LIBERTY

Liberty Kenya Holdings Plc

Incorporating Heritage Insurance and Liberty Life Assurance

Annual financial statements and reports

for the year ended
31 December

2022

Corporate information

Liberty Kenya Holdings Plc (LKH) is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability company, and is domiciled in Kenya. Liberty Holdings Limited (LHL), a South African registered investment holding company owns 73,47% (2021: 73,47%) of LKH.

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

Directors

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

**Managing Director until 31 March 2022*

Independent auditor

PricewaterhouseCoopers LLP
Certified Public Accountants
PwC Tower, Waiyaki Way,
PO Box 43963 - 00100,
Nairobi

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

Secretary

Doreen Onwong'a (CPS No. 3627)
Qwasha Corporate Services LLP
The Pavilion, 5th Floor, Westlands,
PO Box 27547-00100
Nairobi

Registered office

Governance auditor

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

Share registrar

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

Lawyers

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

Principal bankers

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

Subsidiaries

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

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Preparation of financial reports

The annual financial statements and reports of Liberty Kenya Holdings Plc group and company for the year ended 31 December 2022 were:

Prepared by:
Eliud Kagema

Supervised by:
Luke Magambo

Directors' responsibility for financial reporting

For the year ended 31 December 2022

The directors are responsible for the preparation and presentation of the consolidated and separate financial statements of Liberty Kenya Holdings Plc (group and company) set out on pages 13 to 135 which comprise the group and company statements of financial position as at 31 December 2022, and the group and company statements of comprehensive income, the group and company statements of changes in equity and the group and company statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described on page 13 is an acceptable basis for preparing and presenting of the consolidated and separate financial statements in the circumstances, preparation and presentation of consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

The directors accept responsibility for the annual consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with IFRS and in the manner required by the Act. The directors are of the opinion that the financial statements give a true and fair view of the financial position of the group and the company as at 31st December 2022 and of the group's and the company's financial performance and cash flows for the year then ended.

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

Approval of the financial statements

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the board of directors on 16 March 2023.

P Odera
Chairman

R Shah
Director

Nairobi
16 March 2023

Directors' report

for the year ended 31 December 2022

The directors submit their report together with the audited group and company financial statements for the year ended 31 December 2022, in accordance with the Kenya Companies Act, 2015, which discloses the state of affairs of Liberty Kenya Holdings Plc (Liberty) and its subsidiaries (together the "group").

Principal activities

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

Results and dividends

Total earnings, for the year ended 31 December 2022, attributable to ordinary shareholders, was KShs 333, 860 million (2021: KShs 80,157 million). The group had solid performance in 2022. The Short-term business premium income increased by 9% to KShs 9,50 billion (2021: 8,71 billion). Heritage Kenya general business benefited from increased productivity where gross written premium exceeded Kshs 7 billion mark, for the first time. However, a combination of increase in inflation rates, depreciation of the Kenya currency against the US dollar translated directly to increased motor vehicle repair costs since parts are imported. Heritage Tanzania results improved as a result of reduced claims costs and strengthening of the Tanzania shilling by 6% against the Kenya shilling in the year. Our Long-term business, Liberty Life Assurance Kenya Limited had a decent insurance premium growth of 6% year on year. Volatility in the investment market continues to impact earnings negatively due to decline in values of listed equities and bonds.

COVID-19 pandemic reserve specific assumptions

The group applied certain key judgements and estimates regarding the short-term expected impact of COVID-19 as the pandemic was evolving. While COVID-19 continues to pose a risk to the group, this risk is receding with excess deaths in 2022 having been significantly lower compared to 2021, likely due to high levels of immunity to COVID-19 (from recent infection or vaccination) and/or the variants circulating in 2022 being milder than variants circulating in prior years. This trend is consistent with the experience from past pandemics and is expected to continue with COVID-19 becoming a relatively mild endemic disease.

Based on experience observed in 2022, the directors and management applied a key judgment that no further short-term pandemic allowance is considered necessary at 31 December 2022.

Similarly, for the medical portfolio in "the Heritage" general business, the reserve which had been determined using a risk margin calculation that allows the provision to be held at a specified confidence level, was released in December 2022.

Accounting policies

The accounting policies applied in the preparation of these annual financial statements are in terms of IFRS and are consistent with those applied in the prior year group and company annual financial statements and there are no new or amended standards that are effective for the current reporting period.

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

Share capital

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

Directors

The names of the directors who held office during the year and to the date of this report are set out on page 6. In accordance with the Company's Articles of Association, all directors unless retiring, offer themselves for re-election after every three years. Further, at least 1/3 of the directors retire annually. The retiring directors are determined by reference to the directors longest in office since election or appointment.

Director appointments and resignations during 2022 and up to the date of this report

During the year, Mr M du Toit retired as the Managing Director of the company and became a non-executive director.

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

as at 31 December 2022

No directors have direct ownership interests in the share capital of Liberty Kenya Holdings Plc for 2022 or 2021.

There have been no other changes to the interests of directors, including their families, in the share capital as disclosed above as at 31 December 2022 to the date of approval of the annual financial statements, namely 16 March 2023.

Directors' related party transactions information

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

Relevant audit information

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

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

Directors' report (continued)

for the year ended 31 December 2022

Auditor

The auditor, PricewaterhouseCoopers LLP continues in office in accordance with the Company's Articles of Association and Section 721 of the Kenyan Companies Act 2015.

Holding company

At 31 December 2022, the group's holding company, Liberty Holdings Limited, held 73,47% (2021: 73,47%) of Liberty's issued ordinary shares. The ultimate holding company is Standard Bank Group Limited, a South African registered holding company of various subsidiary companies that collectively is a financial services group.

Bancassurance

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

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

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

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

Subsidiaries

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

Annual General Meeting resolutions

At the annual general meeting (AGM) held on 17 June 2022, LKH's shareholders passed the following resolutions for the purposes indicated:

RESOLUTION	VOTES			
	FOR VOTES	%	AGAINST VOTES	%
To consider and, if thought fit, adopt the Annual Report and the Financial Statements for the year ended 31st December 2021, together with the Directors and Auditors Reports thereon.	502 899 061	100,00%	-	0,00%
To elect Directors: i. In accordance with Article 111 of the Company's Articles of Association, Mr. Mike du Toit, having retired as the Managing Director on 31st March 2022, was appointed as a non-executive director to fill a casual vacancy effective 1st April 2022, hereby retires at the dissolution of the meeting and, being eligible, offer himself for election.	502 896 489	99,99%	3 205	0,01%
To note that the auditors, PricewaterhouseCoopers will continue in office in accordance with Sections 721 and 724 of the Companies Act 2015, and to authorise the directors to fix their remuneration	502 896 491	99,99%	811	0,01%
To approve the Director's Remuneration and the Director's Remuneration Report for the year ended 31st December 2021 and the Board is hereby authorized to fix the Director's remuneration for the year 2022.	502 893 003	99,99%	3,940	0,10%
To pass an ordinary resolution pursuant to Section 769 of the Companies Act, 2015, that the following directors being members of the Audit and Risk Committee be elected to continue to serve as members of the said Committee:				
i. Mr Rajesh Shah	502 898 906	99,99%	605	0,01%
ii. Mr Peter Gethi	502 898 906	99,99%	605	0,01%
iii. Ms Rachel Mbai	502 898 906	99,99%	605	0,01%

2 265 registered shareholders with a total of 510 232 195 shares in Liberty Kenya Holdings Plc were eligible to vote. Total number of shares that participated were 502 899 694 shares. This represents a participation level of 98.55%.

Borrowing powers

In terms of the company's memorandum of incorporation the amount which the company may borrow is limited, but the limit can be extended by resolution of the shareholders.

Directors' report (continued)

for the year ended 31 December 2022

Insurance

Liberty has placed cover for losses as a result of cyber, commercial crime and claims under professional indemnity as well as for directors' and officers' liability insurance. These covers were renewed at 31 December 2022 for the year 2023, as part of the Standard Bank Group Limited's insurance programme, in which the group participates.

Events after reporting date

There have been no significant events after the reporting date, being 31 December 2022, to the date of approval of the audited annual financial statements, namely 16 March 2023, which would require adjustment or disclosure in the financial statements.

Approval of the financial statements

The annual financial statements were approved and authorised for issue by the board of directors on 16 March 2023.

By order of the Board

D Onwong'a (Ms)
16 March 2023

Directors' remuneration report

for the year ended 31 December 2022

Liberty Kenya Holdings Plc hereby presents the Directors' remuneration report for the year ended 31 December 2022. This report is in compliance with the Liberty group's remuneration policy, the Capital Markets Authority Code of Corporate Governance Guidelines on Director's remuneration and the Companies Act, 2015. A key provision of the Company's principles is that reward will directly support the business strategy with clear and measurable linkage to business performance.

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

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

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

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

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

Information not subject to audit

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

- Policy on Directors' remuneration;
- Board evaluation;
- Changes to Directors' remuneration during the year;
- Service contracts; and
- Approval of 2021 Directors' remuneration report.

Information subject to audit (Auditable part)

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

Details of Directors

Mr Philip Odera	Independent - Non-Executive (Chairman)
Mr Mike du Toit	Non-Executive
Mr Peter Gethi	Non-Executive
Mr Jeff Hubbard	Non-Executive
Ms Gladys Ogallo	Independent - Non-Executive
Mr Rajesh Shah	Independent - Non-Executive
Ms Rachel Mbai	Independent - Non-Executive

Independent Non-executive Directors, subject to retirement by rotation, are eligible to serve for an initial three-year term which may be renewed for further periods of three years. Independent Non-executive Directors do not have service agreements.

Directors' appointment and retirement term

Director	Appointment	Retirement date by rotation at the AGM[1]
Mr Philip Odera	2016	2023
Mr Mike du Toit	2008	2025
Mr Peter Gethi	2009	2024
Mr Jeff Hubbard	2017	2023
Ms Gladys Ogallo	2019	2024
Mr Rajesh Shah	2020	2024
Ms Rachel Mbai	2020	2025

[1] *The Annual General Meeting is planned to be held on 19 May 2023*

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

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

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

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

The Company's policy is to appoint the Non-Executive Directors for an initial three-year period, which may be extended for further 3 year terms by Members at an Annual General Meeting. The initial appointments and any subsequent reappointments are subject to annual election or re-election by shareholders.

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

Executive Directors' remuneration

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

Board Evaluation

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

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

Directors' remuneration report (continued)

for the year ended 31 December 2021

The list of the reward components are as follows:

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

1. Retainer fees

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

2. Attendance fees

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

3. Insurance cover

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

4. Travel and accommodation when on company business

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

Changes to Directors' remuneration

There were no substantial changes to the director's remuneration policy relating to the directors' remuneration made during the year (2021: None).

For the financial year ended 31 December 2022, the total Non-Executive Directors remuneration in KShs' 000s was KShs 17 527 (2021: KShs 21 182) and for executive directors was KShs 8 258 (2021: KShs 39 167).

The total amount of emoluments paid to Directors for services rendered during 2022 is also disclosed in note 34 to the financial statements.

	2022			2021		
Non-Executive Directors	Retainer Fees KShs'000	Attendance Fees KShs'000	Total KShs'000	Retainer Fees KShs'000	Attendance Fees KShs'000	Total KShs'000
Mr Philip Odera	**564**	**4 830**	**5 394**	564	6 930	7 494
Mr Peter Gethi	**423**	**3 120**	**3 523**	423	4 056	4 479
Mr Rajesh Shah	**423**	**2 168**	**2 591**	423	2 636	3 059
Ms Gladys Ogallo	**423**	**1 716**	**2 139**	423	2 964	3 387
Ms Rachel Mbai	**423**	**2 028**	**2 451**	423	2 340	2 763
Mr Mike du Toit	**317**	**1 092**	**1 409**	-	-	-
Mr Jeff Hubbard (i)	**-**	**-**	**-**	-	-	-
Total	**2 573**	**14 954**	**17 527**	2 256	18 926	21 182

I. Retainers and Board attendance fees are only paid to external Non-Executive Directors. Mr. Jeff Hubbard is the nominated director representing the controlling shareholder, Liberty Holdings Limited. No fees were charged for his services as a director for 2022 or 2021.

II. Directors who are also members of operating companies do not receive double fees for attendance of joint Board meetings.

III. The cost incurred by the company to purchase insurance cover on behalf of Directors amounted to KShs 527 505 (2021: KShs 527 505).

IV. No amount was paid as an expense allowance that is not chargeable to income tax, or would benefit the director as an individual, or paid to or receivable by the director in respect of qualifying services.

V. No compensation for loss of office was paid to or receivable by any director in connection with the termination of qualifying services in the year.

VI. No director is entitled to any compensation upon the termination or end of their tenure as a member of the Board.

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

Directors' remuneration report (continued)

for the year ended 31 December 2021

Executive Director remuneration policy

Service Contracts

The Managing Director was the only Executive Director of the Company. He had a service contract with the Company until 31 March 2022 and upon expiry he retired. He subsequently became a Non-Executive Director.

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

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

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

2022	Basic Pay KShs'000	Other Benefits KShs'000	Bonus KShs'000	Non-cash Benefits KShs'000	Total KShs'000
Mr Mike du Toit	**5 545**	**345**	**1 716**	**643**	**8 258**

2021	Basic Pay KShs'000	Other Benefits KShs'000	Bonus KShs'000	Non-cash Benefits KShs'000	Total KShs'000
Mr Mike du Toit	21 471	2 909	13 934	853	39 167

I. Other benefits comprise life cover, medical insurance, club membership, telephone, National Social Security Fund and National Hospital Insurance Fund company contributions.

II. Non-cash benefits consist of company car benefit.

III. Pension/gratuity: The Company does not operate a pension or gratuity scheme to the benefit of the Managing Director. All benefits are subjected to tax at prevailing PAYE rates.

Approval of 2021 Directors' remuneration report

At the Annual General Meeting held on 17 June 2022, the Shareholders approved the Directors' remuneration report for 2021.

Further, the Company conducted a poll as required by the Companies Act to vote on the Directors' remuneration report and the results were published at the company's website (www.LibertyKenya.co.ke). It is also a requirement that the tally of the results is observed by an independent person. The Group Internal Audit function was the observed of the process and tallying of the poll results. The poll results are summarised under AGM resolutions in the Directors' report on page 4 and were communicated to CMA/NSE on 18 June 2021.

Approval of the Directors' remuneration report

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

By Order of the Board

D Onwong'a (Ms)
16 March 2023

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

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Liberty Kenya Holdings Plc (the Company) and its subsidiaries (together, the Group) set out on pages 13 to 135, which comprise the consolidated statement of financial position at 31 December 2022 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2022, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, 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 the Group and the Company as at 31 December 2022 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

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

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

Key audit matters

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

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

Key audit matters (continued)

Key audit matter	***How our audit addressed the matter***
Determination of insurance contract liabilities Insurance contract liabilities comprises outstanding claims, incurred but not reported ("IBNR") for the short term business and policyholder liabilities under the long-term business as disclosed under notes 11 and 14 to the financial statements. The valuation of insurance contract liabilities was considered a key audit matter as: ● The estimation of the provisions involves significant judgement given the inherent uncertainty in estimating future outflows in relation to insurance contracts ● The valuation of the liabilities relies on the accuracy of claims data and the assumption that future claims development will follow a similar pattern to past development experience ● Changes in assumptions can lead to significant changes in insurance contract liabilities. The methodology used can also have a material impact on the valuation of the liabilities.	*Long term business* ● 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. . *Short term business* ● We assessed the competence, capabilities and objectivity of the Statutory Actuary. ● We validated, on a sample basis, the claims paid to supporting documentation and comparing the claim payments in 2022 to the reserves previously held. ● We tested the reasonableness of claims outstanding by comparing the recorded amounts to the latest available information on source documents. ● We reviewed the methodology and assumptions used by the Statutory Actuary to compute the liabilities against generally accepted actuarial practice approaches, in relation to the business written and expected risks. ● We assessed the reasonableness of the reserves by comparing actual outcomes against reserve estimates in the prior years. ● We independently recalculated the IBNR reserves for a sample of classes and compared this to the values estimated by management.

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

Other information

The other information comprises the Director's responsibility for financial reporting, Directors' Report and Directors' remuneration Report which we obtained prior to the date of this auditor's report but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

pwc

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

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

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

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

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

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

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

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

Directors' remuneration report

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

Bernice Kimacia

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

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

16 March 2023

Accounting principles

for the year ended 31 December 2022

BASIS OF PREPARATION

The 2022 group and company annual financial statements of Liberty Kenya Holdings Plc have been prepared in accordance with and containing information required by:

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

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

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

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

There were no new amendments issued by the IASB for the year commencing 1 January 2022.

Accounting Policy Elections

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

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

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

Key judgements in applying assumptions on application of accounting policies

for the year ended 31 December 2022

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

Classification and measurement of financial instruments

IFRS 9 requires an entity to assess its business model to determine the classification of financial assets. A business model refers to how an entity manages its financial assets in order to generate cash flows. Management applies judgement to determine the level at which the business model assessment is applied.

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

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

Properties at fair value

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

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

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

Long-term policyholder insurance and investment contracts with discretionary participation features

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

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

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

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

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

Liability determination: The full liability represents the total fair value of the matching asset portfolio and an estimate of the cost of any guarantees provided. The difference between the fair value of the matching asset portfolio and the estimate of the current policyholder obligations is the bonus stabilisation reserve. A significant component making up the liability is a book of business called "deposit administration". The product features include annual declaration of vesting investment bonuses (guaranteed amounts to policyholders). This feature brings the policies into the definition of investment contracts with discretionary participation features.

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

for the year ended 31 December 2021

Mortality

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

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

Morbidity

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

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

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations considering past as well as expected future trends. The withdrawal rates are analysed by product type and policy duration. These withdrawal rates vary considerably by duration, policy term and company. Typically, the rates are higher for risk type products *versus* investment type products and are higher at early durations.The key assumptions applied, and analysis of their sensitivity is detailed in the insurance risk and sensitivity analysis components of the risk management disclosures section 3 and 11 of this report.

Short-term insurance contract liabilities

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

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

Impairment of goodwill

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

Income taxes

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

Impairment of receivables measured using amortised cost

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

Cash flow statement

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

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

as at 31 December 2022

2022 KShs'000	Financial position measurement basis						
	Fair value through profit or loss[1]	Fair value through OCI	Financial soundness[2]	Cost less amortisation[3]	Amortised cost[4]	Other[5]	Total
Assets							
Intangible assets	-	-	-	159 375	-	1 254 995	1 414 370
Owner-occupied properties	-	1 216 000	-	-	-	-	1 216 000
Equipment	-	-	-	215 838	-	-	215 838
Right-of-use-assets	-	-	-	96 274	-	-	96 274
Deferred taxation	-	-	-	-	-	159 089	159 089
Financial investments	23 096 106	-	-	-	-	-	23 096 106
Policy and staff loans receivable	-	-	-	-	1 400 034	-	1 400 034
Deferred acquisition costs	-	-	-	180 454	-	-	180 454
Reinsurance assets	-	-	320 700	-	-	3 812 511	4 133 211
Short-term insurance	-	-	-	-	-	3 812 511	3 812 511
Long-term insurance	-	-	320 700	-	-	-	320 700
Current taxation	-	-	-	-	-	208 433	208 433
Prepayments, insurance and other receivables	-	-	-	-	685 336	687 599	1 372 935
Investment properties held for sale	118 420	-	-	-	-	-	118 420
Cash and cash equivalents	-	-	-	-	8 420 431	-	8 420 431
Total assets	23 214 526	1 216 000	320 700	651 941	10 505 801	6 122 627	42 031 595
Percentage (%)	55.1	2.9	0.8	1.6	25.0	14.6	100.0
Liabilities							
Lease liabilities	-	-	-	-	112 040	-	112 040
Long-term policyholder liabilities	10 717 674	-	9 279 660	-	-	-	19 997 334
Insurance contracts	-	-	6 456 721	-	-	-	6 456 721
Investment contracts with discretionary participation features	-	-	2 822 939	-	-	-	2 822 939
Financial liabilities under investment contracts	10 717 674	-	-	-	-	-	10 717 674
Deferred taxation	-	-	-	-	-	1 021 032	1 021 032
Short-term insurance liabilities	-	-	-	-	-	8 698 157	8 698 157
Insurance and other payables	-	-	-	-	954 535	1 812 978	2 767 513
Employee benefits	-	-	-	-	-	174 339	174 339
Total liabilities	10 717 674	-	9 279 660	-	1 066 575	11 706 506	32 770 415
Percentage (%)	32.7	-	28.3	-	3.3	35.7	100.0

[1] *Fair value through profit or loss includes all IFRS 9 fair value through profit or loss classifications.*

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

[3] *Cost less amortisation is original cost less straight-line amortisation over defined periods, limited to residual value.*

[4] *Amortised cost utilising the effective interest rate method.*

[5] *Other refers to other measurement basis that are in line with accouting policies as disclosed in Appendix A.*

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

(continued)

