

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

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

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

- For IFRS defined investment contracts, the company typically holds the assets on which the unit prices are based. In such a scenario, there is virtually no mismatch.
- In respect of IFRS defined insurance contracts with investment- linked components, the liability is reduced by the corresponding negative shilling reserve. Some market risk is consequently retained by the company on this business, to the extent that the negative shilling reserve does not move in line with the investment-linked liabilities. This risk is managed as part of the ALM.
- Management fees charged on this business are determined as a percentage of the fair value of the underlying assets, which are subject to market risk. As a result, the management fees tend to fluctuate but, by design, will always be positive.

Risk management

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

- 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.

(b) Guarantees on investment-linked business

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

The policyholder liabilities in respect of minimum investment return guarantees including the policyholder bonuses amounted to KShs 2,822,938,891 (2021: KShs 3,065,397,154). The products under this category are Boresha Maisha Guaranteed and Deposit Administration.

(c) Non-participating annuities

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

The Investment Committee provides oversight to ensure interest rate risk on non-participating annuity business in the policyholder portfolio are well managed.

(d) Long-term insurance contracts with DPFs

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

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

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

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

(e) Pure risk products (excluding annuities)

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

Risk management

Market risk by asset or liability class for financial instruments

(a) Interest rate risk

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

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

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

Amount by maturity date KShs '000	Fixed	Floating	2022 Total	Fixed	Floating	2021 Total
Within 1 year	7 906 264	-	7 906 264	7 149 762	-	7 149 762
1 – 5 years	9 103 191	-	9 103 191	7 926 182	-	7 926 182
6 – 10 years	2 643 822	-	2 643 822	3 437 138	-	3 437 138
11 – 20 years	613 620	-	613 620	512 580	-	512 580
Over 20 years	13 374	-	13 374	12 280	-	12 280
Variable	-	-	-	-	-	-
Total	**20 280 271**	-	**20 280 271**	**19 037 942**	-	**19 037 942**

(b) Currency risk

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

(c) Property market risk

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

(d) Diversification benefits

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

5. Credit risk

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, where default refers to failure by a debtor to make the required payments on debt obligation.

Taking of credit risk

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

Risk management

Management and measurement

The Board has delegated oversight of credit risk management to the Investment Committee.

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

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

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

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

The company's risk function is responsible for oversight of all material credit risk. It establishes and defines the overall framework for the consistent governance, identification, measurement, monitoring, management and reporting of credit risk.

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

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 and highly rated investment options.

Overall, the credit risk exposures at 31 December 2022 remains heavily weighted towards Kenyan counterparties including government and top tier Kenyan banks.

Rating methodology

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

Rating scale

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

Investment grade

A– and above	Strong to extremely strong capacity to meet financial commitments.
BBB	Adequate capacity to meet financial commitments, but vulnerable to severe adverse economic conditions.

Non-investment grade

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

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

Risk management

Characteristics of credit risk exposures (continued)

Not rated

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

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

The loans reflected as not rated relate to loans granted by Liberty to policyholders, which are secured by their policies either as cash loans or to secure their policies on default of premium payment in line with the non-forfeiture rules provided by regulations.

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

Risk management

Credit exposure

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

KShs '000	A- and above	BBB+	BBB-	BB+	BO	BB- and below	Not rated	Pooled funds	Total
2022									
Debt instruments	**15 404 078**	-	-	-	-	-	**1 158 606**	-	**16 562 684**
Listed government bonds	15 404 078	-	-	-	-	-	-	-	**15 404 078**
Loans	-	-	-	-	-	-	1 158 606	-	**1 158 606**
Reinsurance assets	320 700	-	-	-	-	-	-	-	**320 700**
Prepayments and other receivables	-	-	-	-	-	-	-	-	**-**
Deposits with financial institutions	-	2 777 310	940 277	-	-	-	-	-	**3 717 587**
Cash balances	11 720	301 898	39 197	-	-	-	-	-	**352 815**
Total assets bearing credit risk	**15 736 498**	**3 079 208**	**979 474**	-	-	-	**1 158 606**	-	**20 953 786**
2021									
Debt instruments	**13 299 445**	-	-	-	-	-	**1 412 342**	-	**14 711 787**
Listed government bonds	13 299 445	-	-	-	-	-	-	-	**13 299 445**
Loans	-	-	-	-	-	-	**1 412 342**	-	**1 412 342**
Reinsurance assets	166 831	-	-	-	-	-	-	-	**166 831**
Prepayments and other receivables	-	-	-	-	-	-	249 085	-	**249 085**
Deposits with financial institutions	-	3 314 653	1 011 500	-	-	-	-	-	**4 326 153**
Cash balances	16 384	264 624	9 559	-	-	-	-	-	**290 567**
Total assets bearing credit risk	**13 482 660**	**3 579 277**	**1 021 059**	-	-	-	**1 661 427**	-	**19 744 423**

Risk management

Reinsurance assets

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

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

Insurance and other receivables

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

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

Capital requirements

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

6. Liquidity risk

Definition

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

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

Ownership and accountability

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

Risk identification, assessment and measurement

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

The liquidity assessment at 31 December 2022 indicates a healthy surplus of sources of liquidity available to meet stressed outflows across the Liberty Life Assurance Kenya Limited's balance sheet.

