CIC GROUP

CIC LIFE ASSURANCE LIMITED

ANNUAL REPORT AND FINANCIAL ACCOUNTS 2020

LET US UNITE,
LET US STOP COVID-19
STAY SAFE

HELP PREVENT COVID-19 BY:

OBSERVING ALL PROTOCOLS SET BY THE MINISTRY OF HEALTH

- Be alert to Symptoms
- Wash your Hands with Soap
- Wear a Mask
- Always Keep a Safe Distance
- Get Vaccinated
  If you qualify

In battling COVID-19 pademic and the risks associated with handling cash, we encourage you to transact using your **Debit Card, Credit Card** and **Mobile Money**.

#Stay Safe

OUR PHILOSOPHIES

1

OUR PURPOSE (MISSION)

Enable people achieve Financial security

WHO WE ARE

CIC Life Assurance is a market leader in Group life insurance with a market share of 19.1% and has a vast branch network of 27 branches spread across the counties. CIC offers a wide variety of life products and services.

2

OUR VISION

To be a world class provider of insurance and other financial services

3

OUR VALUES

Integrity
- Be fair and transparent

Dynamism
- Be passionate and innovative

Performance
- Be efficient and results driven

Cooperation
- Live the cooperative spirit

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CIC LIFE ASSURANCE LIMITED
CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2020

DIRECTORS	G. O. Owuor	- Chairman
	D. N. Ngunjiri	
	J. Kionga	- Ag. Managing Director
	M. O. Wambia	
	Dr. R. Monyoncho	
	J. Patel	
	P. Nyaga	

COMPANY SECRETARY

Mary Wanga
Certified Public Secretary (Kenya)
P.O. Box 59485 - 00100
NAIROBI

REGISTERED OFFICE

CIC Plaza
7th Floor
Upper Hill, Mara Road
P.O. Box 59485 - 00200
NAIROBI

SENIOR MANAGEMENT	J. Kionga	- Ag. Managing Director
	M. Wanga	- Company Secretary
	S. Wambui	- Actuarial Manager
	T. Kanja	- Senior Manager, Finance
	S. Robi	- Risk and Compliance Manager
	R. Nyakenogo	- General Manager - Cooperatives
	M. Luvai	- Ag. Group Chief Finance Officer
	J. Kamiri	- General Manager - Marketing & Customer Experience
	C. Adhiambo	- Claims Manager
	M. Magoma	- Human Resources Business Partner
	C. Onduru	- Operations Manager
	D. Wambugu	- Business Development Manager
	N. Mutuku	- Business Development Manager
	J. Gitau	- Pension Administration Manager
	J. Waititu	- ICT Manager
	T. Kihanya	- General Manager - Alternative channels
	J. Wamae	- Underwriting Manager

AUDITORS

PricewaterhouseCoopers LLP
Certified Public Accountants
PwC Towers, Waiyaki way,
Nairobi
P.O. Box 43693-00100
NAIROBI

PRINCIPAL BANKERS

The Co-operative Bank of Kenya Limited
P .O. Box 67881 - 00100
NAIROBI

CONSULTING ACTUARIES

The Actuarial Services Company Limited
Victoria Towers
Upper Hill
P .O. Box 10472 - 00100
NAIROBI

CIC LIFE ASSURANCE LIMITED
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 9TH ANNUAL GENERAL MEETING OF CIC LIFE ASSURANCE LIMITED WILL BE CONDUCTED VIRTUALLY VIA ELECTRONIC COMMUNICATION ON TUESDAY 18TH DAY OF MAY, 2021 AT 2:00 PM TO TRANSACT THE FOLLOWING BUSINESS:

ORDINARY BUSINESS

1. To table the proxies and confirm the presence of a quorum.

2. To read the notice convening the Meeting.

3. To confirm the Minutes of the 8th Annual General Meeting held on 25th September, 2020.

4. To receive, consider and adopt the Company's Audited Financial Statements for the year ended 31st December 2020 together with the Auditor's Report thereon.

5. To consider the Directors' recommendation that no dividends will be declared with respect to the financial year ended 31st December 2020.

6. To consider and if thought fit, reappoint Messrs.PriceWaterhouseCoopers, Certified Public Accountants, as the Auditors of the Company for the year 2021, having expressed their willingness to continue in office in accordance with section 717 (1), (2) and (3) of the Companies Act No.17 of 2015 and to authorize the Directors to fix their remuneration for the ensuing year.

7. Election of Directors:

   a.. Mr. Gordon Owuor, who retires by rotation in accordance with Articles 106, 107 and 108 of the Company's Articles of Association, and being eligible, offers himself for re-election as Director of the Company.

   b.. To note the retirement of Ms. Jyoti Patel, who retires by rotation in accordance with Articles 106, 107 and 108 of the Company's Articles of Association, and does not, offer herself for re-appointment as an Independent Director of the Company.

8. To authorize the Board to fix the Directors Remuneration.

9. To transact any other business of the company for which due notice has been received by the Company Secretary forty-eight (48) hours prior.

Dated at Nairobi this 21st day of April 2021
BY ORDER OF THE BOARD

MARY WANGA
COMPANY SECRETARY

NOTE:

1. In accordance with section 298(1) of the Companies Act, 2015 (Laws of Kenya) every member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his behalf and the proxy need not be a member of the company.
3. A proxy form is provided with this notice. The instrument appointing the proxy must be delivered to the Secretary not less than forty-eight (48) hours before the meeting.
5. In accordance with section 283 (2) of the Companies Act, a copy of the entire Annual Report and Financial Statements of the Company, a copy of this Notice and the Proxy Form, may be viewed at our Company's website *www.cic.co.ke*

CHAIRMAN'S STATEMENT
CIC LIFE ASSURANCE LIMITED

Economic and business environment

On behalf of the Board and management of CIC Life Assurance Company, I am delighted to present the Annual report and Financial Statements for the year ended 31st December 2020.

2020 was generally a tough year for the business as a result of Covid-19 pandemic globally, in addition to the locust invasion in the country which had a negative impact on food security and growth of agricultural sector. Kenya's economic indicators in the year 2020 projected a contraction of 1 percent from a growth of 5.4 percent in 2019. Private sector was hit hard in the year 2020 due to the introduction of curfew both within the Country and around the Globe. The impact of social distancing and closure of businesses due to the curfew had an impact on consumer spending, setting the stage for job cuts and unpaid leave for workers. The Insurance sector was significantly impacted by Insurance policy cancellations of up to KShs 5.3 Billion due to the pandemic.

The Kenyan Shilling depreciated 7.7% in 2020 compared to 5.2% in 2019. The shilling endured a tough year against major hard currencies due to volatility in exports, foreign direct investment as well as portfolio investments that support the shilling. Overall inflation stood at 5.6% due to elevated food prices, low inflow in tourism and exports like flowers and reductions in household and business spending.

The Gross Domestic Product in 2020 had initially been projected to grow by an annual average of 5.7% but was reviewed to 1.5% by the International Monetary Fund (IMF). The Central Bank of Kenya (CBK) revised its 2020 economic growth forecast to 3.4% from an initial estimate of 6.2%. Consequently, the Central Bank Rate (CBR) was revised to 7%, with the aim of making credit more affordable to micro, small and medium enterprises. In addition, the Cash Reserve Ratio was reduced from 5.25% to 4.25% in order to release additional liquidity to commercial banks and enable them to continue lending despite the evolving downturn, particularly in support of borrowers distressed as a result of Covid-19. The NSE All-Share Index and the NSE 20 Share Index recorded decreases of 8.6% and 29.6% respectively in Q4.2020 as investors fled due to the pandemic.

Regulatory framework

The effective date of IFRS 17 has been deferred to 1 January 2023.This provides the Company with ample time to prepare and mobilize the necessary resources and train all the relevant employees' in order to have a seamless transition.

The Insurance Regulatory Authority (IRA) also revised the new capital requirement of 200% by 30th June 2020 to 31st December 2020 due to the effect of Covid-19.

During the year, the highest PAYE tax band was reduced from 30% to 25%, personal relief increased to Ksh.2,400, exemption from PAYE was provided for individuals earning less than Ksh.24,000, VAT rate reduced from 16% to 14% while the resident corporation tax rates were reduced from 30% to 25%. These measures contributed to great relief for companies and individuals in a bid to cushion them from the effects of Covid-19 pandemic. KRA introduced minimum tax at a rate of 1% on gross revenue effective 1st January 2021. Among those exempted include insurance companies.

Overall performance

The Company registered a Profit before Tax for the period ended 31st December 2020 of Kshs 86 million which is a reduction from Kshs 162 million in 2019. The decline was attributed to a slight reduction in Gross earned premiums, increased claims & actuarial reserves and losses in the equities market.

Gross written premium in 2020 declined by 1% to KShs 4.93 billion from KShs 4.99 billion in 2019. Contributions from deposit administration contracts reduced by 9% from KShs 1.07 billion to KShs 980 million. Total assets however, increased by 13% from KShs 14.6 billion in 2019 to KShs 16.5 billion in 2020.

Dividend payout

Following the company performance and the requirement by IRA to achieve 200% solvency ratio by the revised date of 31st December 2020, there was no recommendation to transfer any surplus from the statutory fund to retained earnings for payment as dividends.

Future outlook

In 2021, the economy is seen to be rebounding and geared towards growth following concerted efforts to recover from adverse effects of the pandemic.