2021 KShs'000	Financial position measurement basis						
	Fair value through profit or loss[1]	Fair value through OCI	Financial sound-ness[2]	Cost less amor-tisation[3]	Amor-tised cost[4]	Other[5]	Total
Assets							
Intangible assets	-	-	-	160 362	-	1 254 995	1 415 357
Owner-occuped properties	-	1 216 000	-	-	-	-	1 216 000
Equipment	-	-	-	183 423	-	-	183 423
Right-of-use-assets	-	-	-	62 964	-	-	62 964
Deferred taxation	-	-	-	-	-	187 820	187 820
Deferred acquisition costs	-	-	-	147 548	-	-	147 548
Financial investments	22 290 725	-	-	-	-	-	22 290 725
Policy and staff loans receivable	-	-	-	-	1 648 024		1 648 024
Reinsurance assets	-	-	166 831	-	-	3 226 301	3 393 132
Short-term insurance	-	-	-	-	-	3 226 301	3 226 301
Long-term insurance	-	-	166 831	-	-	-	166 831
Prepayments, insurance and other receivables	-	-	-	-	573 222	718 980	1 292 202
Current taxation	-	-	-	-	-	157 946	157 946
Investment properties held for sale	625 263	-	-	-	-	-	625 263
Cash and cash equivalents	-	-	-	-	7 855 904	-	7 855 904
Total assets	22 915 988	1 216 000	166 831	554 297	10 077 150	5 546 042	40 476 308
Percentage (%)	**56.6**	**3.0**	**0.4**	**1.4**	**24.9**	**13.7**	**100.0**
Liabilities							
Lease liabilities	-	-	-	-	78 863	-	78 863
Long-term policyholder liabilities	10 518 825	-	9 856 199	-	-	-	20 375 024
Insurance contracts	-	-	6 791 125	-	-	-	6 791 125
Investment contracts with discretionary participation features	-	-	3 065 074	-	-	-	3 065 074
Financial liabilities under investment contracts	10 518 825	-	-	-	-	-	10 518 825
Deferred taxation	-	-	-	-	-	1 050 886	1 050 886
Short-term insurance liabilities	-	-	-	-	-	7 615 459	7 615 459
Insurance and other payables	-	-	-	-	504 164	1 891 887	2 396 051
Employee benefits	-	-	-	-	-	145 301	145 301
Total liabilities	10 518 825	-	9 856 199	-	583 027	10 703 533	31 661 584
Percentage (%)	**33.2**	**-**	**31.1**	**-**	**1.9**	**33.8**	**100.0**

[1] *Fair value through profit or loss is amounts that equal or materially approximate fair value.*

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

[3] *Cost less amortisation is original cost less straight-line amortisation over defined periods, limited to residual value.*

[4] *Amortised cost utilising the effective interest rate method.*

[5] *Other refers to other measurement basis that are in line with accouting policies as disclosed in Appendix A.*

Guide to the annual financial statements and notes

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Group and company statements of financial position

as at 31 December 2022

KShs'000	Notes	Group 2022	Group 2021	Company 2022	Company 2021
Assets					
Interests in subsidiaries	7	-	-	2 701 541	2 571 541
Intangible assets	3	1 414 370	1 415 357	-	-
Owner-occupied properties	4.1	1 216 000	1 216 000	-	-
Equipment	5	215 838	183 423	-	-
Right-of-use assets	6.1	96 274	62 964	-	-
Deferred taxation	14	159 089	187 820	-	-
Financial investments	9.1	23 096 106	22 290 725	-	-
Policy and staff loans receivable	9.1	1 400 034	1 648 024	-	-
Deferred acquisition costs	8	180 454	147 548	-	-
Reinsurance assets		4 133 211	3 393 132	-	-
Short-term insurance	15.1	3 812 511	3 226 301	-	-
Long-term insurance	12	320 700	166 831	-	-
Current taxation	33	208 433	157 946	-	-
Intergroup balances with subsidiaries	7.3	-	-	10 204	-
Prepayments, insurance and other receivables	10	1 372 935	1 292 202	545	-
Investment properties held for sale	4.1	118 420	625 263	-	-
Cash and cash equivalents	11	8 420 431	7 855 904	30 529	10 151
Total assets		42 031 595	40 476 308	2 742 819	2 581 692
Liabilities					
Lease liabilities	16.1	112 040	78 863	-	-
Long-term policyholder liabilities		19 997 334	20 375 024	-	-
Insurance contracts	12	6 456 721	6 791 125	-	-
Investment contracts with discretionary participation features	12	2 822 939	3 065 074	-	-
Financial liabilities under investment contracts	13	10 717 674	10 518 825	-	-
Deferred taxation	14	1 021 032	1 050 886	-	-
Short-term insurance liabilities	15.1	8 698 157	7 615 459	-	-
Intergroup balances with subsidiaries	7.3	-	-	4 000	-
Insurance and other payables	18	2 767 513	2 396 051	21 502	39 649
Employee benefits	17.1	174 339	145 301	-	-
Total liabilities		32 770 415	31 661 584	25 502	39 649
Equity					
Ordinary shareholders' equity		8 876 391	8 501 900	2 717 317	2 542 043
Share capital	21	535 707	535 707	535 707	535 707
Share premium	21	1 490 480	1 490 480	1 490 480	1 490 480
Retained surplus		4 876 418	4 478 329	691 130	515 856
Other reserves		1 973 786	1 997 384	-	-
Non-controlling interests	30.1	384 789	312 824	-	-
Total equity		9 261 180	8 814 724	2 717 317	2 542 043
Total equity and liabilities		42 031 595	40 476 308	2 742 819	2 581 692

The financial statements on pages 13 to 135, were approved and authorised for issue by the board of directors on 16 March 2023 and were signed on its behalf by:

P Odera **R Shah**

The accounting principles on pages 13 to 15, summary of the group's assets and liabilities by measurement basis on pages 16 to 17, notes on pages 24 to 77, risk management on pages 79 to 111, and the detailed accounting policies on pages 112 to 135, form an integral part of the financial statements.

Group and company statements of comprehensive income

for the year ended 31 December 2022

KShs'000	Notes	Group 2022	Group 2021	Company 2022	Company 2021
Revenue					
Insurance premiums	22	**12 359 616**	11 411 462	**-**	-
Reinsurance premiums	22	**(4 998 664)**	(4 682 805)	**-**	-
Net insurance premiums		**7 360 952**	6 728 657	**-**	-
Revenue from contracts with customers and fee income on placement of reinsurance	23.1	**1 368 882**	1 335 589	**-**	-
Investment and sundry income	24.1	**41 033**	46 649	**350 000**	200 000
Interest income on financial assets using the effective interest rate method	24.2	**799 081**	643 753	**-**	-
Fair value adjustments to assets held at fair value through profit or loss	25	**896 726**	2 158 708	**-**	-
Total income		**10 466 674**	10 913 356	**350 000**	200 000
Claims and policyholder benefits under insurance contracts	26	**(7 172 622)**	(8 201 331)	**-**	-
Insurance claims recovered from reinsurers	26	**1 884 542**	1 968 149	**-**	-
Change in long-term policyholder assets and liabilities		**730 408**	965 187	**-**	-
Liabilities under insurance contracts	12	**334 404**	(62 532)	**-**	-
Investment contracts with discretionary participation features	12	**242 135**	863 792	**-**	-
Applicable to reinsurers	12	**153 869**	163 927	**-**	-
Fair value adjustment to long-term policyholder liabilities under investment contracts	13	**(392 816)**	(854 885)	**-**	-
Acquisition costs	27	**(1 893 362)**	(1 686 566)	**-**	-
General marketing and administration expenses	28	**(2 946 450)**	(2 781 576)	**(174 726)**	(190 210)
Finance costs	29	**(10 757)**	(10 788)	**-**	-
Profit before taxation		**665 617**	311 546	**175 274**	9 790
Taxation	31.1	**(286 879)**	(229 719)	**-**	-
Total earnings		**378 738**	81 827	**175 274**	9 790
Other comprehensive income		**67 718**	27 712	**-**	-
Items that may be reclassified subsequently to profit or loss		**67 718**	27 712	**-**	-
Foreign currency translation		**67 718**	27 712	**-**	-
Total comprehensive income		**446 456**	**109 539**	**175 274**	**9 790**
Total earnings attributable to:					
Shareholders' equity		**333 860**	80 157	**175 274**	9 790
Non-controlling interests	30.1	**44 878**	1 670	**-**	-
		378 738	81 827	**175 274**	9 790
Total comprehensive income attributable to:					
Shareholders' equity		**374 491**	96 782	**175 274**	9 790
Non-controlling interests	30.2	**71 965**	12 757	**-**	-
		446 456	109 539	**175 274**	9 790
Basic earnings per share					
Basic and diluted earnings per share KShs	1	**0.62**	**0.15**		

The accounting principles on pages 13 to 15, summary of the group's assets and liabilities by measurement basis on pages 16 to 17, notes on pages 24 to 77, risk management on pages 79 to 111, and the detailed accounting policies on pages 112 to 135, form an integral part of the financial statements.

Group statement of changes in equity

for the year ended 31 December 2022

KShs'000	Share capital	Share premium	FCTR[1]	Statutory reserve[2]	Owner-occupied properties[3]	Retained surplus	Non-controlling interests	Total equity
Balance at 1 January 2021	535 707	1 490 480	(166 261)	2 072 438	217 433	4 255 321	300 067	8 705 185
Total comprehensive income	-	-	16 625	-	-	80 157	12 757	109 539
Total earnings	-	-	-	-	-	80 157	1 670	81 827
Other comprehensive income	-	-	16 625	-	-	-	11 087	27 712
Transfer between reserves	-	-	14	(142 865)	-	142 851	-	-
Balance at 31 December 2021	**535 707**	**1 490 480**	**(149 622)**	**1 929 573**	**217 433**	**4 478 329**	**312 824**	**8 814 724**
Total comprehensive income	**-**	**-**	**40 631**	**-**	**-**	**333 860**	**71 965**	**446 456**
Total earnings	**-**	**-**	**-**	**-**	**-**	**333 860**	**44 878**	**378 738**
Other comprehensive income	**-**	**-**	**40 631**	**-**	**-**	**-**	**27 087**	**67 718**
Transfer between reserves	**-**	**-**	**-**	**(64 229)**	**-**	**64 229**	**-**	**-**
Balance at 31 December 2022	**535 707**	**1 490 480**	**(108 991)**	**1 865 344**	**217 433**	**4 876 418**	**384 789**	**9 261 180**

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

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

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

The accounting principles on pages 13 to 15, summary of the group's assets and liabilities by measurement basis on pages 16 to 17, notes on pages 24 to 77, risk management on pages 79 to 111, and the detailed accounting policies on pages 112 to 135, form an integral part of the financial statements.

Company statement of changes in equity

for the year ended 31 December 2022

KShs'000	Share capital	Share premium	Retained surplus	Total equity
Balance at 1 January 2021	535 707	1 490 480	506 066	2 532 253
Total comprehensive income				
Total earnings	-	-	9 790	9 790
Balance at 31 December 2021	**535 707**	**1 490 480**	**515 856**	**2 542 043**
Total comprehensive income				
Total earnings	-	-	**175 274**	**175 274**
Balance at 31 December 2022	**535 707**	**1 490 480**	**691 130**	**2 717 317**

The accounting principles on pages 13 to 15, summary of the group's assets and liabilities by measurement basis on pages 16 to 17, notes on pages 24 to 77, risk management on pages 79 to 111, and the detailed accounting policies on pages 112 to 135, form an integral part of the financial statements.

Group and company statements of cash flows

for the year ended 31 December 2022

KShs'000	Notes	Group 2022	Group 2021	Company 2022	Company 2021
Cash flows from/(to) operating activities		**801 254**	2 311 463	**150 378**	(168)
Cash (utilised in)/generated from by operations	32	**(509 189)**	(1 314 802)	**150 378**	(168)
Cash receipts from policyholders		**14 335 568**	13 834 263	**-**	-
Cash paid to policyholders, intermediaries, suppliers and employees		**(14 844 757)**	(15 149 065)	**150 378**	(168)
Interest income on financial assets using the effective interest rate method	24.2	**799 081**	643 753	**-**	-
Finance costs	29	**(10 757)**	(10 788)	**-**	-
Taxation paid	33	**(333 142)**	(313 358)	**-**	-
Proceeds on sale of investment properties		**506 843**	-		-
Net purchase of financial instruments		**348 418**	3 306 658	**-**	-
Cash flows from investing activities		**(168 738)**	(127 002)	**-**	-
Purchase of equipment	5.2.1	**(100 770)**	(52 821)	**-**	-
Proceeds on sale of equipment		**-**	-	**-**	-
Acquisition of intangible assets	3	**(67 968)**	(74 181)	**-**	-
Cash flow from financing activities		**(33 715)**	(33 306)	**(130 000)**	-
Repayment of lease liabilities	16.1	**(33 715)**	(33 306)	**-**	-
Purchase of equity shares		**-**	-	**(130 000)**	-
Net increase/(decrease) in cash and cash equivalents		**598 801**	2 151 155	**20 378**	(168)
Cash and cash equivalents at the beginning of the year		**7 855 904**	5 735 467	**10 151**	10 319
Foreign currency translation		**(34 274)**	(30 718)	**-**	-
Cash and cash equivalents at the end of the year	11	**8 420 431**	7 855 904	**30 529**	10 151

The accounting principles on pages 13 to 15, summary of the group's assets and liabilities by measurement basis on pages 16 to 17, notes on pages 24 to 77, risk management on pages 79 to 111, and the detailed accounting policies on pages 112 to 135, form an integral part of the financial statements.

Notes to the group and company annual financial statements

for the year ended 31 December 2022

1. Basic earnings and earnings per share

	Group	
	2022	2021
Basic earnings attributable to ordinary shareholders (KShs'000)	333 860	80 157
Weighted average number of ordinary shares (Number of shares)	535 707 499	535 707 499
	Shillings	Shillings
Basic and diluted earnings per share	0.62	0.15

Definitions

Basic earnings per share

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

2. Segment information

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

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

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

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

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

1. Long-term business

2. Short-term businesses

3. Holding company

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

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

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

Definitions

Africa regions

Kenya

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

Tanzania

Retail and institutional short-term insurance.

Consolidation adjustments

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

2. Segment information (continued)

2.1 Segment earnings – results by business unit

2022 KShs'000	Long-term business	Short-term business	Holding company	Consolidation adjustments[1]	IFRS reported
Net insurance premiums	2 565 156	4 879 192	-	(83 396)	7 360 952
Investment returns	1 107 312	771 350	350 000	(491 822)	1 736 840
Revenue from contracts with customers and fee income on placement of reinsurance	407 801	961 081	-	-	1 368 882
Total income	4 080 269	6 611 623	350 000	(575 218)	10 466 674
Net claims and policyholder benefits	(2 717 723)	(2 570 357)	-	-	(5 288 080)
Change in policyholders assets and liabilities	730 408	-	-	-	730 408
Fair value adjustment to policyholders' liabilities under investment contracts	(392 816)	-	-	-	(392 816)
Acquisition costs	(684 500)	(1 208 862)	-	-	(1 893 362)
Marketing and administration expenses	(1 071 998)	(1 914 514)	(174 726)	214 788	(2 946 450)
Finance costs	(2 555)	(19 643)	-	11 441	(10 757)
(Loss)/Profit before taxation	(58 916)	898 247	175 274	(348 989)	665 617
Taxation	(11 452)	(275 123)	-	(304)	(286 879)
Total earnings (loss)/profit	(70 368)	623 124	175 274	(349 293)	378 738
Other comprehensive income/(loss)	-	67 718	-	-	67 718
Total comprehensive income	(70 368)	690 842	175 274	(349 293)	446 456
Attributable to non-controlling interests	-	(71 965)	-	-	(71 965)
Total	(70 368)	618 877	175 274	(349 293)	374 491

[1] *Consolidation adjustments include the elimination of inter-group transactions.*

2021 KShs'000	Long-term business	Short-term business	Holding company	Consolidation adjustments[1]	IFRS reported
Net insurance premiums	2 356 478	4 410 766	-	(38 587)	6 728 657
Investment returns	2 243 871	722 509	200 000	(317 270)	2 849 110
Revenue from contracts with customers and fee income on placement of reinsurance	492 948	842 641	-	-	1 335 589
Total income	5 093 297	5 975 916	200 000	(355 857)	10 913 356
Net claims and policyholder benefits	(3 794 613)	(2 438 569)	-	-	(6 233 182)
Change in policyholders assets and liabilities	965 187	-	-	-	965 187
Fair value adjustment to policyholders' liabilities under investment contracts	(854 885)	-	-	-	(854 885)
Acquisition costs	(596 000)	(1 090 566)	-	-	(1 686 566)
Marketing and administration expenses	(1 009 110)	(1 727 313)	(190 210)	145 057	(2 781 576)
Finance costs	(2 971)	(20 660)	-	12 843	(10 788)
Profit/(loss) before taxation	(199 095)	698 808	9 790	(197 957)	311 546
Taxation	41 781	(270 887)	-	(613)	(229 719)
Total earnings/(loss)	(157 314)	427 921	9 790	(198 570)	81 827
Other comprehensive income/(loss)	-	27 712	-	-	27 712
Total comprehensive income	(157 314)	455 633	9 790	(198 570)	109 539
Attributable to non-controlling interests	-	(12 757)	-	-	(12 757)
Total	(157 314)	442 876	9 790	(198 570)	96 782

[1] *Consolidation adjustments include the elimination of inter-group transactions.*

Notes to the group and company annual financial statements
(continued)
for the year ended 31 December 2022

2. Segment information (continued)

2.2 Segment assets and liabilities by business unit

2022 KShs'000	Long-term business	Short-term business	Holding company	Reporting adjustments[1]	IFRS reported
Total assets	**25 408 277**	**15 551 549**	**2 742 819**	**(1 671 050)**	**42 031 595**
Equipment	96 592	119 246	-	-	215 838
Right-of-use assets	20 258	124 661	-	(48 645)	96 274
Intangible assets	118 268	41 108	-	1 254 994	1 414 370
Investment in subsidiary	-	146 557	2 701 541	(2 848 098)	-
Owner-occupied properties	1 216 000	-	-	-	1 216 000
Investment properties held for sale	118 420	-	-	-	118 420
Financial investments	17 840 946	5 255 160	-	-	23 096 106
Policy and staff loans receivable	1 158 605	241 429	-	-	1 400 034
Reinsurer's share of insurance liabilities	320 701	3 812 510	-	-	4 133 211
Other assets	4 518 487	5 810 878	41 278	(29 301)	10 341 342
Total liabilities	**22 589 838**	**10 263 429**	**25 502**	**(108 354)**	**32 770 415**
Insurance contract liabilities	6 456 721	8 698 157	-	-	15 154 878
Investment contracts with discretionary participation features	2 822 939	-	-	-	2 822 939
Policyholder liabilities under investment contracts	10 717 674	-	-	-	10 717 674
Other liabilities	2 592 504	1 565 272	25 502	(108 354)	4 074 924

Other financial detail by business unit

2022 KShs'000	Long-term business	Short-term business	Holding company	IFRS reported
Additions to property and equipment (note 5.2)	11 223	89 547	-	100 770
Additions to right-of-use assets (note 6.2)	11 550	67 849	-	79 399
Additions to intangible assets (note 3)	59 032	8 936	-	67 968
Interest income on financial assets held at amortised cost (note 24.2)	305 443	493 638	-	799 081
Depreciation (note 5 and 6)	48 799	54 321	-	103 120
Amortisation of deferred acquisition costs (note 8)	47 749	946 762	-	994 511

2. Segment information (continued)

2.2 Segment assets and liabilities by business unit (continued)

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

Other financial detail by business unit

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

Notes to the group and company annual financial statements
(continued)
for the year ended 31 December 2022

2. Segment information (continued)

2.3 Segment earnings – results by geographical spread

2022 KShs'000	Kenya	Tanzania	IFRS reported
Net insurance premiums	6 566 328	794 624	7 360 952
Investment returns	1 603 290	133 550	1 736 840
Revenue from contracts with customers and fee income on placement of reinsurance	1 024 923	343 959	1 368 882
Total income	9 194 541	1 272 133	10 466 674
Net claims and policyholder benefits	(4 924 637)	(363 443)	(5 288 080)
Change in policyholders assets and liabilities	730 408	-	730 408
Fair value adjustment to policyholders' liabilities under investment contracts	(392 816)	-	(392 816)
Acquisition costs	(1 538 612)	(354 750)	(1 893 362)
Marketing and administration expenses	(2 531 484)	(414 966)	(2 946 450)
Finance costs	(9 338)	(1 419)	(10 757)
Profit before taxation	528 062	137 555	665 617
Taxation	(261 520)	(25 359)	(286 879)
Total earnings	266 542	112 196	378 738
Other comprehensive income	-	67 718	67 718
Total comprehensive income	266 542	179 914	446 456
Attributable to non-controlling interests	-	(71 965)	(71 965)
Total comprehensive income attributable to shareholders	266 542	107 949	374 491

Segment assets and liabilities by geographical spread

2022 KShs '000	Kenya	Tanzania	IFRS reported
Total assets	38 392 783	3 638 812	42 031 595
Equipment	199 838	16 000	215 838
Right-of-use assets	60 657	35 617	96 274
Intangible assets	1 401 457	12 913	1 414 370
Investment in subsidiary	-	-	-
Owner occupied properties	1 216 000	-	1 216 000
Investment properties	118 420	-	118 420
Financial investments	22 975 161	120 945	23 096 106
Policy and staff loans receivable	1 400 034	-	1 400 034
Reinsurer's share of insurance liabilities	2 621 653	1 511 558	4 133 211
Other assets	8 399 563	1 941 779	10 341 342
Total liabilities	30 093 579	2 676 836	32 770 415
Insurance contract liabilities	13 015 975	2 138 903	15 154 878
Policyholder liabilities under investment contracts	2 822 939	-	2 822 939
Investment contracts with discretionary participation features	10 717 674	-	10 717 674
Other liabilities	3 536 991	537 933	4 074 924