Risk management

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

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

Risk management

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

Risk reporting

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

Liquidity profile of assets

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

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

	2022		2021	
Financial, property and insurance asset liquidity	**%**	**KShs '000**	**%**	**K Shs '000**
Liquid assets (realisable within one month e.g. cash, listed equities, term deposits, government securities)	90.00	17 988 281	89.00	18 109 129
Medium assets (realisable within six months e.g. unlisted equities, certain unlisted term deposits)	4.00	793 053	3.00	538 318
Illiquid assets (realisable in excess of six months e.g. investment properties)	6.00	1 216 000	8.00	1 727 575
	100 %	**19 997 334**	**100 %**	**20 375 022**

Liability profile

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

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

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

The tables below illustrate the maturity profile of the company's financial instrument liabilities and the expected liability cash flows arising out of long-term insurance and investment contracts. Note 8(a) of the annual financial statements shows the anticipated settlement profile of long-term insurance liabilities on a best estimate basis.

Maturity profile of financial instrument liabilities

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

	Contractual cash flows (excluding policyholder liabilities, derivative liabilities and lease liabilities)					
KShs '000	**0 - 3 months(1)**	**3 - 12 months**	**1 - 5 years**	**5 - 10 years**	**Variable**	**Total**
2022						
Insurance and other payables	564 478	588 940	187 952	-	-	1 341 370
Total	**564 478**	**588 940**	**187 952**	**-**	**-**	**1 341 370**
2021						
Insurance and other payables	483 231	385 273	144 266	-	-	1 012 770
Total	**483 231**	**385 273**	**144 266**	**-**	**-**	**1 012 770**

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

Risk management

Expected cash flows from long-term insurance business

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

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

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

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

	Insurance contracts				
Expected cash flows (KShs '000)	**Policyholder liabilities**	**Policyholder assets**	**Reinsurance assets and liabilities**	**Investment contracts with DPF**	**Investment contracts**
2022					
Investment-linked liabilities					
Within 1 year	96 327	-	-	(45 620)	(15 395)
1 - 5 years	528 436	-	-	126 646	1 799 730
6 - 10 years	1 598 312	-	-	1 146 137	4 132 410
11 - 20 years	1 380 245	-	-	1 595 776	4 285 910
Over 20 years	3 978	-	-	-	515 019
Total investment-linked liabilities	**3 607 298**	**-**	**-**	**2 822 939**	**10 717 674**
Non-investment-linked liabilities/(assets)					
Within 1 year	170 992	-	-	-	-
1 - 5 years	1 876 203	-	(320 700)	-	-
6 - 10 years	2 577 637	-	-	-	-
11 - 20 years	4 636 142	-	-	-	-
Over 20 years	790 275	-	-	-	-
Effect of discounted cash flows	(7 201 826)	-	-	-	-
Total non-investment-linked liabilities/(assets)	**2 849 423**	**-**	**(320 700)**	**-**	**-**
Total long-term insurance policyholder liabilities	**6 456 721**	**-**	**(320 700)**	**2 822 939**	**10 717 674**
Total surrender value of long-term insurance policyholder liabilities	**3 607 299**	**-**	**-**	**2 822 939**	**10 717 674**

Risk management

Expected cash flows (KShs '000)	Insurance contracts: Policyholder liabilities	Insurance contracts: Policyholder assets	Reinsurance assets and liabilities	Investment contracts with DPF	Investment contracts
2021					
Investment-linked liabilities					
Within 1 year	(148 807)	-	-	(49 532)	122 823
1 - 5 years	461 740	-	-	137 508	2 285 112
6 - 10 years	1 152 614	-	-	1 244 445	4 147 759
11 - 20 years	2 179 638	-	-	1 732 652	3 783 239
Over 20 years	22 471	-	-	-	179 892
Total investment-linked liabilities	**3 667 656**	-	-	**3 065 074**	**10 518 825**
Non-investment-linked liabilities/(assets)					
Within 1 year	294 812	-	-	-	-
1 - 5 years	1 948 743	-	166 831	-	-
6 - 10 years	2 857 341	-	-	-	-
11 - 20 years	1 986 960	-	-	-	-
Over 20 years	793 226	-	-	-	-
Effect of discounted cash flows	(4 757 611)	-	-	-	-
Total non-investment-linked liabilities/(assets)	**3 123 471**	-	**166 831**	-	-
Total long-term insurance policyholder liabilities	**6 791 125**	-	**166 831**	**3 065 074**	**10 518 825**
Total surrender value of long-term insurance policyholder liabilities	**3 668 243**	-	-	**3 065 073**	**10 518 825**

Capital requirements

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

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

7. Operational risk

Definition

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

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

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

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

Approach to managing operational risk

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

Risk management

Approach to managing operational risk (continued)

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

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

Insurance cover for operational risk

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

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

Capital requirements

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

Reporting

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

Operational risk reports include information relating to:

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

Management of key operational risks

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

People risk

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

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

Information security risk (including cyber risk)

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

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

Risk management

Information security risk (including cyber risk) (continued)

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

Information Technology risk

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

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

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

Third party risk

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

Operational process risk

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

Financial control risk

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

8. Business conduct risk

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.