Restriction measures have been eased and will contribute to improved economic activity in both local and global markets. Additionally, the private sector anticipates growth in business prospects while the creation of employment opportunities by the government will increase customer spending and the ongoing infrastructure projects will spur trade. The Company continues to redefine business operating models by transitioning to digitalised systems and changing market approach in order to become more customer centric. With virtual operations and remote working becoming the new normal, the focus is on building digitally enabled distribution models to ensure a seamless customer experience. The Company continues to strengthen its dominant presence in Group life by ring fencing the Cooperative sector. Furthermore, the Company has taken a niche focus strategy on the Cooperative and Banking/ Microfinance sectors using strategic partnerships to propel growth and profitability

Acknowledgement

In conclusion, I wish to convey my gratitude to all our stakeholders for their tremendous support and trust as we strive to make the Company a world class provider of insurance and other financial services.

Gordon Ondiek Owuor
CHAIRMAN

BOARD OF DIRECTORS

Gordon Ondiek Owuor
CHAIRMAN

Mr. Gordon Ondiek Owuor, aged 63, is a Non-Executive Director and representing CIC Insurance Group Plc, a major shareholder. Mr. Owuor is the Chairman of Jumuika (formerly Chemelil) Sacco, a member of the Nyanza Provincial Co-operative Development Team and a Member of the Institute of Directors-Kenya. He previously worked with the East African Fresh Water Fisheries Research Organization and currently is the chairman of Loyalty Refined Limited. He holds an executive Diploma in Financial Management. The Director has undertaken training in specialized Life Assurance Business Management conducted by LIMRA and several corporate governance training courses.

Michael Ondinya Wambia
Director

Mr. Michael Ondinya Wambia, aged 52, is a Non-Executive Director and representing CIC Insurance Group Plc, a major shareholder. The Director also holds a diploma in Education Management from KEMI (Kenya Educational Management Institute) and is a Member of the Institute of Directors Kenya. He is also a delegate in Cooperative Bank of Kenya Limited and has undertaken training in specialized Life Assurance Business Management conducted by LIMRA and various corporate governance training courses. He has under gone extensive training on Corporate Governance by International Finance Corporation (IFC).

Mr. Patrick Nyaga
Director

Mr. Patrick Nyaga aged 53, Joined the Board in the year 2020 as an Executive Director. Mr. Nyaga holds a master of Business Administration from Strathmore Business School and a Bachelor of Commerce Degree in Accounting. He is a Certified Public Accountant (K) and a member of ICPAK. Mr. Nyaga has over 29 years working experience mainly banking and auditing. He has worked in various senior positions in banking. Prior to joining CIC Group Ltd he was the Group Finance and Strategy Director- at Cooperative Bank of Kenya Limited. He previously worked at Barclays Bank now (ABSA) as the Regional Head of Assurance and at KPMG (EA), with the main focus being audit of financial institutions in Kenya and the region. He is a member of the Institute of Directors of Kenya and has undertaken training in several Corporate Governance courses including in Insurance Business.

BOARD OF DIRECTORS

Dr. Rachel Monyoncho
DIRECTOR

Dr. Rachel Monyoncho, aged 57 years, joined CIC Life Board in January 2016 as an Independent Non-Executive Director. She holds a PhD in Business Administration (Organization Theory and Behavior) from the University of Nairobi and an MBA in Strategic Management and International Business from the University of Nairobi and Bachelor in Biological Sciences and IHRM from Panjab University - India. She is a member of Kenya Institute of Directors Kenya. She has over 25 years' wealth of experience in senior management in various industries in East and Central Africa Regions. She is currently a management consultant and lectures in various private universities in Kenya.

David Ngunjiri
DIRECTOR

Mr. David Nduhiu Ngunjiri, aged 61, joined CIC Life Assurance Board in July 2019 and is a Non-Executive Director and representing CIC Insurance Group Plc, a major shareholder. He is currently the Chair of Finance and Investment Committee of the Board. He is also a Board Member of Newfortis Sacco and delegate of Biashara Sacco. He is a teacher by profession and holds a diploma in Education Management from KEMI (Kenya Educational Management Institute) and is a Member of the Institute of Directors Kenya. He has attended various governance and risk management trainings conducted by Kenya Union of Savings and Credit Co-operatives Limited.

Ms. Jyoti Patel
DIRECTOR

Ms. Jyoti Ishwarbhai Patel, aged 50, joined CIC Life Assurance Board as an Independent Non-Executive Director in May 2018. She has considerable working experience, in the executive management teams specializing in accountancy, finance and risk management. Ms. Jyoti is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and a fellow member of Association of Chartered Certified Accountants (FCCA). She is trained on Corporate Governance by International Finance Corporation (IFC) and certified in Enterprise Risk Governance by Enterprise Risk Management Academy (ERMA). She holds an MBA from Warwick Business School, UK.

Jack Kionga
AG. MANAGING DIRECTOR

Mr. Jackson Kionga, aged 58, joined CIC Insurance Group Plc in 2007 as the Operations and Training Manager. Currently he is the Ag. Managing Director and Principal Officer- of CIC Life Assurance. He has over 29 years work experience within the Insurance industry. Jack holds a Bachelor of Administration Degree (Hons), Executive MBA from USIU, Advanced Management Programme Executive Education Course from Strathmore Business School and IESE Business School. He is an Associate Member of the Insurance Institute, London (Chartered Insurer) in UK. Mr. Kionga also sits in the Life Insurance Council of the Association of Kenya Insurers (AKI) and is the Convener of the AKI Group Life Committee.

Mary Wanga
COMPANY SECRETARY

Ms. Mary Wanga aged 53, is the Company Secretary and an Advocate of the High Court of Kenya with over 24 years' experience both as a practicing and corporate lawyer. She joined CIC Group Plc in 2008. Ms. Wanga is a Certified Public Secretary CPS (K) and holds a Bachelor Degree in Law, Bachelor of Social Legislation and Post Graduate Diploma in Kenya Laws and Diploma in Insurance (AIIK). She is a member of the Institute of Directors of Kenya, An Associate member of Insurance Institute of Kenya and Convenor of Legal Affairs and Professional Standards Commitee, Law Society of Kenya, ACIArb, ICPSK and Women on Boards Network (WOBN).

MANAGING DIRECTOR'S STATEMENT

CIC LIFE ASSURANCE LIMITED

POLITICAL ENVIRONMENT

The political environment was polarized with President's Big Four Agenda, The Building Bridges Initiative (popularly referred to as the BBI) and succession politics dominating the airwaves. However, the government showed strong will in dealing with Coronavirus pandemic and shielding its populace from catastrophic impact and investing heavily in containment measures. Inevitably, some of the containment measures seem to have sprouted pockets of corruption especially within politically connected circles. All the same, the political environment was generally stable and did not poison economic activities.

ECONOMIC ENVIRONMENT

It goes without saying that 2020 was a very eventful year whose political, social and economic fortunes or woes were defined primarily by the Coronavirus epidemic and the reactions to it. Individuals and businesses had to deal with an unfamiliar operating environment, with some thriving but a majority having to deal with reduced business as demand shrunk from reduced incomes. Most affected was the entertainment and hospitality industry, primarily from curfew hours and social distancing.

The locust attack of 2020 affected and continues to affect many parts of Kenya resulting in food insecurity while slowing growth in the agricultural and livestock sectors.

The economy, which was expected to grow at 5.8% of GDP, shrunk by 1%. It is estimated that over 2million jobs were lost, not to mention lives lost and livelihoods disrupted due to the pandemic. The Kenya Shilling also depreciated heavily against international currencies as investors sought safe-haven assets outside the country. Additional impact came from reduced exports and international travel restrictions. The annual inflation rose to 5.41%, higher than the 4% average in the 3rd Quarter. The Government also struggled with debt as it moved to contain the social and economic impact of the pandemic. On a positive note, many individuals and organisations joined in the fight in a show of social responsibility. There was a significant investment in infrastructure in the urban and rural areas.

INDUSTRY ANALYSIS

In the insurance industry, we experienced a more stringent supervision as the Regulator sort to enforce the Insurance Act especially in the area of premium remittance and debt management. On matters pertaining to Covid, the impact was mixed. On the Life Insurance side of business, growth was slowed by the curtailment of movement and human contact. For companies who focused on business from schools, especially retail, the impact was quite significant with the school closures. Group Life schemes experienced increased Covid related claims while Pension schemes were also affected with staff layoffs and reduced benefits. On the Credit Life sphere, reduced lending translated to suppressed growth. Spotlight from Unclaimed Financial Asset Authority (UFAA) intensified especially on outstanding claims.

BUSINESS PERFORMANCE

Overall, topline growth declined by 1%. Only Group Credit business posted a year on year growth with a 6% growth, driven primarily by account retention and organic growth in the credit life from cooperative institutions. This was significantly higher than the industry, which posted a 3.9% growth as per the 3rd Quarter of 2020.

Overall Gross Written Premium (GWP), including Pension Contributions, amounted to Kshs. 5.9 Billion. Claims ratio, including actuarial reserves, was at 71% against a budget of 62% amid a spike in claims towards the end of the year, including heavy Covid related death claims. There was also a sharp increase in surrenders as household incomes suffered. Meanwhile, reduction in new business under Individual Life and increased claims, in addition to the performance of the Yield Curve, resulted in rising actuarial reserves. Commission ratio was within budget at 9% while the expense ratio was within budget at 27%.