2. Segment information (continued)

2.3 Segment earnings – results by geographical spread (continued)

Other financial detail

2022 KShs'000	Kenya	Tanzania	IFRS reported
Additions to property and equipment (note 5.2)	**86 418**	**14 352**	**100 770**
Additions to right-of-use assets (note 6.2)	**79 399**	**-**	**79 399**
Additions to intangible assets (note 3)	**63 304**	**4 664**	**67 968**
Interest income on financial assets held at amortised cost (note 24.2)	**682 535**	**116 546**	**799 081**
Depreciation (note 5 and 6)	**78 251**	**24 869**	**103 120**
Amortisation of deferred acquisition costs (note 8)	**982 676**	**11 835**	**994 511**

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

Notes to the group and company annual financial statements (continued)

for the year ended 31 December 2022

2. Segment information (continued)

2.3 Segment earnings – results by geographical spread (continued)

Segment assets and liabilities by geographical spread

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

Other financial detail

2021 KShs'000	Kenya	Tanzania	IFRS reported
Additions to property and equipment (note 5.2)	48 171	4 650	52 821
Additions to right-of-use assets (note 6.2)	10 160	2 845	13 005
Additions to intangible assets (note 3)	73 487	694	74 181
Interest income on financial assets held at amortised cost (note 24.2)	519 656	124 097	643 753
Depreciation (note 5 and 6)	69 441	13 744	83 185
Amortisation of deferred acquisition costs (note 8)	866 327	11 835	878 162

3. Intangible assets

KShs'000	2022	2021
	Group	
Cost at the beginning of the year	2 046 168	2 021 299
Additions	67 968	74 181
Derecognition	-	(51 897)
Foreign currency translation	2 722	2 585
Cost at the end of the year	2 116 858	2 046 168
Accumulated amortisation at the beginning of the year	(630 811)	(601 372)
Amortisation	(70 163)	(70 573)
Derecognition	-	43 020
Foreign currency translation	(1 514)	(1 886)
Accumulated amortisation at the end of the year	(702 488)	(630 811)
Net carrying value at the end of the year	1 414 370	1 415 357

Summary of net carrying value	Amortisation period (years)		
Goodwill	None	1 254 995	1 254 995
Computer software – purchased[1]	Up to 5	159 375	160 362

KShs'000	Balance at the beginning of the year	Additions	Derecog-nition	Amorti-sation	Foreign currency translation	Balance at the end of the year
	Group					
2022						
Cost – movement						
Goodwill	1 254 995	-	-	-	-	1 254 995
Computer software – purchased[1]	791 173	67 968	-	-	2 722	861 863
Total cost	2 046 168	67 968	-	-	2 722	2 116 858
Accumulated amortisation and impairment – movement						
Goodwill	-	-	-	-	-	-
Computer software – purchased[1]	(630 811)	-	-	(70 163)	(1 514)	(702 488)
Total accumulated amortisation and impairment	(630 811)	-	-	(70 163)	(1 514)	(702 488)
2021						
Cost – movement						
Goodwill	1 254 995	-	-	-	-	1 254 995
Computer software – purchased[1]	766 304	74 181	(51 897)	-	2 585	791 173
Total cost	2 021 299	74 181	(51 897)	-	2 585	2 046 168
Accumulated amortisation and impairment – movement						
Goodwill	-	-	-	-	-	-
Computer software – purchased[1]	(601 372)	-	43 020	(70 573)	(1 886)	(630 811)
Total accumulated amortisation and impairment	(601 372)	-	43 020	(70 573)	(1 886)	(630 811)

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

Notes to the group and company annual financial statements
(continued)
for the year ended 31 December 2022

3. Intangible assets (continued)

Goodwill

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

Goodwill impairment testing

Goodwill arose from the acquisition of Liberty Life Assurance Kenya Limited (formerly Alico) in 2004 and acquisition of Heritage in 2010 and current allocation to CGUs is as shown below:

KShs'000	2022	2021
Liberty Life Assurance Kenya Limited	**1 084 647**	**1 084 647**
Heritage insurance Kenya Limited	**170 348**	**170 348**
Total goodwill	**1 254 995**	**1 254 995**

Goodwill relating to Liberty Life Assurance Kenya Limited (formerly Alico) and Heritage Insurance Kenya Limited was tested for impairment on 31 December 2022. The recoverable amount was determined using the best practice in valuing insurance business that comprises embedded value measure and value of future new business. Future net cashflows were discounted to determine the recoverable amount.

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

Liberty Life Assurance Kenya

The key planning assumptions applied are:	2022		2021	
Forecast period	**5 years**	Terminal period 25 Year	5 years	Terminal period 25 Year
Long-term insurance industry growth rate	**5.0%**	2.00%	7.9%	2.00%
Projected country GDP growth rate	**5.0%**	2.00%	5.0%	2.00%
Projected growth in market share	**2.0%**	1.00%	2.0%	1.00%
Premium growth rate (CAGR)	**7.0%**	2.00%	7.0%	2.00%

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

(b) Discount rate: The pre-tax discount rate used was based on an assessment of the risks applicable to Liberty Life Kenya Limited. The cost of equity discount rate calculated for the forecast years was 16.50% per annum (2021: 15.30%). The cost of equity assigned to the CGU and used to discount its future cash flows can have a significant effect on its valuation. The risk-free rate used to determine the cost of equity has been derived from the nine-year Kenya government bonds yield curve. The risk-free rate is then adjusted for an equity risk premium derived as 80% of the current equity risk premium assumption of 3.5%. As at 31 December 2022 the nine-year risk-free rate was 13.74% and the equity premium adjustment was 2.80%.

An increase of 1% to the risk discount rate (RDR) applied would result to value in use reducing by Kshs 129 million (2021: KShs 101 million), a decrease of 1% in RDR results to an increase in value of use by KShs 176 million (2021: KShs 139 million).

Heritage Insurance Kenya

Heritage insurance Kenya Limited is the general insurance businesses in the Kenyan and Tanzanian Markets.

3. Intangible assets (continued)

Key planning assumptions applied are shown on the table below:

	2022		2021	
Forecast period	**5 years**	Terminal period 25 Year	5 years	Terminal period 25 Year
Short-term insurance industry growth rate	**5.0%**	2.00%	7.9%	2.00%
Projected country GDP growth rate	**5.0%**	2.00%	5.0%	2.00%
Projected growth in market share	**2.0%**	1.00%	2.0%	1.00%
Premium growth rate (CAGR)	**6.0%**	2.00%	6.0%	2.00%

(a) Future cashflows: The forecast periods adopted reflect an estimate of future net cashflows based on management judgement and expected market conditions that could be sustainably generated over such a period. A five-year rolling forecast was used as a basis for future profit after tax to be generated a further 25 years representing estimate of terminal value of business to be generated for the foreseeable future. The forecasted profit after tax is based on companies approved five-year strategy that is reviewed on rolling basis.

(b) Discount rate: The pre-tax discount rate used was based on an assessment of the risks applicable to Heritage Kenya. The cost of equity discount rate calculated for the forecast years ranged between 10.3-13.5 per annum (2021: 9.2-11.4 per annum).

Value in use calculation have projected a value of KShs 12,739 million against a goodwill carrying value of KShs 170 million.

An increase of 1% to the risk discount rate (RDR) applied would result to value in use reducing by KShs 572 million (2021: KShs 503 million), a decrease of 1% in RDR results to an increase in value of use by KShs 653 million (2021: KShs 573 million).

4. Properties

4.1 Summary

		Group	
KShs'000	Notes	**2022**	2021
Owner-occupied properties	4.2	**1 216 000**	1 216 000
Investment properties	4.3	**-**	-
Total fair value of properties at end of year		**1 216 000**	1 216 000
Investment properties held for sale	4.4	**118 420**	625 263
Total properties		**1 334 420**	1 841 263

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

4.2 Owner-occupied properties

	Group	
KShs'000	**2022**	2021
Fair value at the beginning of the year	**1 216 000**	1 018 828
Transfer from investment properties (note 4.3)	**-**	199 600
Depreciation	**-**	(2 428)
Fair value at the end of the year	**1 216 000**	1 216 000

All owner-occupied properties are located in Kenya.

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

If owner-occupied properties were stated on the historical cost basis, the carrying amounts would have been KShs 6 137 000 (2021:KShs 6 137 000)

Notes to the group and company annual financial statements
(continued)
for the year ended 31 December 2022

4. Properties (continued)

4.3 Investment properties

	Group	
KShs'000	**2022**	2021
Fair value at the beginning of the year	-	199 600
Transfer to owner-occupied properties (note 4.2)	-	(199 600)
Fair value at the end of the year	-	-

The year 2021 reclassification represents area previsouly leased by STANLIB Kenya Limited (SKL) which with effect from 01 January 2021 was no longer leased by SKL.

Location of investment properties:

All investment properties were located in Kenya.

4.4 Investment properties held for sale

The property classified as held-for-sale at 31 December 2022 is a residential property that is under agreement of sale in its present condition, subject to various conditions precedent being completed of KShs 125 million. The sale transfer process is ongoing and expected to be finalized in 2023.

The investment property is disclosed as held for sale as:

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- Following an active programme a buyer has been located;
- the sale is highly probable, within 12 months of classification;
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

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

A property classified as held-for-sale as at 31 December 2021, was disposed during the year.

		Group	
KShs'000	Notes	**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 of the year		**118 420**	625 263

The investment properties held for sale comprised of residential properties which were leased out and an amount of rental income of KShs 1,8 million (2021: KShs 13 million) earned.

If investment properties held for sale were stated on the historical cost basis, the carrying amounts would have been KShs 24 248 813 (2021: KShs 198 236 000).

4.5 Basis of valuation

The Kenyan located properties were independently valued as at 31 December 2022 by various registered professional valuers. The valuation is prepared in accordance with the International Valuation Standards to which the Institution of Surveyors of Kenya (ISK) subscribes to.

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

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

4. Properties (continued)

4.5 Basis of valuation (continued)

4.5.1 Income approach

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

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

5. Equipment

5.1 Summary

		Group	
KShs'000	Notes	**2022**	2021
Equipment	5.2	**215 838**	183 423
Total equipment		**215 838**	183 423

5.2 Movement analysis of equipment

	Group	
KShs'000	**2022**	2021
Cost at the beginning of the year	**1 039 689**	994 264
Additions	**100 770**	52 821
Disposals	**(1 654)**	(9 552)
Foreign currency translation	**5 574**	2 156
Cost at the end of the year	**1 144 379**	1 039 689
Accumulated depreciation at the beginning of the year	**(856 266)**	(810 901)
Disposals	**1 654**	9 552
Depreciation	**(69 349)**	(53 426)
Foreign currency translation	**(4 580)**	(1 491)
Accumulated depreciation at the end of the year	**(928 541)**	(856 266)
Net carrying amount at the end of the year	**215 838**	183 423
Summary of net carrying value	**Depreciation period (years)**	
Equipment		**215 838**	183 423
Computer equipment	3 - 5	**103 196**	76 423
Fixtures, furniture and fittings	5 - 15	**91 264**	83 223
Motor vehicles	5	**21 378**	23 777

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

Included in equipment as at 31 December 2022 are fully depreciated assets with a cost of KShs 407 879 325 (2021: KShs 396 385 325).

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

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

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

There were no restrictions on titles to the equipment.

Notes to the group and company annual financial statements
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for the year ended 31 December 2022

5. Equipment (continued)

5.2 Movement analysis of equipment (continued)

5.2.1 Equipment

KShs'000	Balance at the beginning of the year	Additions	Disposals	Depreciation	Foreign currency translation	Balance at the end of the year
2022						
Cost - movement						
Computer equipment	**341 483**	**36 566**	**-**	**-**	**-**	**378 049**
Fixtures, furniture and fittings	**628 576**	**39 010**	**(228)**	**-**	**4 948**	**672 306**
Motor vehicles	**69 630**	**25 194**	**(1 426)**	**-**	**626**	**94 024**
Total cost	**1 039 689**	**100 770**	**(1 654)**	**-**	**5 574**	**1 144 379**
Accumulated depreciation - movement	**-**	**-**	**-**	**-**	**-**	**-**
Computer equipment	**(265 060)**	**-**	**-**	**(17 045)**	**-**	**(282 105)**
Fixtures, furniture and fittings	**(545 016)**	**-**	**228**	**(41 389)**	**(4 113)**	**(590 290)**
Motor vehicles	**(46 190)**	**-**	**1 426**	**(10 915)**	**(467)**	**(56 146)**
Total accumulated depreciation	**(856 266)**	**-**	**1 654**	**(69 349)**	**(4 580)**	**(928 541)**
Net carrying amount at the end of the year	**183 423**	**100 770**	**-**	**(69 349)**	**994**	**215 838**
2021						
Cost - movement						
Computer equipment	318 625	21 921	-	-	937	341 483
Fixtures, furniture and fittings	616 608	10 992	-	-	976	628 576
Motor vehicles	59 031	19 908	(9 552)	-	243	69 630
Total cost	994 264	52 821	(9 552)	-	2 156	1 039 689
Accumulated depreciation - movement						
Computer equipment	(234 950)	-	-	(29 417)	(693)	(265 060)
Fixtures, furniture and fittings	(524 130)	-	-	(20 257)	(629)	(545 016)
Motor vehicles	(51 821)	-	9 552	(3 752)	(169)	(46 190)
Total accumulated depreciation	(810 901)	-	9 552	(53 426)	(1 491)	(856 266)
Net carrying amount at the end of the year	183 363	52 821	-	(53 426)	665	183 423

6. Right-of-use assets

6.1 Summary

KShs'000	Notes	Group 2022	Group 2021
Right-of-use assets	6.2	**96 274**	62 964
Total right-of-use assets		**96 274**	62 964

6.2 Movement analysis of right-of-use assets

KShs'000	Group 2022	Group 2021
Cost at the beginning of the year	**139 451**	157 482
Additions	**79 399**	13 005
Derecognition	**(74 076)**	(32 727)
Foreign currency translation	**3 827**	1 691
Cost at the end of the year	**148 601**	139 451
Accumulated depreciation at the beginning of the year	**(76 487)**	(70 554)
Derecognition	**61 076**	24 808
Depreciation	**(33 771)**	(29 759)
Foreign currency translation	**(3 145)**	(982)
Accumulated depreciation at the end of the year	**(52 327)**	(76 487)
Net carrying amount at the end of the year	**96 274**	62 964
Summary of net carrying value **Unexpired lease term (years)**		
Right-of-use property asset 1 - 10	**96 274**	62 964

Notes to the group and company annual financial statements
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for the year ended 31 December 2022

6. Right-of-use assets (continued)

6.2 Movement analysis of right-of-use assets (continued)

6.2.1 Right-of-use assets

KShs'000	Balance at the beginning of the year	Additions	De-recognition	Depreciation	Foreign currency translation	Balance at the end of the year
2022						
Cost - movement						
Properties	**139 451**	**79 399**	**(74 076)**	**-**	**3 827**	**148 601**
Total cost	**139 451**	**79 399**	**(74 076)**	**-**	**3 827**	**148 601**
Accumulated depreciation - movement	**-**	**-**	**-**	**-**	**-**	**-**
Properties	**(76 487)**	**-**	**61 076**	**(33 771)**	**(3 145)**	**(52 327)**
Total accumulated depreciation	**(76 487)**	**-**	**61 076**	**(33 771)**	**(3 145)**	**(52 327)**
Net carrying amount at the end of the year	**62 964**	**79 399**	**(13 000)**	**(33 771)**	**682**	**96 274**
2021						
Cost - movement						
Properties	157 482	13 005	(32 727)	-	1 691	139 451
Total cost	157 482	13 005	(32 727)	-	1 691	139 451
Accumulated depreciation - movement						
Properties	(70 554)	-	24 808	(29 759)	(982)	(76 487)
Total accumulated depreciation	(70 554)	-	24 808	(29 759)	(982)	(76 487)
Net carrying amount at the end of the year	86 928	13 005	(7 919)	(29 759)	709	62 964

Derecognition represents leases that are either terminated or reach their end of contractual term.

7. Interest in subsidiaries

7.1 Summary

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

		Company			
Name of Company	Country of incorporation	Beneficial ownership 2022	Beneficial ownership 2021	KShs'000 Carrying amount 2022	KShs'000 Carrying amount 2021
Liberty Life Assurance Kenya Limited	Kenya	**100%**	100%	**1 956 254**	1 826 254
The Heritage Insurance Company Kenya Limited	Kenya	**100%**	100%	**741 287**	741 287
Heritage Insurance Company Tanzania Limited	Tanzania	**60%**	60%	**-**	-
CFC Investments Limited	Kenya	**100%**	100%	**4 000**	4 000
				2 701 541	2 571 541

7. Interest in subsidiaries (continued)

Interest in subsidiariers are non current assets

	Company	
KShs'000	**2022**	**2021**
Shares at cost	**3 332 333**	3 202 333
Impairment provision	**(630 792)**	(630 792)
Total interest in subsidiaries	**2 701 541**	2 571 541

7.2 Movement analysis of shares at cost

Shares at cost		
Shares at cost at the beginning of the year	**3 202 333**	3 202 333
Additional shares issued	**130 000**	-
Shares at cost at the end of the year	**3 332 333**	3 202 333
Impairment provision		
Impairment provision at the beginning of the year	**(630 792)**	(630 792)
Impairment provision at the end of the year	**(630 792)**	(630 792)

Subsidiaries impairment testing

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

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

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

During the year, Liberty Life Assurance Kenya Limited increased its authorised by 7,000,000 shares . Liberty Kenya Holdings subscribed and paid for 6,500,000 shares at a par value of KShs 20 on 30 June 2022.

7.3 Intergroup balances with subsidiaries at amortised cost

	Company	
KShs'000	**2022**	2021
Intergroup balances due from subsidiaries	**10 204**	-
Intergroup balances due to subsidiaries	**(4 000)**	(4 000)
Total intergroup balances with subsidiaries	**6 204**	-

7.3.1 Movement analysis of intergroup balances with subsidiaries

Intergroup balances - at amortised cost		
Intergroup balances with subsidiaries at the beginning of the year	**(4 000)**	(4 000)
Advances	**(302 481)**	(206 080)
Receipts	**312 685**	206 080
Intergroup balances with subsidiaries at the end of the year[1]	**6 204**	(4 000)

[1] *Intergroup balances are callable on demand.*

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

Notes to the group and company annual financial statements
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for the year ended 31 December 2022

8. Deferred acquisition costs

	Group					
	2022			2021		
KShs'000	Short-term insurance business	Long-term investment contracts	Total	Short-term insurance business	Long-term investment contracts	Total
Balance at the beginning of the year	99 799	47 749	147 548	79 498	37 891	117 389
Cost of new business acquired	970 533	55 872	1 026 405	859 844	47 749	907 593
Amortisation realised through profit or loss	(946 762)	(47 749)	(994 511)	(840 271)	(37 891)	(878 162)
Foreign currency translation	1 012	-	1 012	728	-	728
Balance at the end of the year	124 582	55 872	180 454	99 799	47 749	147 548
Current	124 582	30 666	155 248	99 799	20 718	120 517
Non-current	-	25 206	25 206	-	27 031	27 031

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

9. Financial instruments

9.1 Financial investments

	Group	
KShs'000	2022	2021
At fair value through profit or loss (default)	23 096 106	22 290 725
Equity instruments	2 496 347	3 350 553
Listed	2 436 868	3 298 421
Unlisted	59 479	52 132
At fair value through profit or loss (designated)		
Debt instruments	20 599 759	18 940 172
Listed government bonds[1, 2]	20 599 759	18 940 172
Total financial investments at fair value	23 096 106	22 290 725
Financial investments at amortised cost	1 400 034	1 648 024
Policy and staff loans receivable[4]	1 400 034	1 648 024
Total financial investments	24 496 140	23 938 749
Current	6 861 755	5 834 158
Non-current	17 634 385	18 104 591

(1) *As at 31 December 2022, Liberty Life Assurance Kenya Limited had a total of KShs 1 222 million (2021: KShs 1 369 million) of government securities held under lien in favour of Insurance Regulatory Authority as prescribed by the Insurance Act section 32 (1(a)).*

(2) *As at 31 December 2022, Heritage Insurance Kenya Company Limited had a total of KShs 630 million (2021: KShs 643 million) of government securities held under lien in favour of Insurance Regulatory Authority as prescribed by the Insurance Act section 32.*

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

(4) *Policy loans are to existing policyholders. These are advanced to policyholders and secured against the insurance contract value. The balances are collateralised given that the contract is surrendered automatically as soon as the loan value equates to the contract value. The proceeds from surrender value are applied to pay off the loan.*

(5) *Under IFRS 9, loss allowances for loan receivables are measured under the general expected credit loss impairment model.*

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

(6) *'The risk of default occurring over the expected life of the financial instruments has not increased significantly during the year. For the year ended 31 December 2022, any expected impairment losses would therefore be recognised under the 12 months expected credit loss. The mortgage loans and policy loans are assessed to have a low exposure at default due to the security Liberty holds. The borrower has a high probability of meeting cash flow obligations due to the loans being recovered either directly from staff salaries or being limited to the surrender value of policyholder investments respectively. The expected credit impairment loss was immaterial as at 31 December 2022 and 31 December 2021.*