Risk management

Approach to managing business conduct risk

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

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

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

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

Risk reporting

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

Key business conduct risks in 2022

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 2022 and will continue to be a focus in 2023 include:

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

9. Compliance and Legal risk

Definition

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

Compliance risk

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

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

Financial crime risk

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

Financial crime risk is managed through forensics and compliance capabilities and by strengthening the risk culture to 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.

Risk management

10. Concentration risk

Definition

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

Asset manager allocation

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

	2022		2021	
	%	KShs '000	%	KShs '000
Self managed	20 %	4 979 827	22 %	5 577 054
Sanlam fund managers	36 %	9 222 414	33 %	8 273 937
ICEA LION Asset Management (ILAM)	44 %	11 206 036	45 %	11 447 958
Total financial, property and insurance assets	**100 %**	**25 408 277**	**100 %**	**25 298 949**

Potential risks associated with asset managers are:

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

Country of Operation

The company was founded in Kenya over 50 years ago and has, during this time, concentrated mainly on providing risk and investment products to Kenyan customers. Consequently, both the company's asset base and liabilities contain significant Kenyan risks with limited exposure to foreign backed assets and liabilities. Most of the assets invested in the entity are Kenyan sovereign debt instruments..

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

11. Sensitivity analysis

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

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

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

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

Insurance risk variable	Description of sensitivity
Assurance mortality	A level percentage change in the expected future mortality rates on assurance contracts
Annuitant longevity	A level percentage change in the expected future mortality rates on assurance contracts

Risk management

Morbidity	A level percentage change in the expected future mortbidity rates on assurance contracts
Withdrawal	A level percentage change in the expected future withdrawals on assurance contracts
Expense per policy	A level percentage change in the expected maintenance expenses

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

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

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

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

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

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

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

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

Risk management

Assumption description KShs '000	Change in variable %	Gross of reinsurance impact on policyholder contract values	Net of reinsurance impact on policyholder contract values	Impact on ordinary shareholders' equity and attributable profit after taxation	Policyholders impact on profit after taxation
2022					
Insurance assumptions					
Mortality	+2	4 210	4 210	(4 210)	(4 210)
Assured lives	-2	(4 127)	(4 127)	4 127	4 127
Annuitant longevity	+4	619	705	(705)	(705)
	-4	(607)	(691)	691	691
Withdrawals	+8	(34 227)	(34 227)	34 227	34 227
	-8	37 023	37 023	(37 023)	(37 023)
Expense per policy	+5	74 989	74 989	(74 989)	(74 989)
	-5	(74 126)	(74 126)	74 126	74 126
Market assumptions					
Interest rate yield curve	+12	(184 370)	(184 370)	80 743	80 743
	-12	221 216	221 216	(97 275)	(97 275)
Equity prices	+15	494 613	494 613	98 923	98 923
	-15	(494 613)	(494 613)	(98 923)	(98 923)

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

Accounting Policies

1.1 Reporting entity

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

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

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

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

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

1.2 Basis of preparation

The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Kenyan Companies Act, 2015. In addition, the company aligned the presentation of its annual financial statements for the year ended 31 December 2022 to those of Liberty Holdings Limited (LKH).

Basis of measurement

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

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

(i) Functional and presentation currency

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

(ii) Use of estimates and judgements

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

1.3 New IFRS standards and amendments

1.3.1 New and amended standards and interpretations in issue but not yet effective the year ended 31st December 2022

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2022 and have not been applied in preparing these financial statements. The company does not plan to early adopt these standards. These are summarised below:

1. Those expected to have a significant impact on the financial statements of the Company

IFRS 17 Insurance Contracts (IFRS 17) effective from 1 January 2023

The effective date of IFRS 17 is for years commencing 1 January 2023. IFRS 4 *Insurance Contracts* (IFRS 4), the existing standard dealing with the accounting treatment for insurance contracts will be replaced by IFRS 17 for the company's financial year commencing 1 January 2023 (with 2022 comparative information restated as required by the standard). IFRS 17 provides the basis of measurement for defined insurance contracts, including reinsurance contracts held, as well as investment contracts with discretionary participation features (DPF), which are scoped into IFRS 17 measurement from IFRS 9 *Financial Instruments* (which is no change from IFRS 4).