Profitability moved from a profit before tax of Kshs. 163 million in 2019 to Kshs. 86 million in 2020. This decline was brought about by the depressed performance of Individual Life business, which moved from a profit position of Kshs.120 million to a loss of Kshs. 89 million, incurring a negative year-on-year movement of Kshs. 209 million. This loss was however diluted by Group Life business that generated a profit of Kshs. 246 million, an increase of Kshs. 134 million over 2019. Income from investing activities declined by Kshs. 16 million year on year and was Kshs. 108 million below the budget. This was mainly due to equity loses. Over the period, our total assets grew by 13% from KShs 14.6 billion to KShs 16.5 billion.

KEY FOCUS IN 2021

In our new Strategic Plan, profitable growth will continue be the main focus, through increased Topline Growth, Underwriting Profit and Capital strength.

Cardinal to this will be a sharp focus on key client relationship management, more so in Group Life business, as we strive to exceed expectations through our product offerings, service provision and direct engagement at all levels. As the macroeconomic environment becomes more unpredictable, there will be an increased emphasis on profits arising out of operational activities to be complemented by investment income. The philosophy of prudent underwriting will therefore continue to be a priority.

In the retail arena, we will increase our sales footprint through independent financial advisors, the alternative distribution channels of Sacco assurance and Bancassurance using our strategic partnerships, and digital distribution using the aggregator model. Customer focus will also be key in policy conservation and reinstatement as we look to build a profitable book of Individual Life business. Quality of business will be maintained through measures that increase operational efficiency and persistency.

For Pension and Annuity business, we will target the small umbrella schemes and the conversion of medium-sized segregated funds to deposit administration contracts. Annuity pricing and investment strategies will be key in the reduction of reserving strain. For this reason, we will engage our investment partners to explore other non-conventional investment avenues.

On the replacement of the antiquated Information Technology (IT) core system, the process of procuring a new system is in progress alongside systems and process reengineering to increase efficiency, tighten controls and enhance customer experience. Key to achieving the above objectives will be an engaged staff, motivated to deliver in their respective duties.

Finally, even though the year 2020 was a very challenging, those challenges in turn forced us to focus on 10 key drivers for business growth that have to do with financial strength, effective and efficient systems and processes, employee engagement, key markets and customer experience. With these challenges addressed, we can only expect a better performance in 2021.

APPRECIATION

My sincerely appreciation goes to the CIC Life Board of Directors for their wise counsel and guidance, our customers for their trust and belief in CIC Life and challenging us to keep our word, the management, staff and acquisition teams for their hard work, dedication and contribution to the results. I also recognize the significant role played by our strategic partners and other stakeholders. We have the capacity to grow even more profitably and sustainably and demonstrate that in 2021 "We Keep Our Word."

JACK KIONGA
AG. MANAGING DIRECTOR

SENIOR MANAGEMENT

Jack Kionga
Ag. Managing Director

Mr. Kionga, aged 58, joined CIC Insurance Group Plc in 2007 as the Operations and Training Manager. Currently he is the Ag. Managing Director and Principal Officer, CIC Life Assurance. He has over 29 years work experience within the Insurance industry. Jack holds a Bachelor of Administration Degree (Hons), Executive MBA from USIU, Advanced Management Programme Executive Education Course from Strathmore Business School and IESE Business School. He is an Associate Member of the Insurance Institute, London (Chartered Insurer) in UK. Jack also sits in the Life Insurance Council of the Association of Kenya Insurers (AKI) and is the Convener of the AKI Group Life Committee.

Mary Wanga

Ms. Mary Wanga aged 53, is the Company Secretary and an Advocate of the High Court of Kenya with over 24 years' experience both as a practicing and corporate lawyer. She joined CIC Group Plc in 2008. Ms. Wanga is a Certified Public Secretary CPS (K) and holds a Bachelor Degree in Law, Bachelor of Social Legislation and Post Graduate Diploma in Kenya Laws and Diploma in Insurance (AIIK). She is a member of the Institute of Directors of Kenya, An Associate member of Insurance Institute of Kenya and Convenor of Legal Affairs and Professional Standards Commitee, Law Society of Kenya, ACIArb, ICPSK and Women on Boards Network (WOBN).

Salome Wambui

Ms. Salome aged 34, is the Actuarial Manager. She holds a BSc (Hons) in Actuarial Science, Masters in Economics (Econometrics) and is a Fellow of the Institute and Faculty of Actuaries (IFoA) in the UK. Salome also holds certificates in Financial Econometrics, Mathematical Finance and New Managers Leadership Program from Strathmore Business School. She is also a member of The Actuarial Society of Kenya (TASK). Salome joined CIC Insurance Group Plc in 2014.

SENIOR MANAGEMENT

Tyrus Kanja

Mr. Tyrus, aged 42 years, joined CIC Insurance Group Plc in 2005 as an Accountant and is currently the Senior Manager Finance for CIC Life Assurance Company Limited. He has over 16 years work experience within the Insurance industry and holds a BSc – International Business Administration from USIU(A) and a CPA (K). He is a member of Institute of Certified Public Accountants of Kenya (ICPAK).

Susan Robi

Ms. Robi aged 44, is the General Manager Risk and Compliance. She is an Advocate of the High Court of Kenya holding a Bachelor of Laws (LLB) Degree from the Makerere University and a Masters in Law and Finance from Goethe University (Institute of law and Finance) in Frankfurt Germany. Professionally Ms. Robi holds a Post Graduate Diploma from the Kenya School of Law and has over 10 years of experience in various capacities and industries ranging from both Local and International Law Practice, Insurance, Finance and Risk Management. Ms. Robi joined CIC Insurance Group Plc in 2011.

Richard Nyakenogo

Mr. Nyakenongo aged 54, is the General Manager - Co-operatives. He holds a Bachelors of Commerce Degree from Egerton University and Masters in Business Administration from Mount Kenya University. He has a Diploma in Co-operative Management from the Co-operative College of Kenya and a certificate in Corporate Governance from Center for Corporate Governance. Richard is an Associate Member of Insurance Institute of Kenya (AIIK), Member of Marketing Society of Kenya (MSK), Member of Institute of Directors of Kenya (IOD), a Certified Co-operative Professional (CCOP), and a Council Member of Kenya Society of Professional Co-operators (KSPC). He was involved in the transformation of Sacco's form Back office to Front office (FOSA). He joined CIC in 1999.

Muyesu Luvai

Mr. Muyesu aged 44, is the Group Chief Internal Auditor. He is a Certified Public Accountant (CPA (K)) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He holds a Bachelor of Commerce Degree (Marketing) from the University of Nairobi and a Master of Business Administration (MBA) Degree with a concentration in Employee Relations /Organizational Behavior from the University of Leicester (UK). This mixed background allows him to look at company operations at a wide scale, providing solutions from a business strategy perspective while seeking to enhance the effectiveness of governance, risk management and control processes. Prior to joining CIC in 2008, Mr. Luvai worked for Deloitte in the Audit & Assurance Division, obtaining extensive experience in auditing a wide variety of international and local organizations drawn from both the private and public sectors. Prior to joining Deloitte, Mr. Luvai had a stint in the oil and gas industry working in the Finance Department of Dalbit Petroleum Limited.

Joseph Kamiri

Mr. Joseph aged 54, is the General Manager - Marketing & Customer Experience. He holds Bachelor of Commerce - Insurance Option from the University of Nairobi. He's an Associate Member of Insurance Institute of Kenya (AIIK) and an Associate Member of the Chartered Insurance Institute (ACII). He holds an MBA (Marketing) from the University of Nairobi. In addition, Mr. Kamiri has done the Advanced Management Program (AMP), from IESE Business School, Spain & Strathmore Business School, Kenya and has attended Negotiation, Mediation & Arbitration training from the International Law Institute (George Washington University-USA). Mr. Kamiri has over 25 years' experience in the Insurance business in both Kenya and the Global Emerging Markets. He joined CIC in 2014.

Caroline A. Otieno

Ms. Caroline aged 36, joined CIC Insurance Group Plc in 2009 as a Management Trainee. She is currently the Claims Manager CIC Life Assurance Company Limited and has been with the organization for the last 11 years. She holds a Bachelor of Science degree, a CII Diploma in Insurance and a CPA 1 certification. She is currently pursuing an MSc in Development Finance.

SENIOR MANAGEMENT

Maureen K. Magoma

Ms. Magoma aged 42 is the Human Resource Business Partner representing CIC Life Assurance Limited. She holds a Bachelor of Business Administration degree, PHRi and SHRM-CP certifications from HRCI and SHRM respectively. She has 16 years' work experience out of which 10years have been in Human Resources mostly within the insurance industry. She is a Member of the Institute of Human Resources Management (IHRM) and joined CIC Insurance Group Plc in July 2016.

Calvince Onduru

Mr. Calvince aged 36, joined CIC Insurance Group Plc in 2008 as a Management Trainee. He is currently the Operations Manager CIC Life Assurance Limited and has been with the organization for the last 12 years. He holds a BSc – Actuarial, a Diploma in IMIS, CPA finalist and MSC Finance (Insurance), Associate, Life Management Institute (ALMI). He is a member of the Individual Life Committee at Association of Kenya Insurers (AKI).

David Wambugu

Mr. Wambugu aged 40, joined CIC Life Assurance Limited in 2015. He has 12 years of sales experience in the Insurance Industry. His role entails Business Development, Recruitment, Training, Coordination and Supervision of individual life sales force. He holds a Bachelor's degree in Business Management (Marketing Option) from Egerton University. In addition, a Management Skills Certificate from LIMRA (Life Insurance and Market Research Association).