9. Financial instruments (continued)

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

	Group		
KShs'000	Fair value through profit or loss	Financial assets measured at amortised cost	Total
2022			
Balance at the beginning of the year	**22 290 725**	**1 648 024**	**23 938 749**
Net additions or advances/(disposals) or (repayments) of financial investments	**(100 428)**	**(394 264)**	**(494 692)**
Accrued interest on amortised cost instruments	**-**	**146 274**	**146 274**
Fair value adjustments	**896 726**	**-**	**896 726**
Foreign currency translation	**9 083**	**-**	**9 083**
Balance at the end of the year	**23 096 106**	**1 400 034**	**24 496 140**
2021			
Balance at the beginning of the year	23 357 471	1 712 273	25 069 744
Net additions or advances/disposals or repayments of financial investments	(3 242 409)	(228 128)	(3 470 537)
Accrued interest on amortised cost instruments	-	163 879	163 879
Fair value adjustments	2 166 695	-	2 166 695
Foreign currency translation	8 968	-	8 968
Balance at the end of the year	22 290 725	1 648 024	23 938 749

10. Prepayments, insurance and other receivables

	Group		Company	
KShs'000	2022	2021	2022	2021
Insurance contracts	**687 599**	**718 980**		-
Outstanding premium receivables -Long-term insurance [3]	**95 628**	76 906	**-**	-
Reinsurance recoveries and deposits	**243 740**	183 769	**-**	-
Outstanding premium receivables -Short-term insurance [3]	**348 231**	458 305	**-**	-
Prepayments and other receivables at amortised cost[1]	**473 699**	**146 318**	**545**	-
Accrued income[2]	**143 510**	33 180	**-**	-
Other debtors[2]	**328 115**	107 303	**-**	-
Due from group companies	**2 074**	5 835	**545**	-
Prepayments[2]	**211 637**	426 904	**-**	-
Total prepayments, insurance and other receivables	**1 372 935**	1 292 202	**545**	-

[1] *Balances are net of expected credit loss allowances.*
[2] *These balances are either not subject to expected credit losses or the expected credit loss was assessed and is immaterial.*
[3] *The amount is net of estimated credit loss allowances.*

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

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

Notes to the group and company annual financial statements
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for the year ended 31 December 2022

10. Prepayments, insurance and other receivables (continued)

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

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

KShs'000	2022	2021
Balance at the beginning of the year	**(252 924)**	**(430 239)**
Decrease/(Increase) in loss allowance recognised in profit or loss during the period	**27 002**	**14 498**
Bad debts written off	**198 516**	**162 817**
Closing expected credit loss allowance	**(27 406)**	**(252 924)**

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

Ageing of outstanding premium receivables -short term insurance

KShs'000	2022	2021
Current	**126 397**	17 039
31 - 60 days past due	**80 294**	78 302
61 - 90 days past due	**92 951**	201 023
91 - 365 days past due	**48 589**	161 941
More than 365 days past due	**27 406**	252 924
Impairment allowance	**(27 406)**	(252 924)
	348 231	458 305

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

KShs'000	2022	2021
Balance at the beginning of the year	**(74 092)**	**(23 694)**
Decrease/ (increase) in loss allowance recognised in profit or loss during the period	**17 316**	**(50 398)**
Closing expected credit loss allowance	**(56 776)**	(74 092)

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

Ageing of outstanding premium receivables -long term insurance

Carrying amount KShs'000	2022	2021
Current	**95 628**	76 906
1 -30 days past due	**6 545**	19 490
31- 60 days past due	**7 480**	22 272
61-90 days past due	**4 675**	13 920
More than 90 days past due	**38 076**	18 410
Impairment allowance	**(56 776)**	(74 092)
	95 628	76 906

10. Prepayments, insurance and other receivables (continued)

Write off policy for outstanding premium receivables

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

1) a debt shall be considered to have become bad if it is proved to the satisfaction of the board to have become uncollectable after all reasonable steps have been taken to collect it; and

2) a debt shall only be considered uncollectable where the creditor loses the contractual right through a court order, no form of security or collateral is realisable whether partially or in full, the securities or collateral have been realised but the process fail to cover the entire debt, the debtor is adjudged insolvent or bankrupt by a court of law and the cost of recovering the debt exceeds the debt itself.

If the ECL rate was to change by 1% increase/decrease the impact on impairmens allowance would be KShs 0,6 million (2021: KShs 56 million)

11. Cash and cash equivalents

	Group		Company	
KShs'000	2022	2021	2022	2021
Cash and cash equivalents at amortised cost	**8 420 431**	7 855 904	**30 529**	10 151
Cash at bank and on hand	**591 275**	612 015	**30 529**	10 151
Short-term cash deposits	**7 829 156**	7 243 889	**-**	-
Total cash and cash equivalents	**8 420 431**	7 855 904	**30 529**	10 151

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

12. Long-term policyholder and reinsurance assets and liabilities

	Group		
KShs'000	Policyholder insurance contract liabilities	Reinsurance assets	Investment contracts with DPF[1]
2022			
Balance at the beginning of the year	**6 791 125**	**(166 831)**	**3 065 074**
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**	**(560 657)**
Claims and policyholder benefits under insurance contracts	**(2 558 630)**	**267 730**	**(426 823)**
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 loss/ (income) from insurance operations	**453 787**	**(214 264)**	**(33 122)**
Assumptions 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**

Notes to the group and company annual financial statements
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12. Long-term policyholder and reinsurance assets and liabilities (continued)

KShs'000	Group Policyholder insurance contract liabilities	Reinsurance assets	Investment contracts with DPF[1]
Movement for the year through income statement	**334 404**	**153 869**	**242 135**
Current	**267 320**	**(320 700)**	**(45 620)**
Non-current	**6 189 401**	**-**	**2 868 558**

[1] *The group cannot reliably measure the fair value of the investment contracts with discretionary participation features (DPF). The DPF is a contractual right that gives investors in these contracts the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the investment DPF fund.*
These supplementary returns are subject to the discretion of the group, and applied in line with the Principles and Practices of Financial Management (PPFM).

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

KShs'000	Group Policyholder Insurance contracts liabilities	Reinsurance assets	Investment contracts with DPF[1]
2021			
Balance at the beginning of the year	6 728 593	(2 904)	3 928 866
Inflows	3 497 826	(342 502)	590 137
Premiums	2 455 732	(342 502)	243 247
Investment returns	1 042 094	-	346 890
Unwinding of discount rate	319 654	-	-
Investments	722 440	-	346 890
Outflows	(3 778 330)	366 021	(1 407 295)
Claims and policyholder benefits under insurance contracts	(2 801 404)	265 510	(1 258 719)
Acquisition costs associated with insurance contracts	(430 447)	100 511	(28 086)
General marketing and administration expenses	(595 051)	-	(93 251)
Taxation	48 572	-	(27 239)
Net income from insurance operations	343 036	(187 446)	(46 634)
Assumptions and modelling changes	122 749	-	-
Discretionary and compulsory margins and other variances	106 146	(187 446)	(46 634)
New business	114 141	-	-
Balance at the end of the year	6 791 125	(166 831)	3 065 074
Movement for the year through income statement	(62 532)	163 927	863 792
Movement for the year through other comprehensive income	-	-	-
Current	146 005	(166 831)	(50 375)
Non-current	6 645 120	-	3 115 449

[1] *The group cannot reliably measure the fair value of the investment contracts with discretionary participation features (DPF). The DPF is a contractual right that gives investors in these contracts the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the investment DPF fund.*
These supplementary returns are subject to the discretion of the group, and applied in line with the Principles and Practices of Financial Management (PPFM).

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

Process used to decide on assumptions and changes in assumptions

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

Mortality and Morbidity

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

Withdrawal

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

Investment return and discount rate

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

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

- Bonds – the derived bond from the gilt yield curve, at a duration of 9 years, at the balance sheet date, 13,74% (2021: 12,49%);
- Equities – bond rate plus 3,5 percentage points as an adjustment for risk 17,24% (2021: 15,98%);
- Property – bond rate plus 1 percentage point as an adjustment for risk 14,74% (2021: 13,48%); and
- Cash – 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 and these are split into the main product pillars and are further , split between acquisition and maintenance expenses, in the calendar year preceding the balance sheet date. This analysis is used to calculate the acquisition costs incurred. The budget in respect of the following year approved by the board is used to set the maintenance expense assumption.

Expense inflation

The expense inflation assumption is set taking into consideration, market implied inflation, the expected future development of the number of in force policies, as well as the expected future profile of maintenance expenses. The inflation rate is set at the effective 10-year treasury bond yield curve rate less 3,00% when the treasury bond rate is above 8,50%. The expense inflation rate is set at 60% of the treasury bond rate when this is below 6,25%. At treasury bond rates between 6,50% and 8,50% 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: 9,50%).

Taxation

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

Correlations

No correlations between assumptions are allowed for.

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for the year ended 31 December 2022

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

Contribution increases

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

Embedded investment derivative assumptions

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

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

Implied volatilities

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

			Implied volatilities %		Price %	
Maturity	Strike	Underlying index	**2022**	2021	**2022**	2021
Vanilla put options						
1 year at-the-money	Spot	FTSE/JSE top 40	**18,04**	**19.40**	**4,72**	**5.25**
1 year	80% of spot	FTSE/JSE top 40	**20,18**	**20.97**	**0,70**	**0.82**
1 year at-the-money	Forward	FTSE/JSE top 40	**18,04**	**19.40**	**6,97**	**7.43**
5 year at-the-money	Spot	FTSE/JSE top 40	**22,99**	**24.78**	**5,38**	**6.19**
5 year	$1{,}04^{5}$ of spot	FTSE/JSE top 40	**24,01**	**26.09**	**11,43**	**12.58**
5 year at-the-money	Forward	FTSE/JSE top 40	**24,01**	**24.78**	**18,18**	**18.03**
20 year at-the-money	Spot	FTSE/JSE top 40	**26,55**	**28.43**	**0,54**	**0.84**
20 year	$1{,}04^{20}$ of spot	FTSE/JSE top 40	**26,54**	**29.57**	**3,23**	**4.62**
20 year at-the-money	Forward	FTSE/JSE top 40	**26,55**	**28.40**	**24,38**	**22.10**
Other put options						
5 year	$1{,}04^{5}$ of spot	60% FTSE/JSE top 40 index, 40% ALBI with annual rebalancing			**1,05**	**0.90**
20 year	Present 5-year forward rate as at maturity	Pays out if the 5-year interest rate at the time of maturity (in 20 years' time) is lower than the strike			**0,02**	**0.03**

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

Changes in assumptions and modelling changes

Modelling and other changes were made to realign valuation assumptions with expected future experience. These changes resulted in a decrease in the net of reinsurance policyholder liabilities of KShs 208 million in 2022 compared to a net increase of KShs 123 million in 2021.

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

KShs'000	**2022**	2021
Withdrawals	**(108 583)**	-
Economic valuation assumptions	**(85 120)**	(23 603)
Change in renewal expense assumption	**63 170**	20 952
Covid reserve [1]	**(121 089)**	121 089
Balance of modelling and other changes	**43 945**	4 311
Total increase in net of reinsurance policyholder liabilities	**(207 677)**	122 749

[1] *This was the reserving required for the anticipated impact of Covid-19 pandemic.*

13. Financial liabilities under investment contracts

KShs'000	2022	2021
Balance at the beginning of the year	**10 518 825**	8 900 253
Fund inflows from investment contracts	**1 975 952**	2 422 800
Net fair value adjustment	**392 816**	854 885
Fund outflows from 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
Current	**(15 396)**	122 822
Non-current	**10 733 070**	10 396 003
Net income from investment contracts (prior to deferred acquisition cost)	**(98 591)**	(32 147)
Service fee income	**325 422**	392 437
Expenses:		
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)

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14. Deferred taxation

	Group	
KShs'000	2022	2021
Deferred tax assets		
Non-current	**159 089**	187 820
Deferred tax liabilities		
Non-current	**(1 021 032)**	(1 050 886)
Total deferred taxation	**(861 943)**	(863 066)

14.1 Deferred tax movement analysis

KShs'000	Asset/ (liability) at the beginning of the year	Foreign currency translation	(Provision) /release for the year	Asset/ (liability) at the end of the year
2022				
Normal taxation	**(863 066)**	**5 347**	**(4 224)**	**(861 943)**
Policyholder liabilities difference between tax and accounting basis	**(1 081 385)**	**-**	**30 157**	**(1 051 228)**
Property and equipment	**22 543**	**93**	**3 695**	**26 331**
Fair value gains	**(21 685)**	**-**	**(64 100)**	**(85 785)**
Prepayments, provisions and other temporary differences	**217 461**	**5 254**	**26 024**	**248 739**
Total	**(863 066)**	**5 347**	**(4 224)**	**(861 943)**
2021				
Normal taxation	(897 940)	1 364	33 510	(863 066)
Policyholder liabilities difference between tax and accounting basis	(1 116 597)	-	35 212	(1 081 385)
Property and equipment	19 920	(29)	2 652	22 543
Fair value gains	(25 909)	-	4 224	(21 685)
Prepayments, provisions and other temporary differences	224 646	1 393	(8 578)	217 461
Total	(897 940)	1 364	33 510	(863 066)

15. Short-term insurance liabilities and reinsurance assets

15.1 Short-term insurance liabilities comprise

KShs'000	2022 Gross of reinsurance	2022 Reinsurance	2022 Net of reinsurance	2021 Gross of reinsurance	2021 Reinsurance	2021 Net of reinsurance
Outstanding reported claims	3 722 302	(1 431 179)	2 291 123	3 464 179	(1 296 071)	2 168 108
Claims incurred but not reported	1 170 535	(762 476)	408 059	813 695	(498 182)	315 513
Unearned premiums	3 805 320	(1 618 856)	2 186 464	3 337 585	(1 432 048)	1 905 537
Total short-term insurance liabilities	8 698 157	(3 812 511)	4 885 646	7 615 459	(3 226 301)	4 389 158
Current	8 698 157	(3 812 511)	4 885 646	7 615 459	(3 226 301)	4 389 158
Non-current	-	-	-	-	-	-

15.2 Movement analysis

Outstanding reported claims						
Balance at the beginning of the year	3 464 179	(1 296 071)	2 168 108	3 527 639	(1 483 997)	2 043 642
Cash-settled claims	(3 668 537)	1 280 806	(2 387 731)	(4 062 526)	1 864 772	(2 197 754)
Claims provided for	3 857 213	(1 364 896)	2 492 317	3 979 589	(1 654 181)	2 325 408
Foreign currency translation	69 447	(51 018)	18 429	19 477	(22 665)	(3 188)
Balance at the end of the year	3 722 302	(1 431 179)	2 291 123	3 464 179	(1 296 071)	2 168 108
Claims incurred but not reported						
Balance at the beginning of the year	813 695	(498 182)	315 513	649 061	(447 840)	201 221
Net movement in IBNR	329 956	(251 916)	78 040	161 619	(48 458)	113 161
Foreign currency translation	26 884	(12 378)	14 506	3 015	(1 884)	1 131
Balance at the end of the year	1 170 535	(762 476)	408 059	813 695	(498 182)	315 513
Unearned premiums						
Balance at the beginning of the year	3 337 585	(1 432 048)	1 905 537	2 934 931	(1 230 263)	1 704 668
Premiums received	9 900 796	(4 846 125)	5 054 671	9 089 120	(4 524 921)	4 564 199
Recognised to revenue	(9 504 746)	4 708 950	(4 795 796)	(8 712 483)	4 340 304	(4 372 179)
Foreign currency translation	71 685	(49 633)	22 052	26 017	(17 168)	8 849
Balance at the end of the year	3 805 320	(1 618 856)	2 186 464	3 337 585	(1 432 048)	1 905 537

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

15.3 Claims development

The latest valuation of IBNR was carried out by statutory actuary as at 31 December 2022.

Accident year	2016 KShs'000	2017 KShs'000	2018 KShs'000	2019 KShs'000	2020 KShs'000	2021 KShs'000	2022 KShs'000	Total KShs'000
Estimate of ultimate claims cost								
at end of accident year	1 491 202	2 061 529	2 882 637	2 559 757	2 773 530	2 692 461	**3 857 213**	**18 318 329**
one year later	229 393	1 677 827	1 828 135	1 681 550	1 726 459	1 545 607	**-**	**8 688 971**
two years later	30 175	46 422	1 761 818	642 720	786 135	-	**-**	**3 267 270**
three years later	65 184	39 236	1 252 029	521 313	-	-	**-**	**1 877 762**
four years later	11 358	(29 947)	1 209 758	-	-	-	**-**	**1 191 169**
five years later	9 573	(5 507)	-	-	-	-	**-**	**4 066**
six years later	2 504	-	-	-	-	-	**-**	**2 504**
Current estimate of cumulative claims	1 839 389	3 789 560	8 934 377	5 405 340	5 286 124	4 238 068	**3 857 213**	**33 350 071**
less cumulative payments to date	(1 344 341)	(3 658 533)	(8 605 773)	(5 168 410)	(4 978 519)	(3 709 876)	**(2 162 317)**	**(29 627 769)**
Liabilities in the statement of financial position	495 048	131 027	328 604	236 930	307 605	528 192	**1 694 896**	**3 722 302**
Incurred but not reported	-	-	-	-	-	-	**-**	**1 170 535**
Total gross claims liability included in the statement of financial position	495 048	131 027	328 604	236 930	307 605	528 192	**1 694 896**	**4 892 837**

16. Lease liabilities

16.1 Lease liabilities movement analysis

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

KShs'000	Group 2022	2021
Balance at begining of the year	**78 863**	99 501
Finance costs[1]	**10 757**	10 788
Additions	**79 936**	13 005
Repayments[1]	**(44 472)**	(44 094)
Terminations	**(13 771)**	(1 095)
Foreign currency translation	**727**	758
Balance at the end of the year	**112 040**	78 863
Current	**58 214**	30 109
Non-current	**53 826**	48 754

[1] *Repayment of lease liabilities*

16. Lease liabilities (continued)

16.2 Maturity analysis – contractual undiscounted cash flows

As lessee

	Group	
KShs'000	**2022**	**2021**
Up to 1 year	**58 214**	54 420
Between 1 and 5 years	**125 800**	53 807
Over 5 years	**-**	6 385
Total undiscounted lease liabilities at the end of the year	**184 014**	114 612

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

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

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

The borrowing rate applied to lease liabilities was 14% (2021: 14%). The rate was determined at intial adoption in 2019 based on the Central Bank of Kenya borrowing rate which was 9% and loaded a margin of 5%. Thus the weighted average incremental borrowing rate would equate to a similar rate.

17. Employee benefits

17.1 Short-term employee benefits

	Leave pay		Short-term incentive schemes		Total	
KShs'000	**2022**	2021	**2022**	2021	**2022**	2021
Balance at the beginning of the year	**44 425**	50 905	**100 876**	119 276	**145 301**	170 181
Additional provision raised	**44 938**	32 425	**122 728**	100 877	**167 666**	133 302
Utilised during the year	**(37 820)**	(38 934)	**(100 877)**	(119 277)	**(138 697)**	(158 211)
Foreign currency translation	**69**	29	**-**	-	**69**	29
Balance at the end of the year	**51 612**	44 425	**122 727**	100 876	**174 339**	145 301

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

Leave pay

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

Short-term incentive schemes (cash-settled)

In terms of the group remuneration policy, all permanent employees are eligible to receive a short-term incentive bonus in terms of the various board approved short-term incentive schemes. These schemes recognise both individual and financial performance.