Whereas IFRS 4 required the use of local accounting practices in measuring insurance liabilities (which essentially referred to the local actuarial guidance), IFRS 17 introduces defined accounting models which will increase the comparability of information reported by all reporting entities that issue insurance contracts. Alignment to accounting principles applied to other industries (besides insurance) that report under IFRS, was a key objective of the standard. In particular, revenue recognition principles and disclosure comparisons between industries have specifically been enhanced. There are very closely aligned recognition principles between IFRS 17 and IFRS 15 *Revenue from Contracts with Customers.*

IFRS 17 needs to be retrospectively applied for the first date of adoption, being 1 January 2022, as if IFRS 17 had always been in place. Due to the long contract boundaries of certain contracts in the scope of IFRS 17, the standard permitted once off optional transition simplifications where it would be impracticable to apply components fully retrospectively. Transition to IFRS 17 is discussed in more detail below.

Project governance, status and process going forward

Liberty Life Assurance Kenya Limited being part of the Liberty holdings (group) receives support from the group in implementing the IFRS 17 . The Group set up an IFRS 17 steering committee, sponsored by the group's Chief Financial Officer and is responsible for providing overall strategic direction to the project and monitoring progress and interdependencies with other group initiatives. The committee comprises representation from finance, risk, actuarial, IT (Information Technology) and internal audit. The steering committee is also supported by several other working groups responsible for various work streams within the project.

Summaries of IFRS 17 progress to date and IFRS 17 methodologies, accounting policy elections and key judgements have been noted or submitted for approval where appropriate to the Audit and Risk Committee (ARC).

The company's external auditors, PwC, have as part of their early audit in preparation for IFRS 17 adoption, been involved in this process.

The implementation of IFRS 17 is significant for the company, specifically in areas such as revenue recognition, presentation in the statement of comprehensive income and level of transparency of the components of measurement. Comprehensive effort has been applied to the technical interpretation of the standard and the design decisions required. While audit involvement and industry discussions have been critical to the project, management are mindful of the possibility of interpretation differences. Management is also cognisant that it remains possible that certain interpretations may be further clarified as additional information becomes available.

To meet the requirements of IFRS 17, the company has invested significant effort in data collection and storage, modelling development, general ledger and supporting sub ledger configuration. While there are certain delays arising from application testing, which identified several enhancements or required corrections, actions have been implemented to mitigate the impact of these delays on financial reporting in 2023 and management does not anticipate any threat to full financial reporting compliance within the company's external reporting timelines. The company will present the full restated IFRS 17 compliant results with the annual financial statements presented for the year ended 31 December 2023.

1.3. New IFRS standards and amendments (continued)

Overview of IFRS 17

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 accounting practices, resulting in a multitude of different approaches.

The definition and scope of contracts to be measured under IFRS 17 is largely aligned to IFRS 4, however there are some slight differences regarding certain judgements related to investment contracts with DPF and the introduction of the determination of significant insurance risk now being on a present value basis.

The main revenue recognition principle that IFRS 17 adopts is to recognise revenue (and consequently profit or loss) over the duration of the applicable policyholder contracts in a manner that best reflects the delivery of insurance contract services in the specific reporting period. This aligns closely to the principles applied in IFRS 15. The total recognised profit or loss outcome of contracts (i.e. the actual cash flows that emerge over the total contract term) naturally remains unchanged. However, the year-by-year reporting of profit or loss outcomes between IFRS 4 and IFRS 17 is often different. This is mainly due the accounting policy measurement elections under the application of IFRS 4 being largely referenced to locally adopted actuarial standards or guidance. This has led to significant divergence of profit recognition between jurisdictions, and in many cases within the insurance industry in each jurisdiction.

One significant change is that the standard does not allow for profits to emerge on "day one" (contract recognition date), while still avoiding the deferral of anticipated contracted losses (onerous contracts). Losses for each applicable contract are to be recognised immediately in profit or loss.

Some contracts include an amount that meets the definition of a 'non-distinct investment component' (NDIC) under IFRS 17. The NDIC is the amount that an insurance contract requires the company to repay to a policyholder in all circumstances, regardless of whether an insured event occurs. Under IFRS 17, the investment components that are highly inter-related with the insurance contract are not unbundled on contract inception. Any such amounts are treated like deposits and excluded from insurance revenue and insurance services expenses when they are received from or paid to the policyholder or beneficiary, as they do not relate to the provision of insurance services. This is a significant change to current disclosure treatments which includes these amounts in insurance premiums and insurance claims respectively.

Another change is that the IFRS 17 measurement principles are ambivalent to the type of insurance (i.e., life or non-life/ general), and the permitted measurement model depends on the terms and conditions of the underlying contracts, including the related contract boundaries and coverage periods, rather than the insurance license type.

Portfolios are established for insurance contracts that have similar risks, however each portfolio is limited to a maximum of a twelve-month duration between the first contract and the last contract recognised. At date of inception, the portfolios are further divided into distinct and ring-fenced cohort groups that differentiate the expected profitability of each contract between onerous, unlikely to become onerous and those that have a higher risk of becoming onerous over time. This leads to the possibility of one, two or three distinct cohort groups per year per portfolio. Subsequent measurement of insurance contracts is therefore applied to the cohort groups.