Nicholas Mutuku

Mr. Nicholas aged 46, joined CIC Life Assurance Limited in 2016. He has 20 years of Sales experience in the Insurance Industry. His role focuses on Business Development, Recruitment, Training, Coordination and Supervision of individual life business. He holds a Bachelor's degree in Education (ARTS) from Kenyatta university. In addition, he holds a Diploma in sales management and marketing from excel institute of professional studies and a certificate in Total Quality Management among other certifications.

Jane W. Gitau

Ms. Jane aged 52, joined CIC Life Assurance in May 2006. She has 26 yrs of experience in the insurance industry and held various management positions in departments dealing with employee benefits products. She holds a Bachelor's degree in Economics & Sociology (Egerton University); Executive Master in Business Administration (JKUAT); Associate of the Insurance Institute (ACII) in UK &Associates of Insurance Institute (AIIK) in Kenya. She is a member of Pensions Committee at Association of Kenya Insurers(AKI); Council Member-Association of Retirement Benefits Scheme (ARBS).

Joseph K. Waititu

Mr. Waititu aged 37, Joined CIC Life Assurance Limited in 2013 as Database Administrator. Previously he was with Turnkey Africa Ltd as a Senior Insurance Software Developer. He holds a bachelor of Computer Science and an MSC in Data Communication. In addition, he is Oracle and Information Technology Infrastructure Library (ITIL) Certified. He has over 10 years work experience in ICT. He is a member of Institute of The Computer Society of Kenya (CSK).

Tabitha Kihanya

Ms. Tabitha aged 36, is the General Manager - Alternative Channels at CIC Insurance Group Plc with over 10 years work experience in various capacities within the Banking and Insurance industry. She holds a Bachelor's Degree in Business Management from Moi University, and a Diploma in Insurance from College of Insurance – (AIIK). Tabitha is a member of Insurance Institute of Kenya (IIK).

James Wamae

Mr. James aged 37 joined CIC Life Assurance Limited in January 2016 as an Assistant Underwriting Manager - Group Life. He is currently the Underwriting Manager - Group Life Business and has over 9 years' work experience within the Insurance Industry. He holds a Bachelors' Degree in Business Administration from Maseno University and CPA 1 certification. He is currently pursuing IIK Diploma, is a member of Insurance Institute of Kenya (IIK) and a member of the Association of Kenya Insurers (AKI) Group Life Committee.

REPORT OF THE INDEPENDENT GOVERNANCE AUDITOR
TO THE SHAREHOLDERS OF CIC LIFE ASSURANCE LIMITED

INTRODUCTION

We have performed Governance Audit for CIC Life Assurance Limited covering the years ended 31st December 2019 and 2020 which comprised assessment of Governance Practices, Structures and Systems put in place by the Board.

BOARD RESPONSIBILITY

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organisation. The responsibility includes planning, designing and maintaining governance structures through policy formulation necessary for efficient and effective management of the organisation. The Board is responsible for ensuring its proper constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members' rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management.

GOVERNANCE AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the existence and effectiveness of Governance instruments, policies, structures, systems and practices in the organisation within the legal and regulatory framework and in accordance with best governance practices as envisaged under proper Board constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members' rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management, based on our audits.

We conducted our audits in accordance with ICPSK Governance Audit Standards and Guidelines which conform to global Standards. These standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organisations policies, systems, practices and processes. We believe that our governance audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Board has put in place effective, appropriate and adequate governance structures in the organisation which are in compliance with the legal and regulatory framework and in line with good governance practices in the interest of stakeholders.

CS. Jacqueline Oyuyo Githinji, ICPSK GA. No 00030
For Umsizi LLP
9th March, 2021

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Our vision is to be a world class provider of insurance and other financial services.

This governance statement has been approved by the Board of Directors of CIC Life Assurance Limited.

Introduction

CIC Life Assurance Limited was incorporated on 29th July 2009 under certificate No. No. CPR/2009/7927 under Chapter 486 Laws of Kenya (Now repealed by the Companies Act No.17 of 2015) as a wholly owned subsidiary of CIC Insurance Group Plc in compliance with Insurance Regulatory Authority (IRA) directive of separating business of life and general. It was duly registered and licensed on 27th November 2012.

Governance Regulations

In setting up our corporate governance framework, reviewing and enhancing it, we have taken into account the Insurance Act Chapter 487 Laws of Kenya and its accompanying Schedules and Regulations, Insurance Regulatory Authority Corporate Governance Guidelines for Insurance and Reinsurance Companies dated June 2011, issued pursuant to Section 3A of the Insurance Act, Memorandum and Articles of Association of the Company, Companies Act No.17 of 2015, Kenyan Constitution 2010 and CIC Life Assurance Board Charter as well as being aligned to the global best practice. For the whole of the 2020 financial year, as in previous years, we adopted all of the IRA Corporate Governance Guidelines, Directives and Circulars issued to the industry.

Implications of COVID 19 on Corporate Governance

The wake of COVID 19 in the country has continued to affect companies and firms in all sectors of the economy especially during the year under review. The Board worked closely with management to ensure continuity and sustainability of business. During the year, the Board enhanced the use of technology to ensure good governance by amending the Company's memorandum of understanding to incorporate virtual and hybrid meetings. The Company had already adopted the use of eBoard system in its conduct of board meetings.

Statement of Commitment to Good Governance

The CIC Life Assurance Limited Board of Directors ("Board") is committed to high standards of corporate governance and its corporate governance framework supports its long term performance and sustainability projects and enhances shareholder value and protects the interests of all its key stakeholders. The company believes that good corporate governance is based on a set of values and behaviour that underpin day-to-day activities; provide transparency and fair dealing; and promote financial stability and healthy economic growth that can deliver better outcomes for the company's stakeholders and help its customers get ahead.

The company regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations. Our strategy is anchored on fundamental pillars and core values of the company which espouse Integrity, Dynamism, Performance and Co-operation.

Board Mandate

The primary role of the Board remains to guide the company towards sustainable long-term success through the exercise of objective and informed judgement in determining the strategy of the company, having the best team in place to execute that strategy, monitoring business performance and maintaining an effective framework of controls to mitigate risks facing the business

Table 1
The diagram below provides an overview of the Company's Corporate Structure.

The Board Mandate

The Kenyan Companies Act No.17 of 2015, outlines the general scope and duties that directors owe to the company. Although the Articles of Association of the Company do not define the responsibilities of the Board, the Board Charter has expressly spelt out the responsibilities of the board, clearly distinguishing the relationship and interactions between the Board and Management and matters expressly reserved for Board's decision. The separation of the roles is to promote accountability and facilitate division of responsibilities as well as to ensure a balance of power and authority, such that no one individual has unfettered powers of decision making.

The Board of Directors is responsible for providing strategic leadership to the Company. In doing so, the board takes cognizance of the impact of its decisions in the long term, the interests of its employees, the need to forge and foster good relationships with diverse stakeholder's including customers and suppliers and the impact of the Company's operations to the society. In carrying out the above responsibilities, the Board delegates its authority to the Managing Director to oversee the day to day business operations of the Company. The Board also calls upon independent expert advisor's where necessary to carry out such work as deemed necessary.

The Board Charter

A Board Charter provides a concise overview of the role and responsibilities of the board of directors; powers of the board and various board committees; separation of roles between the Board and Management; and the practice of the board in respect of corporate governance matters. The General Business Board Charter is subject to the provisions of the Companies Act, 2015, the Company's Memorandum and Articles of Association and any applicable law or regulatory provision.

The Life Assurance Board Charter was reviewed during the year under review to offer guidance on matters including but not limited to the following:

- The separation of the roles, functions, responsibilities and powers of the Board and its individual members.
- Powers delegated to the Board committees; matters reserved for final decision-making and approval by the Board.
- Policies and practices of the Board on matters of corporate governance, Directors' declarations and conflict of interest, conduct of Board and Board committee meetings.

The Charter is not a substitute or a replacement of any laws and regulations that govern the running of the company.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

Separation of the role of the Chairman and the Managing Director

The Board Charter stipulates a clear separation of the role and responsibilities of the Chairman and the Managing Director. The Chairman is a non-executive Director and his primary role is to direct the Board's business and act as its facilitator and guide, ensuring the Board is effective in its task of setting and implementing the Company's direction and strategy while the Managing Director is responsible for the day-to-day leadership of the Company's business affairs and ensures the execution of strategy as set out by the Board. The separation of the roles is to promote accountability and facilitate division of responsibilities as well as to ensure a balance of power and authority, such that no one individual has unfettered powers of decision making.

The Chairman is responsible for:

- The leadership of the Board and ensuring that the Board functions are effectively carried out.
- Setting the Boards' agenda while striking a balance between strategy and performance.
- Ensuring that sufficient time is allowed for discussions on complex, contentious and critical issues and that all Directors engage and contribute to these discussions while ensuring that appropriate time and information is provided to Directors to take sound decisions on such matters.
- Encouraging active engagement and appropriate challenge by the Board on the company's risk and control environment.
- Ensuring that the Board has sufficient oversight over its committees by ensuring that the committees meet regularly and comprehensively report back on their activities to the Board.
- Facilitating effective communication between the Board and the leadership team inside and outside of the Board meeting framework.

The Managing Director is responsible for:

- Driving the implementation of the strategy and business as approved by the Board.
- Managing all matters affecting the operations and performance of the company within the authority delegated to him by the Board.
- Providing timely and accurate information about the company and material developments to the Board.
- Communicating to internal and external stakeholders on matters affecting the Company.
- Leading and motivating the Senior Management team by ensuring they set annual performance objectives that stretch their capabilities and monitoring the delivery of the same.
- Maintaining and ensuring the effectiveness of the system of governance adopted across the company.