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17. Employee benefits (continued)

17.2 Details of funds

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

Defined contribution schemes:

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

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

17.3 Transactions between group companies and the funds

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

KShs'000	2022	2021
Retirement		
Defined contribution funds	**116 333**	118 962

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

	Fund value	
KShs'000	2022	2021
Heritage AII Insurance Kenya Staff Retirement Benefits Scheme and the CFC Life Assurance Staff Pension Scheme – Policies with Liberty life Kenya		
Balance at the beginning of the year	**1 442 887**	1 401 043
Premiums	**198 515**	192 502
Fair value adjustments	**25 360**	88 501
Withdrawals	**(246 150)**	(239 159)
Balance at the end of the year	**1 420 612**	1 442 887

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

KShs'000	2022	2021
The total of fees paid is as follows:		
Administration and consulting fees	**26 045**	25 312

18. Insurance and other payables

	Group		Company	
KShs'000	2022	2021	2022	2021
Long-term insurance contracts	**838 389**	681 097	**-**	-
Outstanding claims and surrenders	**371 056**	339 998	**-**	-
Premiums received in advance	**467 333**	341 099	**-**	-
Short-term insurance contracts	**974 589**	1 210 790	**-**	-
Arising from direct insurance	**383 262**	592 276	**-**	-
Arising from reinsurance	**591 327**	618 514	**-**	-
Other payables at amortised cost	**954 535**	504 164	**21 502**	14 853
Sundry payables	**904 072**	464 758	**20 614**	14 853
Due to group companies	**50 463**	39 406	**888**	-
Total insurance and other payables	**2 767 513**	2 396 051	**21 502**	14 853
Current	**2 767 513**	2 396 051	**21 502**	14 853
Non-current	**-**	-	**-**	-

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

19.1 Assets

	Group					
	Kenya Shilling denominated		Foreign currency denominated		Total	
KShs'000	2022	2021	2022	2021	2022	2021
Equity instruments	**2 436 868**	3 298 421	**59 479**	52 132	**2 496 347**	3 350 553
Listed equities on the NSE	**2 436 868**	3 298 421	**-**	-	**2 436 868**	3 298 421
Unlisted equities	**-**	-	**59 479**	52 132	**59 479**	52 132
Debt instruments	**20 599 759**	18 940 172	**-**	-	**20 599 759**	18 940 172
Listed government bonds	**20 599 759**	18 940 172	**-**	-	**20 599 759**	18 940 172
Financial assets at amortised cost	**1 400 034**	1 648 024	**-**	-	**1 400 034**	1 648 024
Reinsurance assets	**2 621 653**	2 055 412	**1 511 558**	1 337 720	**4 133 211**	3 393 132
Prepayments, insurance and other receivables	**1 013 130**	1 078 427	**359 805**	213 775	**1 372 935**	1 292 202
Cash and cash equivalents	**7 006 809**	6 312 122	**1 413 622**	1 543 782	**8 420 431**	7 855 904
Properties	**1 334 420**	1 841 263	**-**	-	**1 334 420**	1 841 263
Total financial, property, insurance and reinsurance assets	**36 412 673**	35 173 841	**3 344 464**	3 147 409	**39 757 137**	38 321 250
Other assets not measured at fair value on a recurring basis				-		
Intangible assets	**1 401 457**	1 401 215	**12 913**	14 142	**1 414 370**	1 415 357
Equipment	**199 838**	171 779	**16 000**	11 644	**215 838**	183 423
Right-of-use assets	**60 657**	54 999	**35 617**	7 965	**96 274**	62 964
Deferred taxation	**90 547**	125 310	**68 542**	62 510	**159 089**	187 820
Deferred acquisition costs	**162 253**	135 713	**18 201**	11 835	**180 454**	147 548
Current taxation	**126 824**	114 563	**81 609**	43 383	**208 433**	157 946
Total assets as per statement of financial position	**38 454 249**	37 177 420	**3 577 346**	3 298 888	**42 031 595**	40 476 308

	Company					
	Kenya Shilling denominated		Foreign currency denominated		Total	
KShs'000	2022	2021	2022	2021	2022	2021
Interest in subsidiaries	**2 701 541**	2 571 541	**-**	-	**2 701 541**	2 571 541
Intergroup balances with subsidiaries	**10 204**	-	**-**	-	**10 204**	-
Prepayments, insurance and other receivables	**545**	-	**-**	-	**545**	-
Cash and cash equivalents	**30 529**	10 151	**-**	-	**30 529**	10 151
Total assets as per statement of financial position	**2 742 819**	2 581 692	**-**	-	**2 742 819**	2 581 692

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

19.2 Long-term policyholder and reinsurance liabilities

	Long-term policyholder liabilities			
KShs'000	Insurance contracts	Investment contracts	Investment contracts with DPF	Total
2022				
Investment-linked (excluding discretionary participation features(DPF))	-	10 053 044	-	10 053 044
Business with DPF	4 967 085	-	2 822 939	7 790 024
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)	171 125	-	-	171 125
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	-	3 065 074	8 484 166
Non-participating annuities (including disability income in claim)	241 961	498 284	-	740 245
Retail pure risk (excluding disability income annuities in claim)	864 803	-	-	864 803
Institutional risk (excluding group disability income annuities in claim)	265 269	-	-	265 269
Total long-term policyholder and reinsurance liabilities	6 791 125	10 518 825	3 065 074	20 375 024

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20. Fair value hierarchy

20.1 Introduction

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

20.2 Asset hierarchy

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

2022 KShs'000	Level 1	Level 2	Level 3	Total
Equity instruments	2 436 868	-	59 479	2 496 347
Listed equities on the NSE	2 436 868	-	-	2 436 868
Unlisted equities	-	-	59 479	59 479
Debt instruments	-	20 599 759	-	20 599 759
Listed term deposits on exchange	-	20 599 759	-	20 599 759
Investment properties held for sale	-	-	118 420	118 420
Owner-occupied property	-	-	1 216 000	1 216 000
Total assets subject to fair value hierarchy analysis	2 436 868	20 599 759	1 393 899	24 430 526
Other assets not measured at fair value on a recurring basis				
Intangible assets	-	-	-	1 414 370
Equipment	-	-	-	215 838
Right-of-use-assets	-	-	-	96 274
Deferred taxation	-	-	-	159 089
Deferred acquisition costs	-	-	-	180 454
Reinsurance assets	-	-	-	4 133 211
Policy and staff loans receivable	-	-	-	1 400 034
Prepayments and other receivables held at amortised cost	-	-	-	1 372 935
Cash and cash equivalents held at amortised cost	-	-	-	8 420 431
Current taxation	-	-	-	208 433
Total assets as per statement of financial position	2 436 868	20 599 759	1 393 899	42 031 595

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

20. Fair value hierarchy (continued)

20.2 Asset hierarchy (continued)

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

20.3 Liability hierarchy

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

KShs'000	Level 1	Level 2	Level 3	Total
2022				
Policyholder long-term investment contract liabilities	**-**	**10 717 674**	**-**	**10 717 674**
Liabilities subject to fair value hierarchy analysis	**-**	**10 717 674**	**-**	**10 717 674**
2021				
Policyholder long-term investment contract liabilities	-	10 518 825	-	10 518 825
Liabilities subject to fair value hierarchy analysis	-	10 518 825	-	10 518 825

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20. Fair value hierarchy (continued)

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

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

KShs'000	Amortised cost	Fair value	Level 1	Level 2	Level 3
2022					
Financial assets measured at amortised cost					
Policy and staff loans receivable – net carrying value	**1 400 034**	**992 367**	**-**	**-**	**992 367**
Cash and cash equivalents – net carrying value	**8 420 431**	**8 420 431**	**-**	**8 420 431**	**-**
2021					
Financial assets measured at amortised cost					
Policy and staff loans receivable – net carrying value	1 648 024	1 468 678	-	-	1 468 678
Cash and cash equivalents – net carrying value	7 855 904	7 855 904	-	7 855 904	-

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

20.5 Reconciliation of level 3 assets and liabilities

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

KShs'000	2022	2021
Balance at the beginning of the year, excluding prepayments and other receivables	**1 893 395**	1 900 909
Fair value adjustment recognised in profit or loss as part of investment gains[1]	**-**	(7 987)
Foreign currency translation	**7 347**	2 901
Disposals	**(506 843)**	-
Depreciation	**-**	(2 428)
Balance at the end of the year, excluding prepayments and other receivables	**1 393 899**	1 893 395
Properties	**1 334 420**	1 841 263
Financial instruments – equity	**59 479**	52 132

[1] *Included in the fair value adjustments is nil unrealised loss (2021: KShs 5 million).*

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

20. Fair value hierarchy (continued)

20.6 Sensitivity analysis of level 3 assets

20.6.1 Investment and owner-occupied property

Investment and owner-occupied properties fair values were obtained from independent valuators who derived the market values by a triangulation of three methods i.e. Market Approach, Income Approach and Cost Approach.

The exit capitalisation rate applied at 31 December 2022 was 8,0% (2021: 8,5%). This compares to the ten-year government yield of 13,77% (2021: 9,17%). The non-observable adjustments included in the valuation can therefore be referenced to the variance to the ten-year government rate.

		Change in exit capitalisation rate	
KShs'000	Total	1% increase	1% decrease
2022			
Properties with 8,0% capitalisation rate	**1 216 000**	**1 114 578**	**1 433 029**
Total	**1 216 000**	**1 114 578**	**1 433 029**
2021			
Properties with 8,5% capitalisation rate	1 216 000	1 088 180	1 378 362
Total	1 216 000	1 088 180	1 378 362

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

		Change in discount rate	
KShs'000	Total	1% increase	1% decrease
2022			
Total properties	**1 216 000**	**1 083 223**	**1 384 758**
2021			
Total properties	1 216 000	1 089 413	1 375 694

20.6.2 Financial instrument assets

	2022	2021
	KShs'000	KShs'000
Equities		
Unlisted equities	**59 479**	52 132
Debt		
Policy and staff loans receivables	**992 367**	1 468 678

A 1% change in discount rate applied to fair value on policy and staff loan receivables results in a fair value adjustments of KShs 962 million (2021: 1,422 million).

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20. Fair value hierarchy (continued)

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

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

2022 KShs'000	Fair value through profit or loss		Fair value through OCI	Total fair value	Amortised cost	IFRS 4 measure-ment basis	Total per statement of financial position
	Designated	Default					
Financial assets							
Financial investments	**20 599 759**	**2 496 347**	**-**	**23 096 106**	**-**	**-**	**23 096 106**
Policy and staff loans receivables	**-**	**-**	**-**	**-**	**1 400 034**	**-**	**1 400 034**
Insurance and other receivables	**-**	**-**	**-**	**-**	**473 699**	**687 599**	**1 161 298**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**8 420 431**	**-**	**8 420 431**
Total financial assets	**20 599 759**	**2 496 347**	**-**	**23 096 106**	**10 294 164**	**687 599**	**34 077 869**
Financial liabilities							
Financial liabilities under investment contracts	**10 717 674**	**-**	**-**	**10 717 674**	**-**	**-**	**10 717 674**
Insurance and other payables	**-**	**-**	**-**	**-**	**954 535**	**1 812 978**	**2 767 513**
Total financial liabilities	**10 717 674**	**-**	**-**	**10 717 674**	**954 535**	**1 812 978**	**13 485 187**

2021 KShs'000	Fair value through profit or loss		Fair value through other comprehen-sive income	Total fair value	Amortised cost	IFRS 4 measure-ment basis	Total per statement of financial position
	Designated	Default					
Financial assets							
Financial investments	18 940 172	3 350 553	-	22 290 725	-	-	22 290 725
Policy and staff loans receivables	-	-	-	-	1 648 024	-	1 648 024
Insurance and other receivables	-	-	-	-	325 218	718 980	1 044 198
Cash and cash equivalents	-	-	-	-	7 855 904	-	7 855 904
Total financial assets	18 940 172	3 350 553	-	22 290 725	9 829 146	718 980	32 838 851
Financial liabilities							
Financial liabilities under investment contracts	10 518 825	-	-	10 518 825	-	-	10 518 825
Insurance and other payables	-	-	-	-	504 164	1 891 887	2 396 051
Total financial liabilities	10 518 825	-	-	10 518 825	504 164	1 891 887	12 914 876

20. Fair value hierarchy (continued)

20.8 Group's valuation process

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

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

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

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

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20. Fair value hierarchy (continued)

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

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

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

21. Share capital and share premium

Authorised share capital

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

	Group		Company	
KShs'000	**2022**	**2021**	**2022**	**2021**
Issued share capital				
535 707 499 ordinary shares with a par value of KShs 1 per share	**535 707**	535 707	**535 707**	535 707
Share premium	**1 490 480**	1 490 480	**1 490 480**	1 490 480
Total issued share capital and share premium	**2 026 187**	2 026 187	**2 026 187**	2 026 187

The closing price for a Liberty Kenya Holdings Plc ordinary share on 31 December 2022: KShs 4,99 (2021: KShs 7,00).

22. Revenue

	Group	
KShs'000	**2022**	**2021**
Insurance premiums	**12 359 616**	11 411 462
Long-term	**2 854 870**	2 698 979
Short-term	**9 504 746**	8 712 483
Reinsurance premiums	**(4 998 664)**	(4 682 805)
Long-term	**(289 714)**	(342 501)
Short-term	**(4 708 950)**	(4 340 304)
Net insurance premiums	**7 360 952**	6 728 657
Fund inflows from long-term investment contracts	**1 975 952**	2 422 800
Net premium income from insurance contracts and inflows from investment contracts	**9 336 903**	9 151 457
Long-term insurance	**4 541 067**	4 779 278
Retail- individual life	**643 351**	1 082 118
Institutional- group life and pensions	**3 897 716**	3 697 160
Short-term insurance	**4 795 836**	4 372 179
Medical risk	**1 002 017**	955 783
Motor, property and other	**3 793 819**	3 416 396
Comprising:		
Recurring premium income and inflows from investment contracts	**8 693 552**	8 069 339
Retail- individual life	**2 001 125**	2 156 261
Institutional- group life and pensions	**1 896 591**	1 540 898
Medical risk	**1 002 017**	955 783
Motor, property and other	**3 793 819**	3 416 396
Single premium income and inflows from investment contracts	**643 351**	1 082 118
Retail	**135 722**	121 433
Institutional	**507 629**	960 685
Net premium income from insurance contracts and inflows from investment contracts	**9 336 903**	9 151 457

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

23.1 Summary

	Group	
KShs'000	**2022**	**2021**
Revenue from contracts with customers (note 23.2)	**325 422**	392 437
Fee income on placement of reinsurance (note 23.3)	**1 043 460**	943 152
Total	**1 368 882**	**1 335 589**

23.2 Revenue from contracts with customers

	Group	
KShs'000	**2022**	**2021**
Service fee revenue from long-term policyholder investment contracts		
Service fee income from investment contracts	**325 422**	392 437
Total revenue from contracts with customers	**325 422**	**392 437**

23.3 Fee income on placement of reinsurance

	Group	
KShs'000	**2022**	2021
Short-term re-insurance arrangements		
Service fee income from reinsured business	**961 081**	842 641
Long-term re-insurance arrangements		
Service fee income from reinsured business	**82 379**	100 511
Total fee income from placement of reinsurance	**1 043 460**	**943 152**

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

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

Other fee income is recognised over time when earned.

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

24.1 Investment and sundry income

	Group	
KShs'000	2022	2021
Investment properties at fair value through profit or loss		
Investment properties – rental income	**41 033**	2 092
Sundry income	**799 081**	44 557
Total investment income	**840 114**	46 649

	Company	
KShs'000	2022	2021
Dividends from subsidiaries	**350 000**	200 000
The Heritage Insurance Company Kenya Limited	**350 000**	200 000

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

	Group		Company	
KShs'000	2022	2021	2022	2021
At amortised cost				
Policy and staff loans receivable – interest income	**146 274**	163 879	**-**	-
Interest income on cash and cash equivalents	**652 807**	479 874	**-**	-
Total interest income on financial assets using the effective interest rate method	**799 081**	643 753	**-**	-

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

KShs'000	2022	2021	2022	2021
Investment properties	**-**	(7 987)	**-**	-
Held-for-sale	**-**	(7 987)	**-**	-
Financial assets at fair value through profit or loss (default)	**896 726**	2 166 695	**-**	-
Financial instruments at fair value through profit or loss	**896 726**	2 166 695	**-**	-
Total fair value adjustments to assets held at fair value through profit or loss[1]	**896 726**	2 158 708	**-**	-

[1] *Included in the fair value adjustments for 2022 was KShs 151 million (2021: KShs 97 million) related to dividends received, and KShs 1 613 million (2021: KShs 1 878 million) related to interest income.*

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26. Claims and policyholder benefits

KShs'000	2022	2021
Insurance claims and policyholder benefits	7 172 622	8 201 331
Long-term	2 985 453	4 060 123
Short-term	4 187 169	4 141 208
Fund outflows under long-term investment contracts	1 844 497	1 266 676
Total claims and policyholder benefits	9 017 119	9 468 007
Insurance claims recovered from reinsurers	(1 884 542)	(1 968 149)
Long-term	(267 730)	(265 510)
Short-term	(1 616 812)	(1 702 639)
Net claims and policyholder benefits	7 132 577	7 499 858
Comprising:		
Long-term insurance – retail	1 718 992	2 380 827
Death and disability claims	63 333	70 136
Policy maturity claims	969 755	932 636
Policy surrender claims	685 904	1 378 055
Long-term insurance – institutional	2 843 228	2 680 462
Death and disability claims	769 281	808 923
Scheme terminations and member withdrawals	2 036 827	1 819 328
Annuity payments	37 120	52 211
Short-term insurance	2 570 357	2 438 569
Medical risk	743 070	670 573
Motor, property and other	1 827 287	1 767 996
Total claims and policyholder benefits	7 132 577	7 499 858

27. Acquisition costs

KShs'000	2022	2021
Long-term insurance	684 500	596 000
Insurance contracts	551 897	458 533
Investment contracts	132 603	137 467
Short-term insurance	1 208 862	1 090 566
Total acquisition costs	1 893 362	1 686 566
Incurred during the year	1 925 256	1 715 997
Deferred acquisition costs	(1 026 405)	(907 593)
Amortisation of deferred acquisition costs	994 511	878 162

28. General marketing and administration expenses

	Group		Company	
KShs'000	**2022**	2021	**2022**	2021
Employee costs	**1 663 395**	1 521 379	**54 211**	53 958
Office costs	**1 076 860**	1 080 219	**120 515**	136 252
Training and development costs	**14 485**	16 034	**-**	-
Other	**191 710**	163 945	**-**	-
Total general marketing and administration expenses	**2 946 450**	2 781 577	**174 726**	190 210
Amortisation of intangible assets (refer note 3)	**70 163**	70 573	**-**	-
Loss on derecognisition of intangible asset	**-**	8 877	**-**	-
Asset management fees	**-**	50 272	**-**	-
Audit fees – current year	**23 130**	23 977	**3 765**	3 260
Consulting fees and outsource arrangements	**361 794**	327 663	**-**	11 004
Depreciation of equipment (refer note 5)	**69 349**	53 426	**-**	-
Depreciation of right-of-use assets (refer note 6)	**33 771**	29 759	**-**	-
Directors fees	**47 770**	59 312	**17 527**	21 338
Other property charges	**11 664**	10 715	**-**	-
Regulatory levies	**84 633**	73 875	**-**	-
Employee costs	**1 663 395**	1 521 379	**54 211**	53 958
Salaries and wages	**1 248 851**	1 189 703	**54 211**	53 958
Medical aid contributions	**79 093**	77 207	**-**	-
Staff and management incentive schemes	**167 666**	133 302	**-**	-
Other retirement contributions	**116 333**	118 962	**-**	-
Other	**51 452**	2 205	**-**	-
Number of staff				
Permanent salaried staff and commission-remunerated agents (tied distribution)	**675**	737	**2**	2
In Kenya	**618**	680	**2**	2
In Tanzania	**57**	57	**-**	-

29. Finance costs

	Group	
KShs'000	**2022**	2021
Interest on lease liabilities at amortised cost	**10 757**	10 788
Total finance costs	**10 757**	10 788

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

30.1 Non-controlling interests in subsidiaries

Name of subsidiary	Principal place of business	Percentage of ownership interest held by non-controlling interest %		Profit/(loss) allocated to non-controlling interest KShs'000		Accumulated non-controlling interests KShs'000	
		2022	2021	2022	2021	2022	2021
Heritage Insurance Company Tanzania Limited	Tanzania	40	40	44 878	1 670	384 789	312 824

The entity has a 31 December year-end.

30.2 Summarised financial information – non-controlling interests' share

KShs'000	Heritage Insurance Company Tanzania Limited	
	2022	2021
Statement of financial position		
Non-current assets	64 530	139 644
Current assets	3688 727	3 300 546
Current liabilities	(2 791 285)	(2 658 131)
Comprehensive income		
Total revenue[1]	2 858 656	2 697 361
Total comprehensive income	71 965	12 757

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

30.3 Significant restrictions

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

31. Taxation

31.1 Sources of taxation

KShs'000	2022	2021
Kenyan normal taxation	**261 520**	226 613
Current year taxation	**256 610**	235 931
Current year deferred taxation	**4 910**	(9 318)
Foreign normal taxation	**25 359**	3 106
Current year taxation	**26 045**	27 298
Current deferred taxation	**(686)**	(24 192)
Total taxation	**286 879**	229 719
Charged through profit or loss	**286 879**	229 719
Charged through other comprehensive income	**-**	-

31.2 Taxation rate reconciliation

KShs'000	2022	2021
Profit before taxation per statement of comprehensive income	**665 617**	311 545
Taxation per statement of comprehensive income	**286 879**	229 719
%		
Effective rate of taxation	**43.1**	73.7
Adjustments due to:		
Income exempt from normal taxation[1]	**4.4**	0.1
Non-tax deductible expenses:		
Provisions and non deductible expenses	**(20.0)**	(44.2)
The effect of foreign tax rates		
Overprovision of taxes in respect of prior years	**2.6**	0.4
Combined rate of Kenya/Tanzanian taxation	**30.0**	30.0

[1] *Relates mainly to dividends received.*

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

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32. Cash (utilised in)/generated from operations

Reconcilliation of total earnings to cash utilised by operations		Group		Company	
KShs'000	Notes	2022	2021	2022	2021
Total earnings		**378 738**	81 827	**175 274**	9 790
Adjustments for:					
Interest income on financial assets using the effective interest rate method	**24**	**(799 081)**	(523 693)	**-**	-
Finance costs	**29**	**10 757**	10 788	**-**	-
Taxation	**31**	**286 879**	229 719	**-**	-
Net fund inflows after service fees on policyholder investment contracts	**12**	**(193 967)**	763 687	**-**	-
Deferred acquisition costs on new business	**8**	**(1 026 405)**	(907 593)	**-**	-
		(1 343 079)	(345 265)	**175 274**	9 790
Adjustments for non-cash items:					
Policyholder asset and liability transfers	**12**	**(337 592)**	(110 302)	**-**	-
Net movement on short-term insurance liabilities net of reinsurance	**15**	**441 501**	432 835	**-**	-
Amortisation of deferred acquisition costs	**8**	**994 511**	878 162	**-**	-
Amortisation of intangible assets	**3**	**70 163**	70 573	**-**	-
Depreciation of equipment	**5**	**69 349**	53 426	**-**	-
Depreciation of right-of-use assets	**6**	**33 771**	29 759	**-**	-
Depreciation of owner-occupied properties	**4**	**-**	2 428	**-**	-
Loss on termination/cancellation of right-of-use assets		**(771)**	6 824	**-**	-
Provision for termination/restoration costs on leased assets		**537**	-	**-**	-
Loss on derecognition of intangible assets		**-**	8 877	**-**	-
Fair value adjustments to assets held at fair value through profit and loss	**9**	**(896 726)**	(2 158 708)	**-**	-
		(968 336)	(1 131 391)	**175 274**	9 790
Working capital changes:		**459 147**	(183 411)	**(24 896)**	(9 958)
Prepayments, insurance and other receivables	**10**	**(80 733)**	(68 114)	**(10 749)**	16 733
Insurance and other payables and employee benefits	**18**	**539 880**	(115 297)	**(14 147)**	(26 691)
Cash (utilised in)/generated from operations		**(509 189)**	(1 314 802)	**150 378**	(168)

33. Taxation paid

	Group		Company	
KShs'000	**2022**	2021	**2022**	2021
Taxation receivable at the beginning of the year	**157 946**	107 817	**-**	-
Taxation receivable at the beginning of the year	**157 946**	107 817	**-**	-
Taxation attributable	**(282 655)**	(263 229)	**-**	-
Taxation receivable at the end of the year	**(208 433)**	(157 946)	**-**	-
Taxation receivable at the end of the year	**(208 433)**	(157 946)	**-**	-
Taxation paid	**(333 142)**	(313 358)	**-**	-

Notes to the group and company annual financial statements
(continued)
for the year ended 31 December 2022

34. Related party disclosures

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

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

Key management personnel

Key management personnel have been defined as follows:

- Liberty Kenya Holdings Plc directors and directors of subsidiary companies, excluding Heritage Tanzania

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

Post-employment benefit plans

Refer to note 17.