IFRS 17 includes three permitted measurement models. The measurement approach refers to the model used for valuing the liabilities and recognising profits in insurance revenue over time and should be appropriate for the contract being measured. The allocation of groups of contracts to each measurement approach is dictated by the IFRS 17 standard, although there is an element of judgement in certain cases, as well as a permitted simplification if prescribed eligibility criteria are met. All measurement models include two components, being a liability for remaining coverage (LRC) and a liability for incurred claims (LIC). The LRC relates to the measurement of the liability where the insured event has not occurred (ie. the company's obligation for insured events related to the unexpired portion of the coverage period). The LIC component relates to the measurement of the liability, where the insured event has occurred (ie. the company's obligation to investigate and pay claims for insured events that have already occurred and includes events that have occurred but have not been reported). The LRC measured component is dependent on what measurement model is applied, whereas the measurement of the LIC component is the same under all three measurement models.

A general measurement model (GMM) is applicable to longer contract duration insurance contracts that do not have significant investment components (unless the criteria to use a simplified model is met) and is based on a fulfilment objective (risk-adjusted present value of probability-weighted estimates of future cash flows, which includes insurance acquisition cash flows). GMM is prescribed by the standard for insurance and reinsurance contracts which are not substantially investment-related service contracts i.e., predominantly risk type contracts and annuities.

1.3. New IFRS standards and amendments (continued)

It requires the use of current estimates, which are those informed by actual trends and investment markets, adjusted for the time value of money. A risk adjustment (RA) is established as an explicit, current adjustment to compensate the company for bearing non-financial risk, that is a deferral of margin to cover the risk of variation to the estimated cash flows. The risk adjustment is released over the contract duration in line with the reduction of the estimated risk.

IFRS 17 establishes a contractual service margin (CSM) at the initial measurement of the liability (LRC). The CSM represents the unearned profit on the contract which is expected to be earned in the future and results in no profit 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 used to discount cash flows and determine the initial CSM is locked in at the rate at inception for that contract, for all future CSM movements. Although there is no profit recognised at inception, the standard does require the company to recognise losses on any onerous groups of contracts upfront.

Apart from the CSM, all other probability-weighted estimates of cash flows contained in the measurement of insurance assets or liabilities are measured at current values.

For contracts that have a component of significant insurance risk but are substantially investment-related contracts with direct participation in a share of underlying items, the GMM is modified to measure such contracts using the variable fee measurement approach (VFA), for example, a retirement annuity that may include a product benefit of a minimum return of contributions on death. This approach effectively amortises, over the remaining life of the contract, the impact to the future estimated revenue (e.g., asset-based investment management fees) that have arisen from changes in investment values at the reporting date. A key difference to the GMM approach is that the CSM is not locked in at the original discount rate.

An optional simplified premium allocation approach (PAA) is available for contracts that have a coverage period of 12 months or less, or if it is reasonably expected that the PAA would produce a measurement of the LRC that would not materially differ from the one produced applying the GMM. Contracts measured under the PAA approach do not have a CSM.

Key revenue recognition changes between IFRS 17 and IFRS 4 as applied by the Company

Whereas IFRS 4 required local accounting practices to measure insurance contracts, IFRS 17 prescribes the use of one of three measurement models for insurance (including reinsurance contracts), as described above.

A key change is the creation of the CSM and the establishment of the non-financial risk adjustment (collectively representing a deferral of estimated profit) in respect of GMM and VFA measured contracts. The CSM and RA, which is established on initial contract recognition and the associated related guidance of future measurement results in a different pattern of revenue recognition for many portfolios over the contract coverage period, compared to existing accounting policies.

Under current accounting policies, margins are established and deferred over future service periods, but:

- these are not locked in at discount rates applicable on date of contract inception for GMM contracts (and therefore were continually remeasured to reflect current interest rate environments)
- the use of designated coverage units to release the margin over the remaining contract period under IFRS 17 differs in many cases to the current (mainly systematic time-based) approach to releasing the deferred margins
- allowed for day one profit on initial recognition, if the expected service revenue was higher than required to meet the service obligations, within a group adopted risk adjusted return threshold
- recognised changes to future best estimate assumptions in the profit or loss in full, as and when effected, and are not absorbed by the remaining reserved margins
- portfolios of similar type contracts are not restricted by a twelve-month cohort of contracts, allowing for more cross subsidisation within the groups of contracts.

The application of the CSM as guided under IFRS 17 is likely to result in lower volatility in insurance earnings between reporting periods over time. This is mainly a consequence of the requirement to, where applicable, absorb any changes to estimates of future contractual fulfilment cash flows into the CSM. This then systematically impacts future margin releases rather than the current treatment which impacts the profit or loss in the year of change.

Accounting Policies

1.3. New IFRS standards and amendments (continued)

IFRS 17 introduces a significant change to the income statement presentation by removing a cash flow presentation (gross premiums and claims). IFRS 17 introduces the concept of insurance revenue recognition that is intended to represent the price actually charged for the insurance contract services rendered and should not include any investment flows that are to be repaid (adjusted for applicable investment returns) in the future. Actual contracted cash flows are naturally not impacted by either IFRS 4 or IFRS 17.