The Managing Director's performance is reviewed regularly against objectives and measures set by the Board in annual performance appraisals. The Managing Director's performance appraisal was evaluated during the reporting period on this basis.

The Board reviews the company's Board Charter from time to time to reflect and cater for the business dynamics and the regulatory environment.

Company Secretary

The Company Secretary, a member of the Institute of Certified Secretaries of Kenya (ICPSK), plays the critical role of coordinating the activities of the Board. The Board is assisted by the Company Secretary who is directly responsible to the Board through the Chairman on all matters to do with the proper functioning of the Board. The Company Secretary attends all Board meetings and offers additional guidance to the Board on matters relating to corporate governance and statutory matters.

The Company Secretary's role and responsibilities includes but not limited to the following:

- Facilitation of good information flow within the Board, its Committees and between Senior Management.
- Induction of new Directors and the on-going professional development of all Directors.
- Monitoring compliance with the Board's procedures and for advising the Board on all applicable laws and governance matters through the Chairman.

Each member of the Board has direct access to the Company Secretary.

The performance of the Company Secretary is assessed by the Board as part of the annual Board performance evaluation process.

Working Relationship Between the Board and the Company Secretary

The Board is solely responsible for its agenda. However, it is the responsibility of the Chairman and the Company Secretary, working closely with the Managing Director, to come up with the annual Board work plan and agenda for the Board meetings.

The Life Assurance Board meets at least four (4) times a year and the meetings are structured in a way that allows for open discussions. Comprehensive Board papers are prepared and circulated to all Directors for all substantive agenda items. This allows time for the Directors to undertake an appropriate review of the Board papers to facilitate full and effective discussions at the meetings. The senior leadership team members may be invited to attend the board meetings if deemed necessary. The Directors are responsible for ensuring that the business strategies proposed are successful and offer oversight role over the business. The Board has also put in place a new strategic plan 2021 - 2025. This enables the Directors to promote the success of Life Assurance for the benefit of its shareholders, with consideration of, among other matters, the interests of employees, fostering of business relationships with customers, suppliers and other stakeholders. The Directors oversee operational performance of the business, and to perform these tasks, they have full access to all relevant information with updates provided on governance, regulatory and other matters affecting the company.

Chairperson

During the reporting period, Mr. Gordon Owuor was the Chairman of the Board of Directors of CIC Life Assurance Limited. The Chairman's overarching responsibilities are to provide overall leadership to the Board in line with principles of collective responsibility for Board decisions, setting the ethical tone for the Board, and ensure the Board is well informed and effective. More information about the role of the Chairperson is contained in the Board Charter.

Board of Directors and Composition

The composition of the Board in the financial year under review was targeted towards ensuring fair representation of the major shareholder structure, as well as, optimization of the appropriate skill, experience, diversity and geographical mix to facilitate effective execution of its mandate.

The company's constitution sets a minimum of five (5) directors and a maximum of nine (9) directors including the Managing Director and the Company Chief Executive Officer.

The Board currently comprises of seven directors constituted as follows:
- Three non-executive directors including the Chairperson;
- Two executive directors
- Two independent directors.

The following are the guiding principles in determination of the board composition:
- The Company's shareholding structure
- Maintenance of the requisite independence on the board
- The sufficiency of the size of the Board as is necessary to attain the objectives of the company
- Effective succession planning to ensure smooth transition on the board
- Board Diversity to ensure that there is the desired mix of skills, knowledge, expertise and experience to enable the board to discharge its duties effectively.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

The constitution of Directors provides that the executive directors have no voting rights.

Detailed information on each of the Company's Director is set out in the Director's Report section of the 2020 Annual Financial Statements.

Board Tenure of Office

In accordance with the company's articles of association, one third of the directors are eligible to retire by rotation at every Annual General Meeting and if eligible, may offer themselves for re-election by shareholders. Directors who have been in office longest, as calculated from the last re-election or appointment date are required to stand for re-election and/or re-appointment in the case of Independent Directors. The company has complied with this provision as tabulated in the table below. The tenure of office of an Independent Director is capped at two terms of three years each subject to performance.

Table 2 Directors Tenure of Office

Director	Date of Appointment to the Board	Date Last Re-Appointed
Gordon Owuor	28.03.2012	20.05.2018
Michael Wambia	28.03.2012	25.09.2020
David Ngunjiri *	22.07.2019	-
Dr. Rachel Monyoncho	11.05.2016	21.05.2019
Jyoti Patel	01.06.2018	-
Patrick Nyaga	06.08.2020	-

Letter of Appointment and Due Diligence

The key terms and conditions applicable to Director Appointments are set out in a letter of appointment setting out Director's role and responsibilities, time commitments, induction, performance, remuneration, disclosure of outside interests, independence and confidentiality.

All Directors have undergone the fit and proper due diligence assessment conducted by the regulator (Insurance Regulatory Authority) and approvals granted to all directors. All Directors also have a current certificate of good conduct from the Criminal Investigation Directorate and Credit Reference Bureau

Director Independence

The Board has put in place policies and procedures to ensure independence of its members and annually determines the status of independence of board members. The Board recognizes that independent board members bring independent and objective judgement to the Board and this mitigates risks arising from conflict of interest or undue influence from interested parties.

In determining the independence or otherwise of a director, the Board, not only relies on the codified principles but also has an objective regard to the relationship between a director and the Company, and third parties that may compromise the director's independence.

Director Induction

A comprehensive induction to an organisation allows new board members to be properly informed, supported and welcomed from the time of their board appointment. Newly appointed Directors receive appropriate induction and training, specifically tailored to the company's business and operation needs. The induction is aimed at enabling the new directors to fully take up their roles and execute their responsibilities. The Board has put in place a Board Induction Policy for new Directors.

Board Evaluation

In line with the provisions of the Corporate Governance Guidelines for Insurance and Reinsurance Companies, 2011. The Board undertook an annual evaluation of its performance as an entity, its committees, the Chairman and each individual Director as well as the Company Secretary. This was aimed at enabling the Board and its members and the committees to gauge their performance and identify areas of improvement.

The Board was trained on corporate governance and the application of the board evaluation tool towards complying with the 12 hours board training requirement.

The Board evaluation for the year under review, 2020, was conducted virtually and the questionnaires administered digitally.

The Board Evaluation concluded that the Board continues to be effective.

Conflict of Interest

The Directors are obligated to fully disclose to the Board any real or potential conflict of interest, which comes to any Director's attention, whether direct or indirect. The statutory duty to avoid situations in which the Directors have or may have interests that conflict with those of the Company has been observed by the Board in the financial year under review. All business transactions with all parties, Directors or their related parties are carried out at arm's length.

The Board has formal procedures for managing conflicts of interest in accordance with the Companies Act 2015 and the insurance Act Chapter 487, Laws of Kenya. Directors are required to give advance notice of any conflict of interest issues to the Chairman or Company Secretary and these are considered at the next Board meeting. Declaration of conflicts of interest is also a standard agenda item which is addressed at the onset of each Board meeting. Directors are excluded from the quorum and vote in respect of any matters in which they have an interest.

The Board has put in place a conflict of interest policy.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

Code of Ethics and Conduct

The Life Assurance Directors and employees are expected to act with honesty, integrity and fairness in all their dealings with one another and with stakeholders. The Board has a code of conduct to commit to and employees have HR manual that guides the conduct of employees.

Fraud Awareness & Whistle Blowing Policy

We have a whistleblowing policy that provides for an ethics hotline managed by an independent department, Through the hotline, anonymous reports on unethical/fraudulent behavior can be made without fear of retaliation from the suspected individuals. Whistleblowing statistics are reported to the Audit and Risk Committee on a quarterly basis. Staff members and business partners are also regularly sensitized on the need to report any suspected unethical business practices.

The whistleblowing policy provides a platform for employees, suppliers, dealers and agents to raise concerns regarding any suspected wrong doing and the policy details how such concerns are addressed. The whistleblowing policy has been uploaded on the Company's website.

Board Meetings

The Board meetings are aligned as per the approved Board Calendar. On the minimum, the Board meets quarterly for scheduled meetings to, amongst other things, agree on the company's objectives and strategies, review performance against agreed targets, consider and approve the annual and interim financial statements and on other occasions to deal with specific matters that require attention between scheduled meetings. The Board in fulfilling its mandate is guided by the Board Manual.

The attendance at the meetings is as detailed under table below.

Attendance at the Meeting

Below is a summary of the attendance record of the directors at the Main Board and Committee Meetings. A record of attendance is kept with the Company Secretary and also noted in the minutes of the meeting

Table 3

Directors	Board Meeting		Audit and Risk Committee Meeting		Finance and Investment Committee Meeting	
Audit and Risk	(a)	(b)	(a)	(b)	(a)	(b)
Gordon Owuor - (Chairman)	6	6	*	*	4	4
Michael Wambia	6	6	*	*	*	*
David Ngunjiri*	6	6	*	*	4	4
Dr. Rachel Monyoncho	6	6	5	5	*	*
Jyoti Patel	6	6	5	5	*	*
Julius Nyaga	*	*	*	*	4	4
Joseph Maina*	*	*	5	1	*	*
Patrick Nyaga	6	2	*	*	*	*
Jackson Kionga	6	6	*	*	*	*

Notes:
(a) Number of meetings convened during year when the director was a member.
(b) Number of Meetings attended by the Director during the financial year.
(c) * Not a Member.
(d) All the directors attended the company's Annual General Meeting held on 25th September 2020.
(e) Patrick Nyaga was appointed to the Board on 6th August 2020.
(f) Joseph Maina was appointed to the Committee on 1st December 2020.