A. Stanbic Bank Kenya Limited

A.1 Financial instrument investments

	Group		Company	
Stanbic term deposits	Fair value		Fair value	
KShs'000	**2022**	2021	**2022**	2021
Summary of holdings and movements				
Holdings at the beginning of the year	**379 748**	512 508	**-**	-
Purchases	**2 427 839**	2 384 261	**-**	-
Sales	**(2 121 395)**	(2 517 021)	**-**	-
Holdings at the end of the year	**686 192**	**379 748**	**-**	**-**

34. Related party disclosures (continued)

A. Stanbic Bank Kenya Limited (continued)

A.2 Financial instrument investments

	Group		Company	
Stanbic equity investments	Fair value		Fair value	
KShs'000	**2022**	2021	**2022**	2021
Summary of term deposits holdings and movements				
Holdings at the beginning of the year	**44 284**	30 876	**-**	-
Stanbic Bank Kenya Limited	**3 600**	8 551	**-**	-
Purchases	**(1 925)**	-	**-**	-
Purchases	**9 453**	4 857	**-**	-
Holdings at the end of the year	**55 412**	**44 284**	**-**	**-**

A.3 Banking arrangements

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

Summary of cash balances, interest earned and bank charges

	Group					
	Cash balances		Interest earned		Bank charges	
KShs'000	**2022**	2021	**2022**	2021	**2022**	2021
Holdings at the beginning of the year	**217 467**	92 807	**-**	-	**-**	-
Liberty Kenya Holdings Plc	**10 151**	10 319	**-**	-	**-**	-
Liberty Kenya Holdings subsidiaries	**207 316**	106 645	**-**		**-**	-
Net movements during the year	**192 849**	100 504	**41 573**	32 691	**6 640**	6 759
Liberty Kenya Holdings Plc	**20 378**	(168)	**-**	-	**41**	57
Liberty Kenya Holdings subsidiaries	**172 471**	100 672	**41 573**	32 691	**6 599**	6 702
Holdings at the end of the year	**410 316**	217 467	**-**	-	**-**	-
Liberty Kenya Holdings Plc	**30 529**	10 151	**-**	-	**-**	-
Liberty Kenya Holdings subsidiaries	**379 787**	207 316	**-**	-	**-**	-
Total	**410 316**	217 467	**41 573**	32 691	**6 640**	6 759

Notes to the group and company annual financial statements
(continued)

for the year ended 31 December 2022

34. Related party disclosures (continued)

A. Stanbic Bank Kenya Limited (continued)

A.4 Bancassurance

Liberty has bancassurance business agreements with Stanbic Bank for the manufacture, sale and promotion of insurance, investment and health products through the Stanbic Bank's Kenya distribution capability. New business premium income in respect of this business in 2022 amounted to KShs 1 507 million (2021: KShs 1 216 million). In terms of the agreements, Liberty's group subsidiaries pay profit shares to various Stanbic operations. The amounts to be paid are in most cases dependent on source and type of business and are paid along geographical lines. The total combined net profit share amounts accrued as payable to Stanbic Bank Kenya for the year to 31 December 2022 is KShs 110 million (2021: KShs 181 million).

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

A.5 Health risk product

The Heritage Insurance Company Kenya Limited runs a health risk product aimed at employer groups within Kenya. During the year, Stanbic Bank Kenya Limited contracted to use this product as a benefit for their employees. 2022 premium income was KShs 569 million (2021: KShs 483 million).

A.6 General short term insurance

Stanbic Bank Kenya Limited contracted to insure with Liberty various short term insurance risks. 2022 premium income was KShs 183 million (2021: KShs 136 million).

A.7 Commission paid to Stanbic

Liberty pays commission to Stanbic Insurance Agency Limited for insurance policies sold through the bank's distribution channels. The commission paid for the year to 31 December 2022 is KShs 141 million (2021: KShs 122 million).

A.8 Operating lease income

Stanbic Bank Kenya Limited leases a portion of a property from Liberty in Nairobi, total lease receipts for 2022 KShs 0,6 million (2021: KShs 0,6 million).

A.9 Group Life and disability

LKH insures various employee risks of Stanbic Bank Kenya. Premiums received and claims paid are KShs 119 million (2021: KShs 116 million) and KShs 168 million (2021: KShs 171 million) respectively, for the year ended 31 December 2022.

A.10 Custodial services

Custodial fees of KShs 29 million (2021: KShs 39 million) were paid to Stanbic Bank Kenya Limited for services rendered.

B. Liberty Holdings Limited and group subsidiaries

B.1 Management services - Liberty Holdings Limited

Liberty contracts certain management and administration services from Liberty Holdings Limited. Fees paid for these services were KShs 176 million (2021: KShs 186 million).

34. Related party disclosures (continued)

B. Liberty Holdings Limited and group subsidiaries (continued)

B.2 Outstanding balances with related parties

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

	Group		Company	
KShs'000	**2022**	2021	**2022**	2021
Receivable from:				
Stanlib Kenya Limited	**545**	-	**-**	-
Liberty Life Assurance Kenya Ltd	**-**	-	**7 744**	-
Heritage Insurance Kenya Limited	**-**	-	**2 460**	-
Liberty General Insurance Uganda Limited	**691**	5 835	**-**	-
Liberty Life Assurance Uganda Limited	**838**	-	**-**	-
	2 074	5 835	**10 204**	-
Payable to:				
Liberty Holdings Limited (South Africa)	**(49 177)**	(38 013)	**-**	(23 894)
Stanbic Bank Kenya Limited	**(398)**	(491)	**-**	-
CFC Investment Limited	**-**	-	**(4 000)**	-
Stanlib Kenya Limited	**(888)**	(902)	**-**	(902)
	(50 463)	(39 406)	**(4 000)**	**(24 796)**

There were no provisions carried with respect to balances from related parties and no loss allowance was recognised in expense in 2022 (2021: nil).

Outstanding balances are unsecured and are repayable in cash.

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

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

	Group		Company	
KShs'000	**2022**	2021	**2022**	2021
Fixed remuneration	**97 137**	121 282	**8 258**	39 167
Cash portion of package	**81 822**	104 868	**7 261**	35 405
Other benefits	**7 899**	9 468	**997**	3 762
Retirement contributions	**7 416**	6 946	**-**	-
Variable remuneration awards[1]	**21 376**	18 887	**-**	-
Non-executive directors' fees	**55 501**	59 312	**17 527**	21 182
Total	**174 014**	199 481	**25 785**	60 349

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

Notes to the group and company annual financial statements (continued)

for the year ended 31 December 2022

34. Related party disclosures (continued)

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

C.2 Entities significantly influenced or controlled by key management

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

Insurance products	Aggregate insured cover		Premiums received	
KShs'000	**2022**	2021	**2022**	2021
Life	**3 483 833**	1 369 592	**10 200**	7 930
Morbidity	**-**	-	**-**	-

Investment products	Fund value	
KShs'000	**2022**	2021
Balance at the beginning of the year	**6 733**	5 757
Premiums received	**776**	776
Investment return credited net of charges	**311**	286
Commission and other transaction fees	**(93)**	(86)
Claims and withdrawals	**-**	-
Balance at the end of the year	**7 727**	6 733

35. Commitments

35.1 Capital commitments

	2022	2021
Equipment and internally generated computer software	**78 700**	108 215
Under contracts	**37 000**	–
Authorised by the directors but not contracted	**41 700**	108 215

The above 2022 capital commitments will be financed by available bank facilities, existing cash resources and internally generated funds.

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

36. Contingent liabilities

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

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

Liberty Life Assurance Kenya Limited 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.

Liberty Life Assurance Kenya Limited 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.

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

Risk management

for the year ended 31 December 2021

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Risk management

for the year ended 31 December 2022

Enterprise risk management (ERM) at a glance

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

Risk categories	Risk governance	
Strategic and business Section 2	**First line of defence** **Business unit management**	• Manage day-to-day risk origination and management in accordance with risk policy and strategy • Identify and assess risks and implement management's response • Report and escalate material risks and issues to governance bodies • Track losses and implement remedial actions
Insurance Section 3		
Market Section 4	**Second line of defence** **Heads of compliance, risk and actuarial functions and statutory actuaries**	• Provide oversight of and challenge to the first line of defence • Propose risk policy and strategy • Champion implementation of risk policy and strategy • Provide assurance to board and regulators
Credit Section 5		
Liquidity Section 6		
Operational Section 7	**Third line of defence** **Independent assurance providers – internal and external audit and other independent service providers**	• Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy and effectiveness of the risk management framework
Business conduct Section 8		
Compliance and Legal Section 9		

1. Enterprise risk management

1.1 Overview

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

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

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

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

Systems to quantify insurance, market, credit and liquidity risk are in place. Operational, business conduct and compliance and legal risks are addressed through qualitative assessment and analysis of exposures, incidents and effectiveness of mitigating controls. Information in respect of the management of each of these risk categories follows in sections 2 to 9.

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

Section 11 provides information on the sensitivity of IFRS earnings to selected risk events, while section 1.7 (Capital Management) indicates the group's ability to cover its regulatory capital requirements.

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

The board ensures that all business unit executives are responsible and are held accountable for risk management within all operations. Liberty's risk management system is functioning effectively and the group continues to be managed within risk appetite.

Risk management (continued)

for the year ended 31 December 2022

1. Enterprise risk management (continued)

1.2 Risk strategy

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

Risk strategy

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

Liberty's risk preferences are classified according to:

- risks that the group actively seeks as a result of being in the business of underwriting and managing risks (i.e. insurance, market, credit and liquidity risks), all of which are viewed as value-enhancing; and
- risks that are not actively sought but arise as a consequence of being in business and will be managed to an acceptable level to protect value (i.e. operational, strategic and business, business conduct and compliance and legal risks).

All other risks are avoided as far as possible.

Business strategy link

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

The strategic objectives provide clear direction for management, with detailed strategies being constructed around each. Risk preferences are considered in the formulation of these detailed strategies, and in any supporting operational capabilities that are built.

Impacts of decisions taken during the formulation and execution of these detailed strategies are considered against the planned risk profile, and form part of the broader feedback loop of business decision-making (with particular attention paid to the extent that a decision may push the group outside risk appetite).

1.3 Risk appetite and risk target

Definition

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

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

Determining risk appetite

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

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

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

Risk dimensions and measurement

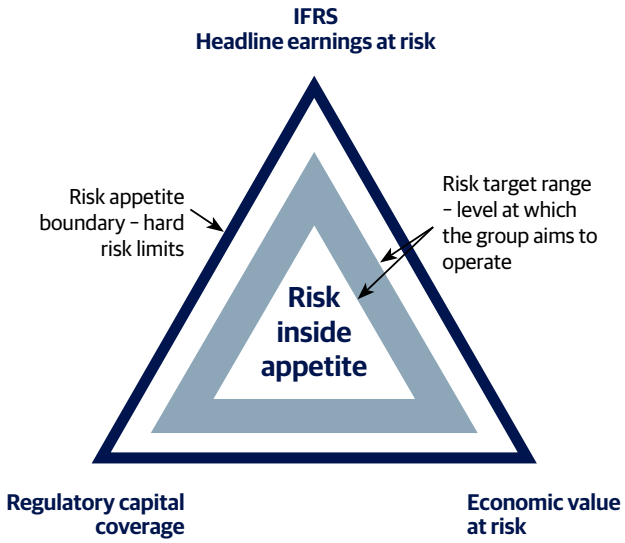
The group's risk appetite statement is regularly reviewed to ensure its appropriateness to business objectives. Risk appetite is measured across the following risk dimensions:

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

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

1. Enterprise risk management (continued)

1.3 Risk appetite and risk target (continued)



1.4 Risk management framework

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

1.5 Governance of the risk management system

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

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

Risk management (continued)

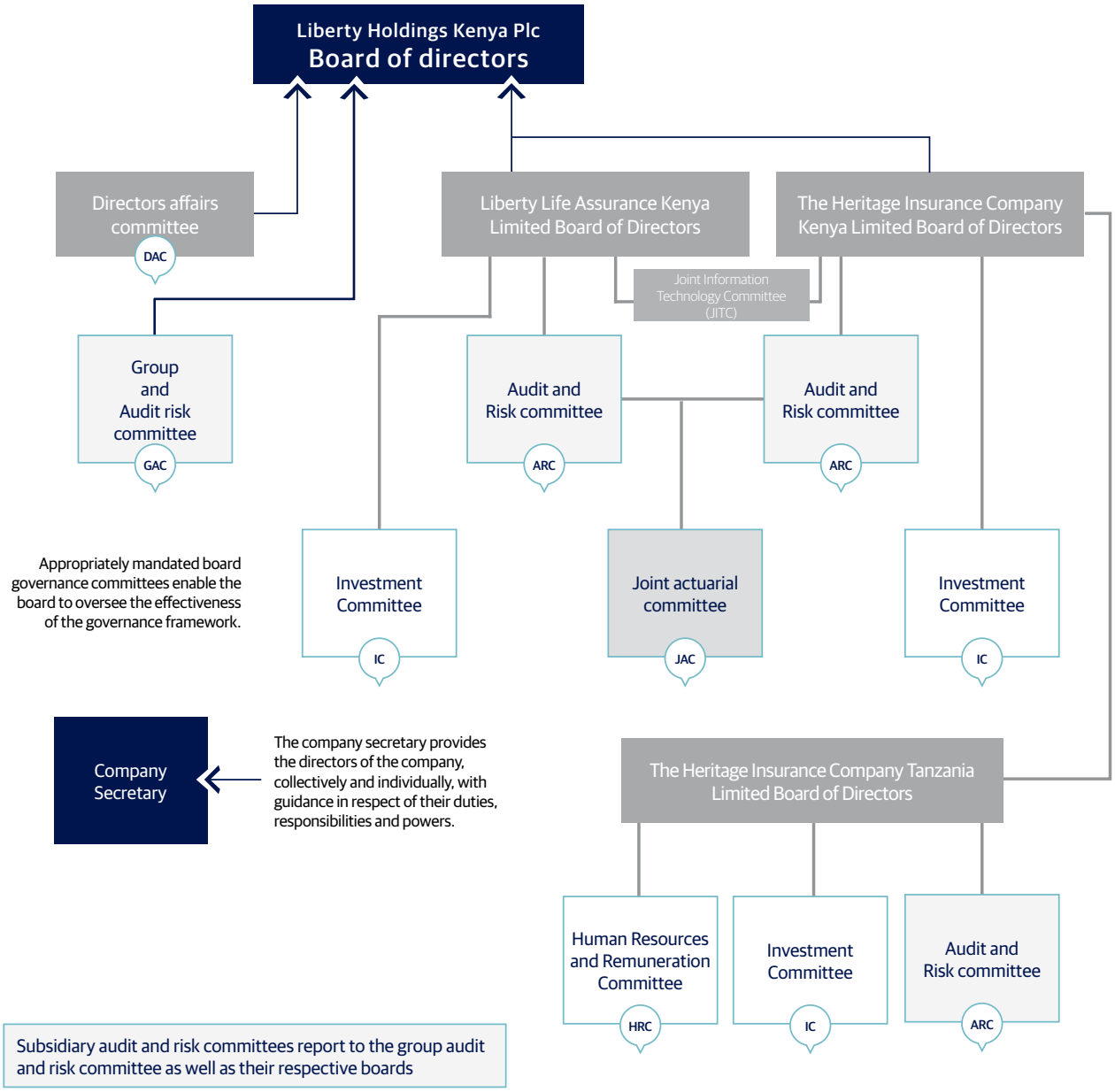
for the year ended 31 December 2022

1. Enterprise risk management (continued)

1.5 Governance of the risk management system (continued)

Governance structures at Liberty

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



1. Enterprise risk management (continued)

1.5 Governance of the risk management system (continued)

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

- The audit and risk committees (ARC) are responsible for providing the respective boards with oversight relating to risk and control matters, and reviews Liberty's risk and control philosophy, strategy, frameworks, policies and processes and effectiveness of the risk management system. The ARC's are also responsible for reviewing compliance with risk policies and for the overall risk profile of Liberty. The committees also have primary responsibility for risks relating to the production of financial statements and for compliance and legal risks.
- The respective boards monitor and provides oversight on "people" risks (such as those that arise from major business-wide change), customer fairness related risks, technology and information assets and processes, including: infrastructure, applications, information security (including cyber security), disaster recovery, IT investments and IT projects. The board through Joint Information and Technology Committee (JICTC) ensures the integration of technology and information risks into the group's risk management system. The Executive committees are responsible for ensuring appropriate IT process governance and ensuring prioritisation of project delivery.
- The investment committees are delegated authority by the relevant boards to review and approve or make recommendations to the Board on the investment management of the company and policyholder assets and managing investment risk such as market risk, credit risk , asset-liability matching risk and oversighting that management adhere to the approved investment policies and mandates. These committee's are also responsible for providing recommendations to the ARC regarding all risk and control related issues that require escalation to the board.

1.6 Understanding Liberty's risks

1.6.1 Risk identification and assessment process

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

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

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

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

1.6.2 Stress testing

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

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

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

1.6.3 Risk mitigation

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

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

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

1.6.4 Risk response, monitoring and reporting

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

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

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

Risk management (continued)

for the year ended 31 December 2022

1. Enterprise risk management (continued)

1.6 Understanding Liberty's risks (continued)

1.6.5 Liberty's top risks

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

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

Specific risks	Management actions
Non-compelling customer and adviser value proposition Classification: • Strategic and business risk • Insurance risk	Management is focusing on: • enhancing the customer and adviser experience at points of delivery; • enhancing intermediary experience through servicing and tools; and • building loyalty and increasing customer confidence in our brand. • management have undertaken to do a comprehensive consumer survey to identify priority customer segments.
Erosion of the Liberty brand Classification: • Strategic and business risk	
Not identifying the right opportunities and executing on building operations of value for Liberty's chosen markets Classification: • Strategic and business risk	
Poor investment performance relative to customer expectations Classification: • Strategic and business risk • Business conduct risk	• Liberty continues to enhance investment capabilities • Investment propositions offered are being reviewed and simplified. • There is focus on attracting and outsourcing top investment professionals, ensuring that the right mandates are in place and in monitoring performance.
Substantial complexity due to inadequate legacy management and an inadequate control environment for new initiatives Classification: • Strategic and business risk • Operational risk	Complexity reduction is included as a key consideration for all initiatives from a strategic perspective. Over time this will be embedded as a culture across the business. Management has rationalised several products and systems in recent years reducing the associated operational complexity and risk.
Disruption to the insurance business model and inability to adapt in an agile manner Classification: • Strategic and business risk • Operational risk	Liberty continues to drive initiatives that will ensure it remains future fit and operates effectively in the evolving external operating environment.