IFRS 17 more comprehensively defines what is profit or loss derived from insurance services and the net finance income or expense (resulting from the funding surplus or requirements associated with the insurance business activities). The insurance finance income or expense includes, inter alia, the effect of the time value of money on the best estimate cash flow assumptions.

Contracts measured under GMM (including reinsurance)

The current estimate of future cash flows depends on the assessment of the contract boundary term for the specific contracts and the determination of relevant cash flows that relate directly to the fulfilment of the contract. The estimation of future cash flows includes expected premiums received, expected claims and benefit payments, an allocation of insurance acquisition cost cash flows attributable to the portfolio to which the contract belongs, claims handling costs, policy administration costs, an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts and transaction-based taxes.

Future fulfilment costs that are modelled under the GMM (and VFA) are closely aligned to the existing interpretation under IFRS 4, except for the IFRS 17 guidance of only including portfolio incremental acquisition costs. This has led to a reduction of acquisition costs modelled in the best estimate cash flows.

Contracts measured under VFA (not applicable to reinsurance)

A key difference in recognition between IFRS 4 and IFRS 17 pertains to investment fees referenced to investment activities and calculated based off referenced asset values. The standard accommodates measurement guidance for these services, that are integral to insurance contracts or are discretionary features, through a "re-calibration mechanism" within the CSM. Variations to future fees arising from changes in asset values are deferred and amortised over the contract term. This effectively allows for a less volatile earnings recognition pattern compared to the current accounting policy of recognising the full future impact to estimated asset-based future fees in profit or loss, that have arisen from current changes to the linked asset values.

Contracts measured under PAA (including reinsurance)

Insurance contracts, which were defined as short-term or general insurance in previous financial reporting (not defined in IFRS but governed by different insurance acts) generally have short contract periods (one year or less). The company has elected to measure these under the PAA measurement model. The LRC at initial recognition is measured as premiums received, minus acquisition costs and plus or minus any assets or liabilities previously recognised. This model for the LRC is similar to the unearned premium model adopted under existing accounting policies. However, under IFRS 17, the LIC requires the calculation of a risk adjustment and also includes future claims handling expenses to be incurred in settling the LIC, which is different to the existing accounting policies.

The PAA measurement approach, is therefore not expected to materially impact profit emergence on applicable policy portfolios going forward, when compared to the current basis.

Transition approaches

The standard requires retrospective application of IFRS 17 prior to the transition date, which is 1 January 2022, unless it is impracticable to do so. If it is impracticable, an entity can choose between either a modified retrospective or a fair value approach to measure the initial IFRS 17 balances on the transition date . For the short contract boundary nature contracts measured under the PAA approach (twelve months or less), these will all be measured using full retrospective application.

The company has used a combination of two transition approaches (namely, full retrospective and fair value) depending on the extent of the historical data (including assumptions, methodologies and the availability of risk adjustment data) that is available per the IFRS 17 defined groups.

The approach has been applied for most groups of insurance contracts recognised from 1 January 2016 onwards.

Based on the impracticability assessment, in particular the:

- lack of accessibility and reliability of the key sources of data,

1.3. New IFRS standards and amendments (continued)

- reliance of the calculations on the risk margin used in capital regulatory reporting, which was still being refined at that date and was not calculated or audited at earlier dates, management have concluded that it is not practicable to perform the full retrospective calculations for contracts initially recognised prior to 1 January 2016.

For these applicable contracts, the company, as permitted under IFRS 17, has elected the fair value approach. The group has applied a transition choice, where applicable, to allow for historical portfolios to have longer durations than twelve months. Fair value is an approach to determine the transition CSM through an IFRS 13 *Fair Value Measurement* assessment of the probable trading price for a similar group of insurance contracts in a simulated deep and liquid market. The group has calculated the purchase price by assuming that the purchaser of a group of insurance contracts would be required to hold additional regulatory capital to support these contracts and would therefore include a price adjustment for the cost of capital required.

Modified retrospective approach was not applied to any contracts.

IFRS 17 requires disclosure of the movement analysis of all contracts measured on the transition date applying the fair value approach, until all those contracts are derecognised under IFRS 17. The first time this will be provided is in the annual financial statements for the year ended 31 December 2023.

Accounting policy elections and key judgements applied to the preparation of the transition statement of financial position

In order to derive the impact of the adoption of IFRS 17 on transition, being 1 January 2022, certain accounting policy elections and key judgements have been applied, as follows:

PAA approach

The company has elected, as permitted by the standard, to apply the simplified model, for insurance contracts and reinsurance contracts held where the coverage period is less than 12 months, On inception of groups of contracts where the coverage period is over one year, and the groups meets the eligibility criteria (in that the measurement result of the PAA and general model are not materially different), the company has elected to apply the PAA approach.