Board Committees

The Board has delegated authority to two (2) standing Committees: Finance & Investment Committee & Audit and Risk Committee to enhance the efficiency and depth of achieving Board responsibilities.

These Committees of the Board are listed below and each has its own clearly defined Terms of Reference (TORs) indicating the purposes, goals, duties and authority of the Committee as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure, operations and it's reporting structure to the Board. The TORs are periodically reviewed to align with the best governance practices and relevant to the dynamic business environment.

Each Committee comprises a majority of non-executive directors and independent non-executive directors with relevant expertise.

In determining the composition of the Committees, the Board considers the skills and experience of its members, applicable regulations and committee mandate. Each respective Committee Chairman report to the board on the activities of the respective committee at each board meeting and submit written reports to the board which highlight matters for board attention and recommendation. The Committees mandates are reviewed annually. The Committees have mandate to invite third parties including consultants and executive management to provide opinions and expert or technical advice. The Committees meets at least quarterly or at such other times as the respective Chairman of the Committees may require. During the period under review, the Board had two (2) Committees as outlined below.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

Audit and Risk Committee

The audit committee meets at least quarterly and its main purpose is to assist the Board in discharging its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. The Committee is charged with monitoring and reviewing the adequacy and effectiveness of accounting policies, internal control systems and financial reporting processes. It provides independent oversight of the company's financial reporting, effectiveness of the internal and external audit, ensures checks and balances within the company and related institutions. The committee also monitors the reliability of the company's risk management strategy.

Audit by the external auditor provides a further level of protection of the integrity of the financial statements. The Audit Committee oversees the external audit function. This includes reviewing and approving the external audit plan and engagement, and assessing the performance of the external auditor.

Risk management and internal control is a continuous process and has been considered by the Board on a regular basis throughout the year including regular review of strategic and operational risk, and the associated controls and mitigating factors.

The Committee is chaired by an independent non-executive director. The Group Chief Executive Officer, Managing Director, Chief Internal Auditor, Risk and Compliance Manager, Finance Manager, Chief Finance Officer, Actuarial Manager and External Auditors are standing invitees to committee meetings. The Chief Internal Auditor doubles up as the secretary to the committee.

During the period under review the Members of the Committee were:

Audit and Risk Committee Members
1. Jyoti Patel - Chairperson
2. Dr. Rachael Monyoncho
3. Joseph Maina

Finance and Investment Committee

The Committee supervises the financial and investment business of the Company, and in doing so has laid down an overall investment policy statement and operational framework for the investment operations of the insurer. The policy focuses on a prudential asset liability management supported by robust internal control systems. The other duties include receiving and considering the company's annual budget and revision of the same.

The Committee assists the Board in fulfilling its responsibilities with respect to oversight of the Company's financial management and resources. The Committee evaluates specific financial strategic initiatives as requested by the Board. Members of the committee are conversant with requirements on investments as provided by the Insurance Act and any relevant regulations on investment of insurance funds.

During the period under review the Members of the Committee were:

Finance and Investment Committee
1. David Ngunjiri - Chairman
2. Julius Nyaga
3. Gordon Owuor

External Actuary

The Board has engaged the firm of Actuarial Services (East Africa) Limited (ACTSERV) for a period of three (3) years effective 1st January 2019 to prepare and submit the annual financial condition report in respect of CIC Life Assurance Business and advise on solvency margin requirements, appropriateness of premiums and surrender value, product design, risk mitigation including reinsurance and is satisfied that the partners possess the necessary expertise and experience and qualifies the “fit and proper” criteria. The contract sets out the Actuary’s operational responsibilities and advisory role in relation to the Board including rights and obligations. The Board has unlimited access to the Independent Actuary.

External Auditor

The Statutory (External) Auditors are Pricewaterhousecoopers (PWC) appointed by the shareholders for the year under review 2020 . The Statutory Auditors certified the company’s financial statements in the year 2020.

Internal Controls

The board is collectively responsible for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The system of internal control in place has defined procedures with operations and financial controls to ensure that assets are safeguarded, transactions authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. The business performance of the Company is reported regularly to the Board through performance trends, forecasts, actual performance analysis against budgets and prior periods for close monitoring.

Personal use of Company’s Assets and Loans to Directors

The Audit and Risk Committee reviewed and confirmed that during the year there has not been any improper personal use of the company’s assets by Directors. Further, at no time during the year was there any arrangement to which the company was a party, whereby Directors acquired benefits by means of transactions in the Company’s shares. There were also no loans issued to Directors’ at any time during the year.

Communication with Shareholders and Stakeholders

Life Assurance has shareholder engagement policy and remains committed to relating openly with its shareholders by enacting by providing regular as well as ad-hoc information on operating and financial performance and addressing any areas of concern. This is achieved through the following:

- Interim and annual results and publication of extracts of its financial performance in the daily newspapers, preparation of annual audited accounts and holding of the Annual General Meeting;
- Copies of the annual reports are made available to shareholders at least 21 days before the date of the AGM and they are free to raise questions to the Board during the meeting;
- Life Assurance responds to daily queries from shareholders, their representatives and financial analysts through a dedicated investor relations team;
- The website has a specific webpage dedicated to the information requirements of the shareholders and investment analysts;
- Investor briefing sessions are held immediately after the announcement of interim and full year results;

Company is committed to giving its shareholders appropriate information and facilities to enable them exercise their rights effectively. As a result, the company seeks to provide shareholders with information that is timely, of high quality and relevant to their investment, and to listen and respond to shareholder feedback. The Board recognizes the importance of maintaining transparency and accountability to its shareholders and works to ensure that all shareholders are treated equitably and their rights are protected.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

We strive to be accessible to both institutional and private investors, and proactively encourage all shareholders to participate at our Annual General Meeting (AGM). This is usually done through publication of the company's annual reports and filing of quarterly and yearly financial returns to the Insurance Regulatory Authority.

People and Policies

The Board has established and formalized various policies, processes and systems relevant to guide the business and periodically reviews the same.

Succession

Careful management of the board's succession planning is vital for the effective functioning of the board and therefore a succession plan has been put in place to guide the Board. Taking into account the company's strategy and future needs, as Directors retire, candidates with requisite attributes, skills and experience are identified to ensure that the board's competence and balance is maintained and enhanced. The Board has therefore put in place a succession policy to guide the process.

Board Diversity and Balance

The Board appreciates diversity, recognizes its role in bringing different perspectives into Board debates and offers better anticipation of the risks that are inherent in the business and the opportunities that the business pursues. The CIC Life Assurance Board has the appropriate mix of skills, knowledge and experience to perform its role effectively.

Board Access to Information

Directors have unrestricted access to management and company information, as well as the resources required to carry out their duties and responsibilities. The directors are authorized to get independent advice on matters within their scope. The board has ensured transparency and accountability in its financial reporting and general oversight of the business.

The areas of expertise of the current Board of Directors are inline with the requirements of Section 27 A of the Insurance Act Chapter 487 Laws of Kenya. The Board is comprised of Non-Executive and Independent Directors. The Independent Directors are Independent professionals who are free from any business relations or other associations.

Corporate Social Responsibility

We recognize that Corporate Social Responsibility (CSR) issues are of increasing importance to our stakeholders and are fundamental to the continued success of the business. We support the group directly in its CSR activities. We have a CIC Foundation Policy which ensures that we operate our business in a responsible manner at all times for the benefit of our customers, staff, suppliers and the wider community. We also encourage our employees to take part in CSR initiatives aimed at improving the standards of living of the communities that they come from. Our CSR activities are disclosed every year in the social impact section of our sustainability and foundation reports in the Group's Annual Report.

Sustainability

Life Assurance recognizes that their business impacts the environment around them creating an innate sense of accountability to the society at large. Sustainability takes into account a strong concern for the future. It is the company's best interest to be socially responsible and innovative because these are the foundations of sustainability.

CORPORATE GOVERNANCE REPORT *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

Going Concern

The Board confirms that the financial statements are prepared on a going concern basis and is satisfied that the Company has adequate resources to continue in business for the foreseeable future. In making this assessment, the Directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows, capital and other resources.

Directors' Remuneration Report

It is the Company's policy to fairly remunerate Directors for the role and responsibilities that they undertake for the Company. The remuneration is determined by the CIC Insurance Group Governance and Human Resource Committee based on parameters such as performance targets, Company's profitability, and return on equity as well as reference to market average rate. The remuneration is subject to approval by the shareholders at the Annual General Meeting. The Director's Remuneration Report sets out the policy that CIC Life Assurance Limited has applied to remunerate Directors. The report has been prepared in accordance with the relevant provisions and requirements of the Companies Act No.17 of 2015.

- There are formal contracts for services as Directors.
- There are no share options, long term incentives schemes, and pensions for current Directors or compensation due to past Directors.
- There are no sums paid to third parties in respect of a Director.

Shareholding

The authorized share capital of the CIC Life is currently Kenya Shillings One Billion (Kshs 1,000,000,000/=), The issued share capital of the company is currently Kshs. 800,000,000 divided into 40,000,000 shares of Kshs. 20/= each.