1. Enterprise risk management (continued)

1.6 Understanding Liberty's risks (continued)

1.6.5 Liberty's top risks (continued)

Specific risks	Management actions
Instability in the Kenya socio-political & economic environment aggravated by the advent of the Covid-19 pandemic. Classification: • Insurance risk • Market risk • Credit risk • Operational risk • Strategic and business risk	Liberty maintains a strong capital position and manages its asset/liability matching position within risk limits. In addition, Liberty performed stress tests during the course of 2022 which included, upper end mortality outcomes, scenarios of negative economic impact in Kenya and distressed financial markets to prepare and ensure capital sustainability for the potential impacts on the business. A focus on advancing liquidity management has been introduced for 2023.
Changes in the operating environment as a result of the changing regulatory landscape. Non-compliance of regulation by competitors, resulting in unfair competition. Classification: • Strategic and business risk • Compliance and legal risk	Liberty continues to develop strategic responses to new and emerging regulation. Liberty has adopted a full compliance policy and encourages regulation in a fair and consistent manner.
Data risk Classification: • Operational risk • Compliance and legal risk	Liberty has established a robust data and information management capability and continues to enhance governance in this regard.
Inadequate cyber security and resilience Classification: • Operational risk • Compliance and legal risk	Investment continued to enhance Liberty's cyber security and update plans based on changes to the threat landscape and technology enhancements.
Weaknesses in operational, IT, financial and accounting processes may lead to incorrect decision making and/or reporting Classification: • Operational risk	Simplification and automation initiatives as well as enhancements which increased the granularity of financial controls have contributed to mitigating this risk. Management has driven a number of initiatives in 2022 to enhance risk practices and risk culture by embedding risk management in business processes. Ongoing alignment to the broader Liberty Group IT architecture.

Risk management (continued)

for the year ended 31 December 2022

1. Enterprise risk management (continued)

Emerging risks

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

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

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

1.7 Capital management

1.7.1 Capital management strategy

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

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

Company

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

Capital and gearing ratio

KShs'000	2022	2021
Due (from)/to group companies (note 7.3)	**(6 204)**	**24 796**
Insurance and other payables (note 18)	**21 502**	**14 853**
less:		
Prepayments, insurance and other receivables (note 10)	**(545)**	-
Cash and cash equivalents (note 11)	**(30 529)**	**(10 151)**
Net (asset)/debt	**(15 776)**	**29 498**
Total equity	**2 717 317**	**2 542 043**
Gearing ratio	**0%**	**1.16%**

Group

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

The objectives when managing capital are to:

- comply with the capital and solvency requirements as set out in the Kenyan Insurance Act, 2015 and Tanzania Insurance Act, 2009;
- safeguard the companies' ability to continue as going concerns, so that they can meet policyholder commitments and benefits for other stakeholders; and
- provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The Kenyan Insurance Act, 2015 requires general insurance companies to hold the minimum level of paid up capital of KShs 600 million by 30 June 2020. The Companies are also required to maintain minimum required solvency ratio of 200% and above by 31 December 2020. Both requirements have been met by The Heritage Insurance Company Kenya Limited.

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

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

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

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

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

1. Enterprise risk management (continued)

1.7 Capital management (continued)

1.7.2 Available capital (continued)

1.7.2 Available capital

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

Available capital and solvency capital requirements.

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

	Long-term business	
Liberty Life Assurance Kenya Limited	**2022**	2021
Available capital (or "own funds") (KShs'000)	**2 270 381**	2 130 479
Risk-based capital requirement (KShs'000)	**1 000 492**	1 012 489
Solvency ratio (times)	**2.27**	2.10
Target SCR coverage ratio (times)[1]	**2.0 - 3.0**	2.5 - 3.5

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

	Short-term business	
Heritage Insurance Company Kenya Limited	**2022**	2021
Available capital (or "own funds") (KShs'000)	**3 684 522**	3 544 051
Risk-based capital requirement (KShs'000m)	**820 345**	1 005 282
Solvency ratio (times)	**4.49**	3.53
Target SCR coverage ratio (times)	**2.5 -3.5**	2.5 - 3.5

	Short-term business	
Heritage Insurance Company Tanzania Limited	**2022**	2021
Available capital (or "own funds") (KShs'000)	**1 596 085**	1 676 198
Total liabilities and minimum requirement (KShs'000)	**1 311 912**	1 326 442
Solvency margin	**284 173**	349 746
Solvency ratio	**122%**	126%

2. Strategic and business risk

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

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

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

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

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

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

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

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

3. Insurance risk

3.1 Definition

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

The insurance risks with the greatest impact on the financial position and comprehensive income are covered in more detail in sections 3.5 to 3.7.

3.2 Ownership and accountability

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

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

Risk management (continued)

for the year ended 31 December 2022

3. Insurance risk (continued)

3.2 Ownership and accountability (continued)

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

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

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

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

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

- providing an opinion on the actuarial soundness of premium rates in use for new business, and on the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks;
- provide a financial condition report in Kenya which is a regulatory report approved by the Board where they provide their opinion and recommendations on all aspects of risk and risk management in the company; and
- reviewing the appropriateness of risk mitigation measures in place and proposed such as in the reinsurance arrangements, the investment strategy and in new products or product enhancements.

3.3 Risk identification, assessment, measurement and management

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

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

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

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

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

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

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

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

IFRS sensitivities for the primary insurance risks are provided in section 11.

3. Insurance risk (continued)

3.4 Reporting

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

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

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

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

3.5 Policyholder behaviour risk

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

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

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

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

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

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

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

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

The termination experience of each intermediary's business is monitored, and appropriate action is taken when required. In addition, opportunities to switch to new generation Liberty products are periodically made available to existing policyholders.

3.6 Underwriting risks

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

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

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

3.6.1 Mortality and morbidity risk

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

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

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

a. Pricing

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

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

Risk management (continued)

for the year ended 31 December 2022

3. Insurance risk (continued)

3.6 Underwriting risks (continued)

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

b. Terms and conditions

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

Terms are built into the policy contracts that permit risk premiums to be reviewed on expiry of a guarantee period. In particular:

- for institutional risk business, the risk premiums are reviewable annually.

Delays in implementing premium increases and market or regulatory restraints over the extent of the increases may reduce their mitigating effects.

c. Underwriting

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

All individual business applications for risk cover are underwritten. For other smaller sums assured, the underwriting process is largely automated. For individual and institutional business, larger sums assured in excess of specified limits are reviewed by experienced underwriters and evaluated against established processes. For institutional risk business, these specified limits are scheme specific based on the size of the scheme and distribution of sums assured. Applications with sums assured above the free cover limit (FCL) are required to undergo medical tests for underwriting decisions to be made appropriately. However, the annually reviewable terms on institutional business enable premiums to keep pace with emerging claim experience.

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

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

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

Financial underwriting is used where necessary to determine insurable interest.

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

d. Claims management

For mortality, claims are validated against policy terms and conditions.

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

e. Reinsurance

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

Regular reviews, which consider risk appetite, are conducted on reinsurance arrangements for new and existing business. The levels of reinsurance purchased for new business written in 2021 were broadly similar to those in recent years. Given that a large proportion of the group's business is long-term individual risk business, where the proportion of the risk that is reinsured is fixed for life at the inception of the policy, the group's overall reinsurance result is heavily influenced by historic reinsurance arrangements. In some instances where underlying policyholder benefits are annually renewable, for example institutional business, reinsurance is annually renewable.

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

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

f. Allowance in policyholder liabilities and capital requirements

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

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

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

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

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

3. Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.2 Covid-19 impacts

While COVID-19 continues to pose a risk to the group, this risk is receding with excess deaths in 2022 having been significantly lower compared to 2021, likely due to high levels of immunity to COVID-19 (from recent infection or vaccination) and/or the variants circulating in 2022 being milder than variants circulating in prior years. This trend is consistent with the experience from past pandemics and is expected to continue with COVID-19 becoming a relatively mild endemic disease.

Based on experience observed in 2022, the directors and management applied a key judgment that no further short-term pandemic allowance is considered necessary at 31 December 2022

3.6.3 Longevity risk

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

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

The group manages the longevity risk by:

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

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

3.6.4 Retrenchment risk

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

Risk management (continued)

for the year ended 31 December 2022

3. Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.5 Non-life (general) insurance

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

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

Class of business definition

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

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

	2022		2021	
Class of insurance business	Gross premiums earned KShs'000	Gross claims loss ratio %	Gross premiums earned KShs'000	Gross claims loss ratio %
Medical expense	**2 154 307**	**66**	2 034 197	65
Fire	**2 399 120**	**23**	2 150 362	42
Motor	**2 275 021**	**64**	1 938 190	67
Personal liability and personal accident	**2 392 414**	**25**	1 286 237	17
Other	**283 884**	**41**	1 303 497	28
Total	**9 504 746**	**44**	8 712 483	47

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

3. Insurance risk (continued)

3.6 Underwriting risks (continued)

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

g. Underwriting risks associated with short-term insurance

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

Pricing risk

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

Reserving risk

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

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

Reinsurance risk

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

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

Catastrophic risk

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

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

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

3.7 Expense and new business risks

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

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

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

The group manages the expense and new business risk by:

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

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

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

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

Risk management (continued)

for the year ended 31 December 2022

4. Market risk

4.1 Definition

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

4.2 Ownership and accountability

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

The investment committees, which are sub-committees of the boards, are charged with ensuring that market risk remains within approved risk limits.

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

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

4.3 Risk identification, assessment and measurement

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

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

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

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

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

4.4 Risk management

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

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

The market risk associated with assets backing long-term policyholder investment-linked liabilities, including discretionary participation feature (DPF) liabilities, is largely borne by the policyholder. However, poor performance on policyholder funds adversely affects asset related fee income. It may also lead to reputational damage and subsequently to increased policyholder withdrawals and a reduction in new business volumes. In extreme cases whereby the asset values become lower than the guaranteed liabilities beyond certain thresholds, then the shareholder may have to fund the excessive asset shortfall until the funding position returns to healthy levels.

4.4.1 Assets comprising Shareholder capital

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

The subsidiary boards through the investment committees, approve the long-term strategic asset allocation of the portfolio. The strategic asset allocation is defined on a through-the-cycle basis and aims to maximise after-tax returns for a level of risk consistent with the group's risk appetite.

4.4.2 Asset/liability management portfolio (ALM Portfolio)

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

4.5 Alignment of market risk exposure to risk appetite statement

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

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

4.6 Risk reporting

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

4. Market risk (continued)

4.7 Summary of group assets subject to market risk

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

- Long-term policyholder investment-linked (including DPF) liabilities – liabilities that are determined with reference to specific assets and where a significant portion of the market risk is borne by the respective policyholders. The group would be exposed to reputational risk if returns are poor. In addition, the group is exposed to any embedded derivatives (e.g. minimum investment return guarantees) provided on benefits linked to these assets. The embedded derivatives liabilities have been included in "Other policyholder liabilities".
- Other policyholder liabilities – liabilities where shareholders bear the market risk but have largely hedged the risk via suitable matching assets. Annuities, guaranteed investment plans, embedded derivative liabilities and negative shilling reserves (excluding those on portfolios of risk contracts with a policyholder asset at portfolio level) have all been included here.
- Short term insurance liabilities due on general insurance where shareholders bear the market risk.
- Residual liabilities and shareholders interests this shows the residual assets left once assets have been allocated to cover the liabilities mentioned above. Shareholders would be exposed to the market risk on these assets.

		Attributable to			
Risk category KShs'000	**Total assets**	**Long-term policyholder investment-linked (including DPF) liabilities**	**Other long-term policyholder liabilities[3]**	**Short-term insurance liabilities**	**Residual liabilities and shareholders' interests**
2022					
Assets subject to market risk only	3 830 768	1 788 180	1 864 689	59 479	118 420
Equity price	2 496 348	1 496 180	940 689	59 479	-
Property price[1]	1 334 420	292 000	924 000	-	118 420
Assets subject to market and credit risk	35 349 964	11 752 063	4 358 632	7 901 955	11 337 314
Interest rate	31 216 753	11 752 063	4 037 932	4 089 444	11 337 314
Reinsurance assets[2]	4 133 211	-	320 700	3 812 511	-
Other assets not included in the asset class table (refer note 19.1)	2 850 863	370	233 400	736 723	1 880 370
Total	42 031 595	13 540 613	6 456 721	8 698 157	13 336 104
Percentage (%)	100.0	32.2	15.4	20.7	31.7

[1] *Equity price risk is included in property price risk where the invested entity only has exposure to investment properties.*

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

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

Risk management (continued)

for the year ended 31 December 2022

4. Market risk (continued)

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

		Attributable to			
Risk category KShs'000	Total assets	Long-term policyholder investment-linked (including DPF) liabilities	Other long-term policyholder liabilities[3]	Short-term insurance liabilities	Residual liabilities and shareholders' interests
2021					
Assets subject to market risk only	5 191 816	2 784 261	2 236 421	53 134	118 000
Equity price	3 350 553	1 984 998	1 312 421	53 134	
Property price[1]	1 841 263	799 263	924 000	-	118 000
Assets subject to market and credit risk	33 129 433	10 792 178	4 186 364	6 870 224	11 280 667
Interest rate	29 736 301	10 792 178	4 019 533	3 643 923	11 280 667
Reinsurance assets[2]	3 393 132		166 831	3 226 301	
Other assets not included in the asset class table (refer note 19.1)	2 155 058	3 147	368 340	692 101	1 091 470
Total	40 476 308	13 579 587	6 791 125	7 615 459	12 490 136
Percentage (%)	100.0	33.5	16.8	18.8	30.9

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

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

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

4. Market risk (continued)

4.8 Market risk by product type

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

4.8.1 Investment-linked (excluding insurance contracts with DPF) products

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

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

4.8.2 Non-participating annuities

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

4.8.3 Long-term insurance contracts with DPFs

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

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

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

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

4.8.4 Pure risk products (excluding annuities)

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

Risk management (continued)

for the year ended 31 December 2022

4. Market risk (continued)

4.9 Market risk by asset or liability class for financial instruments

4.9.1 Interest rate risk

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

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

The group's net exposure to interest rate yield curve risk is provided in the sensitivities analysis in section 11.

Financial instrument assets by term to maturity and type of interest

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

Amount by maturity date KShs'000	2022		2021		
	Fixed	Total	Fixed	Floating	Total
Within 1 year	**12 939 027**	**12 939 027**	13 748 699	170 800	13 919 499
1 – 5 years	**12 837 985**	**12 837 985**	8 732 018	-	8 732 018
6 – 10 years	**4 790 151**	**4 790 151**	4 193 882	-	4 193 882
11 – 20 years	**2 273 165**	**2 273 165**	1 469 858	-	1 469 858
Over 20 years	**16 764**	**16 764**	-	-	-
Variable	**59 479**	**59 479**	52 051	-	52 051
Total	**32 916 571**	**32 916 571**	28 196 508	170 800	28 367 308

The assets of Kshs 12,9million inlcluded within 1 year are repriced weekly or monthly as they are invested in call deposits and short term instruments.

Financial instrument policyholder liabilities by term to maturity

Amount by maturity date KShs'000	2022	2021
Within 1 year	**430 085**	462 974
1 – 5 years	**2 822 939**	2 422 621
5 – 10 years	**10 717 674**	11 087 987
Total	**13 970 698**	13 973 582

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

4. Market risk (continued)

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

4.9.2 Currency risk

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

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

Foreign currency exposure KShs'000	2022	2021
United States Dollar	**216 850**	162 302
South African Rand	**26 547**	-
Tanzanian Shilling	**3 090 819**	3 129 442
Total financial, property and insurance assets by currency	**3 334 216**	3 144 508

4.9.3 Property market risk

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

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

KShs'000	2022	2021
Investment properties held for sale	**118 420**	625 263
Owner-occupied properties	**1 216 000**	1 216 000
Gross direct exposure	**1 334 420**	1 841 263
Net exposure	**1 334 420**	1 841 263
Concentration use risk within directly held properties is summarised below:		
Office buildings	**1 216 000**	1 216 000
Other property	**118 420**	625 263
Gross direct exposure	**1 334 420**	1 841 263

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

4.10 Diversification benefits

The group's risk profile, and hence its capital requirements, benefits from the fact that various risks are not 100% correlated and as a result, it is unlikely that they 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.

Risk management (continued)

for the year ended 31 December 2022

5. Credit risk

5.1 Definition

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

5.2 Taking of credit risk

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

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

5.3 Management and measurement

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

Day-to-day management of credit risk is internally managed in Tanzania and in Kenya has been mandated to external asset managers in Kenya. The investment committees are made up of professionals with experience from the banking sector as well as representatives from Liberty Kenya Holdings Plc in order to ensure a robust credit process and independent decision-making.

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

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

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

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

Significant shareholder and policyholder credit exposures are reported to the respective subsidiary boards.

5.4 Characteristics of credit risk exposures

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

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

5.5 Rating methodology

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

Rating scale

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

Investment grade

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

Non-investment grade

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

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

Not rated

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

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

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

5. Credit risk (continued)

5.6 Credit exposure

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

KShs'000	A- and above	BBB+	BBB	BBB-	BB+	BB- and below	Not rated	Total
2022								
Debt instruments	23 036 627	-	-	-	-	-	1 400 034	24 436 661
Listed term deposits	23 036 627	-	-	-	-	-	-	23 036 627
Loans	-	-	-	-	-	-	1 400 034	1 400 034
Reinsurance assets	320 700	-	-	-	3 812 511	-	-	4 133 211
Cash and cash equivalents	3 717 587	-	4 319 490	-	383 354	-	-	8 420 431
Total assets bearing credit risk	27 074 914	-	4 319 490	-	4 195 865	-	1 400 034	36 990 303
Local	27 074 914	-	1 011 744	-	4 195 865	-	1 350 803	33 633 326
Foreign	-	-	3 307 746	-	-	-	49 231	3 356 977
2021								
Debt instruments	18 940 172	-	-	-	-	-	1 648 024	20 588 196
Listed term deposits	18 940 172						-	18 940 172
Loans							1 648 024	1 648 024
Reinsurance assets	166 831				3 226 301			3 393 132
Cash and cash equivalents	4 326 153	-	2 419 953		1 109 798			7 855 904
Total assets bearing credit risk	23 433 156	-	2 419 953	-	4 336 099	-	1 648 024	31 837 232
Local	23 246 786	-	1 034 419	-	3 565 128	-	1 073 161	28 919 494
Foreign	186 370		1 385 534		770 971		574 863	2 917 738

5.7 Reinsurance assets

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

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

5.8 Insurance and other receivables

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

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

5.9 Capital requirements

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

Risk management (continued)

for the year ended 31 December 2022

6. Liquidity risk

6.1 Definition

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

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

6.2 Ownership and accountability

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

6.3 Risk identification, assessment and measurement

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

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

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

6.4 Risk management

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

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

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

6.5 Risk reporting

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

6.6 Liquidity profile of assets

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

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

	2022		2021	
Financial, property and insurance asset liquidity	**%**	**KShs'000**	%	KShs'000
Liquid assets (realisable within one month e.g. cash, listed equities, term deposits)	**79**	**31 457 058**	78	29 813 591
Medium assets (realisable within six months e.g. unlisted equities, certain unlisted term deposits)	**5**	**2 126 120**	6	2 274 961
Illiquid assets (realisable in excess of six months e.g. investment properties)	**16**	**6 173 959**	16	6 232 698
	100	**39 757 137**	100	38 321 250

6. Liquidity risk (continued)

6.7 Liability profile

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

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

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

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

6.7.1 Maturity profile of financial instrument liabilities

The table below summarises the maturity profile of the financial instrument liabilities of the group based on the remaining undiscounted contractual obligations. These figures will be higher than amounts disclosed in the statement of financial position (where the effect of discounting is taken into account) except for short duration liabilities. Policyholder liabilities under investment contracts, investment contracts with DPF and insurance contracts are shown in a separate table below. Lease liabilities are shown in a separate table in note 16.