For contracts measured under PAA, the company has elected:

- To defer the recognition of the acquisition costs over the coverage period.
- To not adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk for those contracts where the coverage period is less than one year, or where there is no significant financing component for contracts longer than one year.
- Where claims incurred are expected to be paid within a year of the date that the claim is incurred, to not adjust future cash flows for the time value of money.

Key judgements related to the transition statement of financial position were as follows:

- Judgement is applied to the classification of contracts with discretionary participation features, to determine if the discretionary amount is significant in relation to the total benefits.
- Judgement as to which expenses meet the definition of directly attributable under IFRS 17 and are included in the measurement of fulfilment cash flows. The interpretation may vary for some expense items between insurers, as well as potentially the method to attribute the qualifying expense cash flows to the various portfolios.
- Defining criteria to determine whether a contract is unlikely to become onerous over the contract term.
- The technique for calculating the risk adjustment and associated confidence levels.
- Coverage units utilised for release of the CSM.
- Modelling of policy loans as part of fulfillment cash flows.

Accounting Policies

1.3. New IFRS standards and amendments (continued)

Financial Instruments

The company applied IFRS 9 Financial Instruments for years commencing 1 January 2018. There is no expected change to previously applied classification and designation of financial instruments that are linked to policyholder benefits as a result of IFRS 17. The existing measurement methodology for policyholder investment contracts does not change on adoption of IFRS 17.

Management's intention is to document the full IFRS 17 accounting policies, including accounting policy elections and key judgements that will have been applied in the application of the standard, in the 2023 annual financial statements.

Transition adjustment to equity on 1 January 2022

The company has opted to adopt point estimate in deriving the transition adjustment to equity.

The cumulative gross adjustment to the company's equity as at 1 January 2022 arising from the adoption of IFRS 17 is a reduction of approximately Shs 419 million.

The restated company equity on 1 January 2022 is consequently approximately Shs 2,465 million.

This reduction in net asset value is the outcome of the more conservative measurement methodologies required under IFRS 17 guidance, compared to the previous accounting policies adopted under IFRS 4.

The impact of restating the 2022 financial results, presentation of the detailed transition statement of financial position and inclusion of the IFRS 17 compliant disclosures are not available for this financial report and will be included in the annual financial statements for the year ending 31 December 2023.

Tax implications

The Authorities in Kenya have not issued tax legislation relating to impact and consequential tax implications of adopting IFRS 17. On transition date, there is expected deferred tax impact on the NAV impact arising from differences in carrying insurance reserves under IFRS 4 and IFRS 17. The company shall actively seek to comply with the any legislation that may be affected in due course.

Accounting Policies

1.3. New IFRS standards and amendments (continued)

b) Those not expected to have a significant impact on the financial statements of the Company.

The following standards which have been issued and yet effective are not expected to have significant impact on the company financial statements for year 2022

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)	Effective date
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.	The effective date for these amendments have been deferred indefinitely.
Classification of liabilities as current or non-current (Amendment to IAS 1)	1 January 2024
IFRS 16 Leases	
The amendments add to requirements explaining how a company accounts for a sale and leaseback after the date of the transaction. IFRS 16 had not previously specified how to measure the transaction when reporting after that date. The amendments add to the sale and leaseback requirements in IFRS 16, thereby supporting the consistent application of the standard. These amendments will not change the accounting for leases other than those arising in a sale and leaseback transaction.	1 January 2024

Accounting Policies

1.3. New IFRS standards and amendments (continued)

1.3.2 New standards and interpretations effective and adopted during the year ended 31 December 2022

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

The company has since complied with the new standards and amendments from the effective date.

STANDARD	SCOPE	EFFECTIVE DATE
Onerous contracts: Cost of fulfilling a contract (Amendment to IAS 37)	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
Property, plant and equipment: Proceeds before intended use (Amendment to IAS 16)	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	1 January 2022
Annual improvements to IFRS standards 2018-2020	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	1 January 2022

1.4 Foreign currencies

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

1.4.1 Transactions and balances

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

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

Accounting Policies

1.5 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).

1.5.1 Financial assets

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

Financial assets

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

Nature

Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • 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	The company have no equity instruments that have been elected to be measured at fair value through other comprehensive income. A debt instrument that meets both the following conditions (other than those designated at fair value through profit or loss): • 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. This assessment include determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value to eliminate or significantly through profit or loss reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss (default)	Financial assets that are not classified into one of the above mentioned financial asset categories; and/ or where the business model is that performance is assessed on a fair value basis.

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:

Accounting Policies

1.5. Financial instruments (continued)

1.5.1. Financial assets (continued)

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

Impairment

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

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

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	Lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • Default: A financial asset is considered to be in default when there is objective evidence of impairment. Exposures which are overdue for more than 90 days are also considered to be in default. • Significant financial difficulty of borrower and/or modification • Probability of bankruptcy or financial reorganisation • Disappearance of an active market due to financial difficulties.