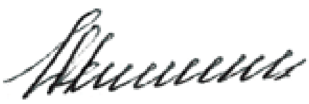
The shareholders of the company are as follows:

SHAREHOLDER	SHARES
CIC Insurance Group PLC	40,000,000

Looking Ahead

The Board continues to support good corporate governance and believes that the application of sound corporate governance principles based on ethical leadership ensures the business success and its sustainability.

Signed By Chairman on Behalf of CIC Life Assurance Board

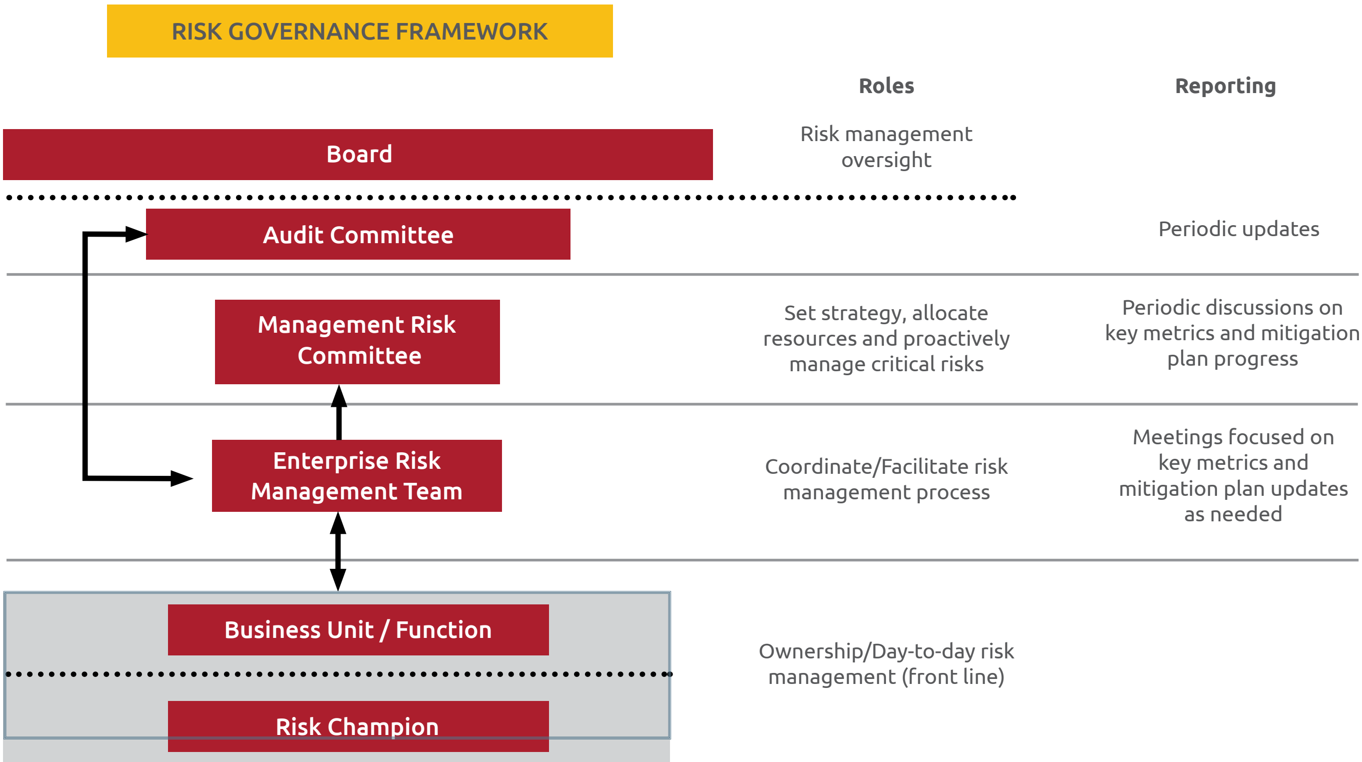


Gordon Ondiek Owuor
CHAIRMAN
Dated 9th March 2021


LIFE
We keep our word
to build your SAVINGS in a smart way

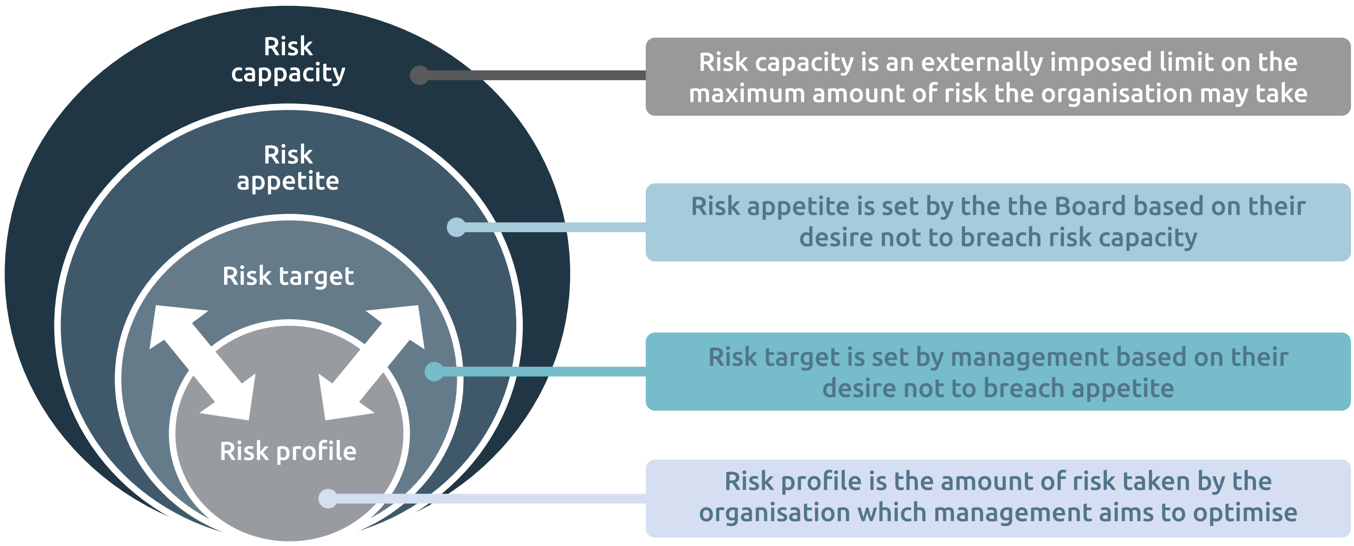
RISK GOVERNANCE FRAMEWORK
FOR THE YEAR ENDED 31 DECEMBER 2020

CIC Life Risk Governance is based on the principles of Enterprise-wide Risk Management (ERM). This approach ensures a clear Tone at the top, shared risk management responsibility and accountability, while ensuring escalation of risks from the shop floor (Risk Champions) to the board level.



Risk Governance Framework

CIC Life Risk Governance is based on the principles of Enterprise-wide Risk Management (ERM). This approach ensures a clear Tone at the top, shared risk management responsibility and accountability, while ensuring escalation of risks from the shop floor (Risk Champions) to the board level.



Business Continuity Management (BCP)

CIC Life Insurance Group has a robust Business continuity plan that covers disastrous events that is, any internal or external event that may cause unacceptable interruption in essential business processes. The primary objective of this Business Continuity Plan is to ensure the continued operation of identified critical business operations in the event of a disaster.

In 2020 we were faced with challenges around business continuity by the COVID-19 pandemic; CIC Life was able to adopt to the new operating environment and continue its operations, this was made possible by our Business Continuity Plan which created a guide of operations within a Health and Safety Disaster.

Whistle blower policy

CIC Life has a well-established whistle blower policy that provides a platform for stakeholders (Customers, staff, agents, brokers, suppliers) to raise concern regarding any suspected wrongdoing. The whistle blower platform is managed by an independent Ombudsman to ensure anonymity.

The policy has been designed to entrench risk escalation to the board ensuring that all reports are followed to conclusion. Our policy is enforced by the code of conduct and anti-fraud policy to which every staff member must attest.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors submit their report together with the audited financial statements of CIC Life Assurance Limited "the Company" for the year ended 31 December 2020.

1. INCORPORATION

The Company is domiciled in Kenya where it is incorporated as a private company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 2.

2. DIRECTORATE

The directors who held office during the year and to the date of this report are set out on page 2.

3. PRINCIPAL ACTIVITIES

The principal activity of the Company is the transaction of life insurance business including pension scheme administration

4. COMPANY RESULTS

	2020 KShs'000	2019 KShs'000
Profit/(Loss) before taxation	86,006	162,948
Taxation charge/(credit)	(25,802)	(48,884)
Profit for the year	60,204	114,064

5. RECOMMENDED DIVIDEND

Net profit for the year of Kshs 60,204,000 (2019: Kshs 114,064,000) has been added to the statutory reserve. The directors do not recommend payment of dividend for the year 2020 (2019 – Kshs Nil)

6. STATEMENT AS TO DISLOSURE TO THE COMPANY'S AUDITOR

The directors confirm that with respect to each director at the time of approval of this report:

(a). there is, so far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

(b). each director has taken all the steps that ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

7. BUSINESS REVIEW

ECONOMIC AND BUSINESS ENVIRONMENT

Based on the revised International Monetary Fund (IMF) projections, there was an economic recession of 1% due to effects of Covid-19 pandemic.

REPORT OF THE DIRECTORS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

7. BUSINESS REVIEW *(continued)*

Interest rates remained stable throughout the year with minimal volatility. The Central Bank of Kenya Rate (CBR) was lowered earlier in the year to 7% to provide some needed stimulus to the economy.