	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	**1 356 953**	**1 410 560**	**-**	**-**	**-**	**2 767 513**
Total	**1 356 953**	**1 410 560**	**-**	**-**	**-**	**2 767 513**
Percentage portion (%)	**49**	**51**	**-**	**-**	**-**	**100**
2021						
Insurance and other payables	730 783	1 665 268	-	-	-	2 396 051
Total	730 783	1 665 268	-	-	-	2 396 051
Percentage portion (%)	30	70	-	-		100

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

6.7.2 Expected cash flows from long-term insurance business

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

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

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

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

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

Risk management (continued)

for the year ended 31 December 2022

6. Liquidity risk (continued)

6.7 Liability profile (continued)

Expected cash flows (KShs'000)	Insurance contracts		Reinsurance assets and liabilities	Investment contracts with DPF	Investment contracts
	Policyholder liabilities	Policyholder assets			
2022					
Investment-linked liabilities					
Within 1 year	96 327	-	-	(45 620)	(15 396)
1 – 5 years	528 436	-	-	126 646	1 799 730
5 – 10 years	1 598 312	-	-	1 146 137	4 132 410
10 – 20 years	1 380 245	-	-	1 595 776	4 285 911
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)	-	-
5 – 10 years	2 577 637	-	-	-	-
10 – 20 years	4 636 142	-	-	-	-
Over 20 years	790 275	-	-	-	-
Effect of discounting 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	3 607 298	-	-	2 822 939	10 717 674

6. Liquidity risk (continued)

6.7 Liability profile (continued)

Expected cash flows (KShs'000)	Insurance contracts		Reinsurance assets and liabilities	Investment contracts with DPF	Investment contracts
	Policyholder liabilities	Policyholder assets			
2021					
Investment-linked liabilities					
Within 1 year	(148 807)	-	-	(49 532)	122 823
1 – 5 years	461 740	-	-	137 509	2 285 112
5 – 10 years	1 152 614	-	-	1 244 445	4 147 759
10 – 20 years	2 179 638	-	-	1 732 652	3 783 239
Over 20 years	22 471	-	-	-	179 892
Total investment-linked liabilities	3 667 656	-	-	3 065 074	10 518 825
Non-investment-linked liabilities/(assets)					
Within 1 year	294 810			-	-
1 – 5 years	1 948 743		(166 831)	-	-
5 – 10 years	2 857 341			-	-
10 – 20 years	1 986 960			-	-
Over 20 years	793 226			-	-
Effect of discounting cash flows	(4 757 611)			-	-
Total non-investment-linked liabilities/(assets)	3 123 469	-	(166 831)	-	-
Total long-term insurance business liabilities/ (assets)	6 791 125	-	(166 831)	3 065 074	10 518 825
Total surrender value of long-term insurance policyholder liabilities	3 668 244			3 030 191	10 518 825

6.8 Capital requirements

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

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

Risk management (continued)

for the year ended 31 December 2022

7. Operational risk

7.1 Definition

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

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

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

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

7.2 Approach to managing operational risk

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

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

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

7.3 Insurance cover for operational risk

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

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

7.4 Capital requirements

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

7.5 Reporting

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

Operational risk reports include information relating to:

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

7.6 Management of key operational risks

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

People risk

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

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

Information security risk (including cyber risk)

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

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

Liberty's information security and cyber program was intensified in the latter part of 2018 continuing into 2020, particularly in the light of increased remote working practices, and has been delivering according to plan over this period. Liberty follows a risk-based approach to cybersecurity, being proactive whilst also ensuring a robust reactive capability. As result the program has invested in detection, prevention, testing, threat intelligence and response which is regularly tested. The goal of the risk-based cybersecurity program is appropriate risk reduction. The cybersecurity program aligns and leverages Standard Bank's extensive capability which forms an important part of Liberty's cybersecurity strategy's collaboration pillar. This includes participation in initiatives, simulations and testing, leveraging of tools and sharing of threat intelligence.

7. Operational risk (continued)

7.6 Management of key operational risks (continued)

Information Technology risk

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

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

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

Third party risk

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

Operational process risk

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

Financial control risk

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

8. Business conduct risk

8.1 Definition

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

8.2 Approach to managing business conduct risk

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

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

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

Liberty supports the steps taken by the Insurance Regulatory Authority, Retiremenet Benefits Authority and the Industry Body Association to improve the outcomes for all customers and will continue to work with them to achieve this.

8.3 Risk reporting

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

8.4 Key business conduct risks in 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.

Risk management (continued)

for the year ended 31 December 2022

9. Compliance and Legal risk

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

Compliance risk

Compliance exposure assessments are carried out within the operating subsidiaries with oversight from the group compliance function to provide the board with independent assurance on the status of compliance within the organisation.

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

Financial crime risk

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

Financial crime risk is managed through a combination of specialist group-wide forensics and compliance capabilities and by strengthening the risk culture to pro-actively mitigate risks and manage incidents. Focus is placed on ensuring robust prevention and detection controls are in place and are continuously enhanced based on internal and external trends.

10. Concentration risk

10.1 Introduction

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

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

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

	2022	2021
	KShs	KShs
Sanlam East Africa Limited	**9 222 414**	8 273 937
ICEA Lion Asset Managers Limited	**18 400 975**	17 790 718
Total financial, property and reinsurance assets	**27 623 389**	31 987 892
Total Assets	**42 031 595**	40 476 308
Externally managed assets	**84%**	75%

Risks associated with asset managers are:

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

These aspects are considered and monitored by the investment committees.

10.2 Kenya

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

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

11. Sensitivity analysis

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

The sensitivities presented are calculated at a point in time and applied consistently across the financial position of the group. In many cases changes to certain economic or policyholder behaviour assumptions do not result in linear impacts to policyholder contract values and are not always consistent in the direction of impact to ordinary shareholders' equity. For example, increases to withdrawal rates may reduce ordinary shareholders' equity for investment products, but increase it for certain sub-sets of risk products. The group follows a dynamic asset/liability matching strategy (within the risk appetite constraints set by the board). The nature of the exposures and associated hedging instruments lead to non-linear sensitivity impacts. Caution is therefore advised in interpreting these sensitivity disclosures in earnings or capital resilience analyses.

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

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

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

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

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

Market risk variable	Description of sensitivity
Interest rate yield curve	A parallel shift in the interest rate yield curve
Implied option volatilities	A change in the implied short-term equity, property and interest rate option volatility assumptions
Equity price	A change in local and foreign equity prices
Shilling currency	A change in the KSh/Tsh exchange rate to all applicable currencies

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

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

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

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

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

Risk management (continued)

for the year ended 31 December 2022

11. Sensitivity analysis (continued)

Assumption description KShs'000	Change in variable %	Gross of reinsurance impact on policyholder contract values	Net of reinsurance impact on policyholder contract values	Impact on ordinary shareholders' equity and attributable profit after taxation
2022				
Insurance assumptions				
Mortality				
Assured lives	+2	4 210	4 210	(4 210)
	-2	(4 127)	(4 127)	4 127
Annuitant longevity [1], [2]	+4	619	705	(705)
	-4	(607)	(691)	691
Morbidity	+5	-	-	-
	-5	-	-	-
Withdrawals	+8	(34 227)	(34 227)	34 227
	-8	37 023	37 023	(37 023)
Expense per policy	+5	74 989	74 989	(74 989)
	-5	(74 126)	(74 126)	74 126
Market assumptions				
Interest rate yield curve	+12	(184 370)	(184 370)	80 743
	-12	221 216	221 216	(97 275)
Equity prices	+15	494 613	494 613	98 923
	-15	(494 613)	(494 613)	(98 923)

[1] *Annuitant life expectancy increases i.e. annuitant mortality reduces.*

[2] *Annuitant life expectancy reduces i.e. annuitant mortality increases.*

11. Sensitivity analysis (continued)

Assumption description KShs'000	Change in variable %	Gross of reinsurance impact on policyholder contract values	Net of reinsurance impact on policyholder contract values	Impact on ordinary shareholders' equity and attributable profit after taxation
2021				
Insurance assumptions				
Mortality	+2	3 212	3 212	(3 212)
Assured lives	-2	(3 212)	(3 212)	3 212
Annuitant longevity [1], [2]	+4	705	705	(705)
	-4	(691)	(705)	705
Morbidity	+5			
	-5			
Withdrawals	+8	(25 440)	(25 440)	25 440
	-8	26 760	25 440	(25 440)
Expense per policy	+5	69 425	69 425	(69 425)
	-5	(68 875)	(69 425)	69 425
Market assumptions				
Interest rate yield curve	**+12**	(145 303)	(145 303)	63 634
	-12	167 439	167 439	(73 628)
Equity prices	**+15**	494 613	494 613	98 923
	-15	(494 613)	(494 613)	(98 923)

[1] *Annuitant life expectancy increases i.e. annuitant mortality reduces.*

[2] *Annuitant life expectancy reduces i.e. annuitant mortality increases.*

Appendix A – Detailed accounting policies

for the year ended 31 December 2022

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

1. New IFRS standards and amendments

1.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 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 group and company does not plan to early adopt these standards. These are summarised below:

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

Standards issued, not yet effective: IFRS 17 Insurance Contracts

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 group'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* (no change from IFRS 4).

Whereas IFRS 4 permitted the use of local accounting practices in measuring insurance liabilities (which essentially referred to the local actuarial practices), 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.

Liberty Kenya Holdings Plc company will not be impacted as it is an investment company and does not issue insurance contracts.

Project governance, status and process going forward

Liberty Holdings Limited's IFRS 17 steering committee, sponsored by the group's Chief Financial Officer, 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).

Liberty Holdings Limited continues to provide policy guidance and technical support for the implementation in its subsidiaries within the African jurisdictions, with each entity also adhering to local governance requirements. Governance structures for the IFRS 17 project within LKH are aligned to those in the group.

The group'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 group, 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.

1. New IFRS standards and amendments (continued)

1.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

To meet the requirements of IFRS 17, the group 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 normal LKH external reporting timelines. LKH will present the full restated IFRS 17 compliant results with the annual financial statements presented for the year ended 31 December 2023.

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 group 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 12-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 (i.e. the group'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 (i.e. the group'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.

Detailed accounting policies (continued)

for the year ended 31 December 2022

1. New IFRS standards and amendments (continued)

1.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (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 group 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 group 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 LKH

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; and
- portfolios of similar type contracts are not restricted by a 12-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.

1. New IFRS standards and amendments (continued)

1.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (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 group 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 (1 January 2022, in the case of LKH). For the short contract boundary nature contracts measured under the PAA approach (12 months or less), these will all be measured using full retrospective application.

The group 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 majority of 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; and
- reliance of the calculations on the risk margin used in capital regulatory reporting (SAM), 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.

Detailed accounting policies (continued)

for the year ended 31 December 2022

1. New IFRS standards and amendments (continued)

1.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

For these applicable contracts, the group, 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 12 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 2002, certain accounting policy elections and key judgements have been applied, as follows:

PAA approach

The group 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 group has elected to apply the PAA approach.

For contracts measured under PAA, the group 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.

Financial instruments

The group 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.

1. New IFRS standards and amendments (continued)

1.1 New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022 (continued)

Transition adjustment to equity on 1 January 2022

The cumulative net adjustment to the group's equity as at 1 January 2022 arising from the adoption of IFRS 17 is approximately a reduction of KShs 400 million, split between ordinary shareholders' funds of approximately KShs 386 million and non-controlling interests of approximately Kshs 14 million.

The restated group equity on 1 January 2022 is consequently approximately KShs 8,400 million (ordinary shareholders' funds of approximately KShs 8,100 million and non-controlling interests of approximately KShs 300 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 actual impact on adopting IFRS 17 on 1 January 2022 may change because of, amongst others: systems and controls not having been run for extended periods, which will occur in 2023; and accounting policies, assumptions, judgements and estimation techniques used are subject to change until the group finalises its first financial statements that include the date of initial application.

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 and Tanzania 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. LKH shall actively seek to comply with the any legislation that may be affected in due course.

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

Standard	Effective date
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
Classification of liabilities as current or non-current (Amendment to IAS 1)	
The amendments clarify how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances.	1 January 2024
Sale or *contribution of assets between an investor and its associate or company (Amendments to IFRS 10 and IAS 28)*	The effective date for these amendments has been deferred indefinitely.
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.	

Detailed accounting policies (continued)

for the year ended 31 December 2022

1. New IFRS standards and amendments (continued)

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

Standard	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)	1 January 2022
The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.	
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

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

2. Basis of consolidation

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

Type	Measurement
Interests in subsidiaries	Subsidiaries are defined as entities that are controlled by the group. In order for control to exist, the group must have: 1. power over the investee; 2. exposure or rights to variable returns from involvement with the investee; and 3. the ability to use power over the investee to affect the amount of the group's returns. The group must possess all three elements to conclude that it controls an investee. Refer to key judgements for assessment of control. Subsidiaries are consolidated from the date on which control is transferred to the group (effective date of acquisition) and are no longer consolidated from the date that control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in profit or loss. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the group. Intergroup transactions, balances and unrealised gains and losses are eliminated on consolidation.
Separate financial statements	Interests in subsidiary companies in the company financial statements comprise shares, which are measured at cost less any required impairment. Acquisition costs are recorded as an expense in the period in which they are incurred, except for the costs to issue debt or equity securities, which are part of the consideration transferred. The carrying amounts of these investments are reviewed annually for impairment. Intergroup balances with subsidiaries, under the IFRS 9 business model assessment for 2018, are measured at amortised cost. These are subject to the expected credit loss impairment model.
Business combinations	The group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the sum of the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The cost of an investment in a subsidiary is adjusted to reflect changes in consideration arising from contingent consideration amendments. Transaction costs are recognised within profit or loss as and when they are incurred.. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. The group elects to measure non-controlling interests on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets on an acquisition-by-acquisition basis. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.
Interests in associates	An associate is an entity over which the group has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investment. Judgement is applied in assessing which entities the group has the ability to significantly influence. In the case of voting rights, it is generally demonstrated by the group holding 20% or more of the voting power of the investee. Interests in associates are accounted for at cost less any impairment in the company financial statements. The carrying amounts are reviewed annually for impairment.
Transactions with non-controlling interests	The group applies a policy of treating transactions, including partial disposals with non-controlling interests that do not result in the gain or loss of control, as transactions with equity owners of the group. For purchases of additional interests from non-controlling interests, the excess of the purchase consideration over the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity. Profits or losses on the partial disposal of the group's interest in a subsidiary to non-controlling interests are also accounted for directly in equity.

Detailed accounting policies (continued)

for the year ended 31 December 2022

3. Foreign currencies

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

3.1 Transactions and balances

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

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

3.2 Group foreign operations

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

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

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

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

4. Financial instruments

Initial recognition and measurement

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

4.1 Financial assets

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

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

Detailed accounting policies (continued)
for the year ended 31 December 2022

4. Financial instruments (continued)

4.1 Financial assets (continued)

Subsequent measurement

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

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

Impairment

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

The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. A significant change in credit risk (SICR) is when there is a material change in the probability of default, since origination. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.The Group has not used the low credit risk exemption for any financial instruments in the year ended 31 Dec 2022

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

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

4. Financial instruments (continued)

4.1 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.

Cash and cash equivalents

Cash and cash equivalents comprise:

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

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

Prepayments and other receivables

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

Reclassification

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

Derecognition

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

4.2 Financial liabilities

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

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value if in doing so it would eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Held-for-trading	• Fair value, with gains and losses arising from changes in fair value recognised in fair value adjustments on financial instruments.
Designated at fair value through profit or loss	• 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.

Detailed accounting policies (continued)
for the year ended 31 December 2022

4. Financial instruments (continued)

4.2 Financial liabilities (continued)

Other payables

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

Inter-company loans

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

Reclassification

A financial liability may not be reclassified.

Derecognition

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

4.3 Fair value

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

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

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

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

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

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

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

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

4. Financial instruments (continued)

4.3 Fair value (continued)

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

Instrument	Valuation technique	Method of valuation
Fixed and variable rate preference shares, bonds and inflation- linked bonds	Discounted cash flow (DCF) model	Cash flows are projected by using either the applicable fixed dividend/coupon, or by extrapolating the future variable dividend/coupon using an applicable market implied curve. These dividends/coupons are then valued using a discount curve which allows for the credit risk of the particular issuer, where the credit spread is derived from instruments which display similar credit risk characteristics.
Unlisted equities and debt (including unlisted variable rate preference shares)	.	Fair valued using appropriate valuation techniques such as DCF analysis or recent arm's length market transactions in respect of the equity instrument.
Fixed deposits and negotiable certificates of deposit	Face value and DCF model..	The NCD cash flows are projected either by using the applicable fixed coupon, or by extrapolating the future variable coupon using an applicable market implied curve. These coupons are then valued using a market implied swap discount curve adjusted for the probability of default.

5. Insurance and investment contacts

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

5.1 Insurance and investment contract classification

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

Insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur. 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 group 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 • short-term insurance. Insurance contracts where another insurer (or reinsurer) accepts significant insurance risks from the group 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.

Detailed accounting policies (continued)

for the year ended 31 December 2022

5. Insurance and investment contacts (continued)

5.2 Discretionary participation features (DPF)

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

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

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

The terms reversionary bonus and smoothed bonus refer to the specific forms of DPF contracts underwritten by the group. All components in respect of DPFs are included in the policyholder liabilities.

5.3 Insurance contract classification

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

Long-term insurance business	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, group 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. 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.

5. Insurance and investment contacts (continued)

5.3 Insurance contract classification (continued)

5.3.1 Long-term insurance contracts

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

Detailed accounting policies (continued)

for the year ended 31 December 2022

5. Insurance and investment contacts (continued)

5.3 Insurance contract classification (continued)

5.3.2 Short-term insurance

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

5. Insurance and investment contacts (continued)

5.4 Investment contracts

Measurement and initial recognition	The group 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 through profit or loss. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. The group's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a investment-linked financial liability is determined using the current unit price multiplied by the number of units attributed to the policyholder at the statement of financial position date. If an investment contract is subject to a put or surrender option exercisable at the reporting date, the fair value of the financial liability is never less than the amount payable on the put or surrender option.	With fixed and guaranteed benefits (term certain annuity). Future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. Profit on initial recognition is amortised over the life of the contract.
Service fees on investment management contracts and deferred revenue liability (DRL)	Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.	
Amounts received and claims incurred on investment management contracts	Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.	
Deferred acquisition costs (DAC) in respect of investment contracts	Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed.	

5.5 Reinsurance contracts held

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

Amounts recoverable from or due to 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.

5.6 Receivables and payables related to insurance contracts and investment contracts

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

5.7 Salvage and subrogation reimbursements

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

Detailed accounting policies (continued)

for the year ended 31 December 2022

6. Non-financial assets

6.1 Investment properties

Non-current assets, comprising assets and liabilities that are expected to be recovered primarily through sale or distribution to owners rather than continuing use, are classified as held for sale.	These are accounted for as follows: Non-current assets held as investments for the benefit of policyholders as part of the group's investment management and life insurance activities are not classified as held for sale as ongoing investment management implies regular purchases and sales in the ordinary course of business. • Immediately before classification as held for sale or for distribution, the assets are remeasured in accordance with the group's accounting policies and tested for impairment. Thereafter, all the assets in the category are measured at the lower of their carrying amount and fair value less costs to sell (this is an accounting policy choice and is not limited to only the non-current assets). Impairment losses on initial classification as held for sale or for distribution as well as subsequent gains and losses on remeasurement of these assets or disposal groups are recognised in profit or loss. • Assets are presented separately in the statement of financial position. • Property and equipment and intangible assets once classified as held for sale, are not depreciated or amortised. In presenting the group's non-current assets and liabilities as held for sale, intercompany balances are eliminated in full. In the event that the held for sale operation ceases to be classified as held for sale, the disposal group shall be measured at the lower of: • Its carrying amount before the asset was classified as held for sale or as held for distribution to owners, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale or as held for distribution to owners, and Its recoverable amount at the date of the subsequent decision not to sell or distribute. (i.e. after any impairment losses that have been recognised in accordance with IAS 36

6.2 Owner-occupied properties

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

6. Non-financial assets (continued)

6.3 Leases

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

The group's lessee accounting policies are:

- leases of low value assets; and
- leases with a duration of twelve months or less.
- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the group, should it be reasonably certain that this option will be exercised;
- Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised;
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

6.4 Equipment

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

6.5 Impairment of other non-financial assets

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

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

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

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

7. Equity

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

Detailed accounting policies (continued)

for the year ended 31 December 2022

8. Other significant accounting policies

8.1 Employee benefits

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

8.2 Revenue recognition

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

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

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

8. Other significant accounting policies (continued)

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

Deferred revenue

Upfront fees received on short-term insurance business and long-term investment contracts are recognised as a prepayment. These amounts are non-refundable and released to income as the services are rendered over the expected duration of the contract on a straight-line basis. Refer to note 23 of the group annual financial statements for the details of amounts recognised in profit or loss.

Detailed accounting policies (continued)

for the year ended 31 December 2022

8. Other significant accounting policies (continued)

8.3 Taxation

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

Current taxation

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

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

Deferred taxation

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

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

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

A deferred taxation asset is recognised for the carry forward of unused taxation losses, unused taxation credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilised. Deferred taxation assets are assessed for probable recoverability based on applicable estimated future business performance and related taxable projected income.

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

8.4 Provisions

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

8.5 Segment information

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

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

8. Other significant accounting policies (continued)

8.6 Assets held for sale

Non-current assets, that are expected to be recovered primarily through sale or distribution to owners rather than continuing use, are classified as held for sale or for distribution and are accounted for as follows:

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

8.7 Offsetting

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

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

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

Appendix B – Shareholder Information

Shares Distribution Statistics as at 31 December 2022

Distribution of shareholding	Number of shareholders	Number of Shares held	Percentage shareholding
1 to 500	3 509	443 648	0.08%
501 to 1 000	626	464 947	0.09%
1 001 to 5 000	1 032	2 265 463	0.42%
5 001 to 10 000	404	3 028 355	0.57%
10 001 to 50 000	278	5 259 004	0.98%
50 001 to 100 000	51	3 579 004	0.67%
100 001 to 500 000	29	6 301 043	1.18%
500 001 to 1 000 000	3	2 094 445	0.39%
1 000 001 to 2 000 000 000	7	512 271 590	95.63%
	5 939	535 707 499	100.00%

Top 10 Shareholders as at 31 December 2022

	Names	Number of Shares held	Percentage
1	Liberty Holdings Limited	393 569 465	73.47%
2	African Liaison and Consultant	82 250 289	15.35%
3	Genghis Nominee A/C 029	27 000 000	5.04%
4	The Permanent Secretary to the Treasury of Kenya (on behalf of the Govt of Kenya)	4 602 008	0.86%
5	Peter Kingori Mwangi	2 785 423	0.52%
6	Co-op Custody Account 4006	1 490 597	0.28%
7	John Njuguna Ngugi	1 468 400	0.27%
8	Co-op Custody Equity Fund A/C 9002	680 000	0.13%
9	Kariithi Murage Murimi	519 459	0.10%
10	Alex Kimani Njogu	449 700	0.08%
11	Others	20 892 158	3.98%
		535 707 499	100.08%