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

1.5. Financial instruments (continued)

1.5.1. Financial assets (continued)

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

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

Cash and cash equivalents

Cash and cash equivalents comprise:

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

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

Prepayments and other receivables

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

Reclassification

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

Derecognition

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

Accounting Policies

1.5. Financial instruments (continued)

1.5.2 Financial liabilities

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

Nature

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

Subsequent measurement

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

Other payables

Other payables are initially measured at fair value.

Inter-company loans

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

Reclassification

A financial liability may not be reclassified.

Derecognition

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

1.5.3 Fair value

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

Accounting Policies

1.5. Financial instruments (continued)

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

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

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

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

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

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

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

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

Accounting Policies

1.5. Financial instruments (continued)

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

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

1.6 Insurance and investment contacts

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

1.6.1 Insurance and investment contract classification

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

Insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur. 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. Insurance contracts where the company accepts significant insurance risk from the policyholder are classified depending on the duration of or the type of insurance risk, as follows: • long-term insurance; and • Level 1 short-term insurance. Insurance contracts where another insurer (or reinsurer) accepts significant insurance risks from the company are reinsurance contracts.
Investment contract	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. Policyholder investment contracts are classified depending on the duration of or the type of investment benefit, as follows: • long-term investment with discretionary participation feature (DPF); • and long-term investment without DPF.

1.6. Insurance and investment contacts (continued)

1.6.2 Discretionary participation features (DPF)

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

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

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

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

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

1.6.3 Insurance contract classification

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

Long-term insurance business	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. Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, company life and permanent health insurance policy.
Short-term insurance business	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.
	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.

1.6. Insurance and investment contacts (continued)

	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

Long-term insurance contracts

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

Measurement	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.
	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.
	The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts. Shadow accounting is applied to policyholder insurance contracts where the underlying measurement of the policyholder insurance liability depends directly on the fair value of any owner-occupied properties. Any unrealised gains and losses on such owner-occupied properties are recognised in other comprehensive income as described in accounting policy note 1.2. The shadow accounting adjustment to policyholder insurance contracts is recognized in other comprehensive income to the extent that the unrealised gains or losses, together with any related taxation on owner occupied properties backing policyholder insurance liabilities are also recognised directly in other comprehensive income.
Claims	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.
Commissions earned and payable and deferred acquisition costs	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.
Liability adequacy test	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.

1.6. Insurance and investment contacts (continued)

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

1.6.4 Investment contracts

Measurement and initial recognition	The company issues investment contracts, as follows:	
	Without fixed benefits (investment-linked and structured products). Fair value of these financial liabilities is dependent on the fair value of the underlying financial assets, derivatives and/or investment property and are designated at inception as at fair value. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. The company'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.
Service fees on investment management contracts and deferred revenue liability (DRL)	Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.	
Amounts received and claims incurred on investment management contracts	Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.	
Deferred acquisition costs (DAC) in respect of investment contracts	Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed.	

1.6. Insurance and investment contacts (continued)

1.6.5 Reinsurance contracts held

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

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

1.6.6 Receivables and payables related to insurance contracts and investment contracts

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

1.7 Non Financial Assets

1.7.1 Investment properties

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

1.7.2 Leases

IFRS 16 Lessee accounting policies

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

1.7.2 Leases (continued)

• the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

1.7.3 Property and equipment

The company's property and equipment provides it with necessary infrastructure to operate effectively. Property comprises of owner occupied property as detailed under 1.7.2 above. Equipment principally comprises computer equipment and fixtures and fittings. The cost of these equipment is recognised in the income statement over time as a depreciation charge. Depreciation periods are detailed in noted in note 4.1.1 of the company annual financial statements.

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

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

Motor vehicles 25%

Furniture, fittings & equipment 10%

Computer equipment 20%

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

1.7.4 Intangible assets

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

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

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

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

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

1.7.5 Impairment of other non-financial assets

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

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

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

Accounting Policies

1.8 Equity

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

1.9. Other significant accounting policies

1.9.1 Employee benefits

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

1.9.2 Revenue recognition

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

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

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

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

Accounting Policies

1.9.2 Revenue recognition (continued)

Revenue type	Description	Recognition and measurement
Insurance premium income (recognised under IFRS 4)	Life-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 Group Life insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. 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, under IFRS 9)	Comprises interest income from government securities, dividend income and rental income from properties	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.
Reinsurance commission	Commission earned from reinsurers on placement of short-term reinsurance contracts.	Recognised over the term of the contract.

Accounting Policies

1.9.2 Revenue recognition (continued)

Deferred revenue

Upfront fees received on short-term insurance business and long-term investment contracts are recognised as a prepayment. These amounts are non-refundable and released to income as the services are rendered over the expected duration of the contract on a straight-line basis. Refer to note 18 of the company annual financial statements for the details of amounts recognised in profit or loss.

1.9.3 Taxation

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

Current taxation

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

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

Deferred taxation

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

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

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

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

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

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

1.9.4 Provisions

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

Accounting Policies

1.9.5 Assets held for sale

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

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

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

1.9.6 Offsetting

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

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

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