The cost of living measures slightly increased to average 5.28% in 2020 from 5.2% in 2019. This was as a result of low fuel prices experienced in the first half of the year and favourable weather conditions experienced throughout the year. There was quantitative easing in terms of tax rate reduction in 2020 which was reversed in 2021.

The currency depreciated by 7.7% to the American Dollar (USD) in 2020. This was majorly attributable to dollar demand and reduced inflows from both exports of goods & services and foreign investor outflows from Nairobi Security Exchange (NSE).

The equities market exhibited a downward trajectory with the Nairobi All Security Index (NASI) and NSE-20 losing 8.6% & 29.6% respectively in 2020. Towards the end of 2020, the market pulled back some gains on positive news of vaccine discovery.

2020 was a tough year economically due to Covid-19 restrictions which had a big effect on business. As such CIC Life Assurance Limited has registered negative results in some areas.

Gross earned Premium income decreased by 1.4% from 2019 due to decrease in Loan based products premiums driven by reduced lending by financial institutions. Expense ratio decreased from 34% to 27% driven by restructuring of remuneration models of commission based intermediaries. Claims ratio increased from 67% in 2019 to 75% in 2020 due to drop in topline and increase in claims. Deposit administration contracts grew by 18% from Kshs. 4.2 billion in 2019 to Kshs 4.9 billion in 2020.

Investment and other income decreased by 3% to Kshs 586 million in 2020 (2019: Kshs 604 million). This is attributable to the bad performance by the equities market.

The Company's profit after tax reduced from Kshs 114 million in 2019 to Kshs 60 million in the year mainly due to the increase in claims, actuarial reserves and losses in equities market. Total assets increased from Kshs 14.6 billion in 2019 to kshs 16.5 billion in 2020. Total liabilities increased from kshs 12.6 billion to kshs 14.3 billion while total equity increased from kshs 2 billion to kshs 2.1 billion.

The Company is faced with various risks in its operations such as mortality risk, morbidity risk, longevity risk, investment return risk, expense risk, policyholder decision risk, credit risk, liquidity risk, currency risk, interest rate risk, equity price risk and operational risk. For each and every risk, different mitigating factors have been put in place to reduce the impact of these risks on the performance of the Company. These risks are discussed in note 38.

GOING FORWARD

The Company will continue to enhance the core systems in line with new accounting standards as it boosts digitization of all its business processes to serve emerging digital economy to reduce the cost of operation and detect fraudulent claims. This presents enormous opportunities to grow retail businesses, meet compliance requirements and still remain profitable.

8. TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers LLP were appointed during the year and having expressed their willingness to continue in office in accordance with the provisions of section 719(2) of the Kenyan Companies Act 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the Company.

BY ORDER OF THE BOARD

SECRETARY

9 March, 2021
Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i). Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii). Selecting suitable accounting policies and then applying them consistently; and

(iii). Making judgements and accounting estimates that are reasonable in the circumstances.

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on 9th March, 2021 and signed on its behalf by:

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Director	**Director/ Principal Officer**	**Director**
Gordon Owuor	**Patrick Nyaga**	**Jyoti Patel**

REPORT OF THE CONSULTING ACTUARY
FOR THE YEAR ENDED 31 DECEMBER 2020

I have conducted an actuarial valuation of insurance business of CIC Life Assurance Limited as at 31 December 2020.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenya Insurance Act.

These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the long-term insurance business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance business did not exceed the amount of funds of the long-term insurance business at 31 December 2020.

Name of Actuary Abed Mureithi

Signed ______________________

30 March, 2021

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CIC LIFE ASSURANCE LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of CIC Life Assurance Limited (the Company) set out on pages 43 to 116 which comprise the statement of financial position at 31 December 2020, the 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 a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of CIC Life Assurance Limited at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

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

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

Key audit matters

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

Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CIC LIFE ASSURANCE LIMITED

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Valuation of policyholder liabilities and unit linked contracts Policyholder liabilities and unit linked contracts as disclosed in Notes 3o and 31 of the financial statements are of significant magnitude to the overall financial statements. There are several methods which can be adopted in the determination of these reserves which are underpinned by a series of assumptions, and which are also subject to the requirements of the Insurance Act in Kenya. Changes in these assumptions can lead to significant changes in actuarial liabilities. The methodology used can also have a material impact on the valuation of the liabilities.	Evaluated the methodology and assumptions used by comparing them against regulatory requirements, recognised actuarial practices and industry standards; Tested mathematical accuracy of the key data inputs into the estimation process; With the assistance of our actuarial specialists, we assessed the reasonableness of the actuarial assumptions and challenged management's rationale for the judgments applied; and Assessed the adequacy and appropriateness of the related disclosures in notes 30 and 31 of the financial statements.

Other information

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

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

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:

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CIC LIFE ASSURANCE LIMITED

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

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

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.

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

Report on other matters prescribed by the Companies Act, 2015

In our opinion the information given in the report of the directors on pages 34 to 36 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi.

31st March, 2021

FCPA Richard Njoroge, Practising certificate No. 1244.
Signing partner responsible for the independent audit


LIFE
We keep our word
to build your PENSION FUND

CIC LIFE ASSURANCE LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
Gross earned premiums	3(a)	4,928,862	4,997,893
Less: Reinsurance premiums ceded	3(b)	(1,046,257)	(968,313)
Net earned premiums		3,882,605	4,029,580
Investment Income	4	658,123	517,245
Other (losses)/gains	5	(69,987)	86,739
Fees and commissions earned	6(a)	303,557	305,371
Total income		4,774,298	4,938,935
Expenses			
Gross incurred claims	7(a)	(3,421,552)	(2,778,716)
Add: Reinsurance recoveries	7(b)	1,077,380	736,563
Less: Gross change in actuarial reserves	7(c)	(843,892)	(888,805)
Reinsurer's share of change in actuarial reserves	7(c)	58,658	43,169
Net benefits and claims		(3,129,406)	(2,887,789)
Commissions expenses	6(b)	(407,875)	(398,676)
Operating and other expenses	8(a)	(1,140,315)	(1,474,724)
Net increase in expected credit losses	8(b)	(628)	(4,535)
Finance cost	11(b)	(10,068)	(10,263)
Total benefits, claims and other expenses		(4,688,292)	(4,775,987)
Profit before taxation		86,006	162,948
Taxation charge	10(a)	(25,802)	(48,884)
Profit for the year		60,204	114,064
Other Comprehensive Income			
Other comprehensive income that may be reclassified to profit or loss in subsequent years			
Fair value gains on debt instruments at fair value through other comprehensive income	14(b)	32,212	63,278
Other comprehensive income for the year		32,212	63,278
Total comprehensive income for the year		92,416	177,342

CIC LIFE ASSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
ASSETS			
Property and equipment	11(a)	39,806	73,139
Right of use Assets	11(b)	47,816	63,574
Investment properties	12	2,181,875	2,181,875
Intangible assets	13	1,346	2,611
Financial assets at amortised cost - Government securities	14(a)	971,091	1,036,456
Financial assets at amortised cost - Corporate Bonds	15	107,197	120,930
Financial assets at amortised cost - Loans receivable	16(a&b)	612,597	568,159
Financial assets at amortised cost - Commercial papers	17(a)	-	25,243
Financial assets at fair value through profit or loss - investments in collective investment scheme	17(b)	753,991	679,642
Financial assets at fair value through other comprehensive income-Government securities	14(b)	6,894,258	5,537,335
Financial Assets at fair value through profit or loss-Quoted equity instruments	18	782,707	927,413
Tax recoverable	10 (c)	42,170	42,170
Receivables arising out of reinsurance arrangements	19(a)	836,139	643,003
Receivables arising out of direct insurance arrangements	19(b)	23	18,648
Reinsurers share of liabilities and reserves	33	685,971	710,408
Other receivables	20	91,593	107,054
Due from related parties	21(a)	260,520	231,111
Deposits with financial institutions	22	1,990,858	1,452,007
Cash and bank balances	35(b)	152,138	158,713
Total assets		16,452,096	14,579,491
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	800,000	800,000
Statutory reserve		1,183,824	1,123,620
Fair value reserves		49,614	17,402
Retained earnings		71,861	71,861
Total equity		2,105,299	2,012,883
LIABILITIES			
Deferred income tax	28	508,616	482,814
Deposits administration contracts	29	4,946,353	4,190,013
Actuarial value of policyholder liabilities	30	7,075,834	6,231,942
Unit linked contracts	31	523,663	514,972
Claims payable	32	757,371	597,945
Due to related party	21(b)	4,639	10,153
Other payables	34	468,762	449,608
Lease liabilities	11(b)	56,805	69,078
Payables arising from reinsurance arrangements	19(c)	4,754	20,083
Total liabilities		14,346,797	12,566,608
Total equity and liabilities		16,452,096	14,579,491

The financial statements on pages 43 to 116 were approved by the Board of Directors on 9th March 2021 and signed on its behalf by:

Director
Gordon Owuor

Director /Principal Officer
Patrick Nyaga

Director
Jyoti Patel

CIC LIFE ASSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share Capital KShs'000 (Note 24)	Statutory Reserve KShs'000 (Note 25)	Retained Earnings KShs'000 (Note 27)	Fair Value Reserve KShs'000 (Note 26)	Total KShs'000
At 1 January 2019	800,000	1,009,556	151,861	(45,876)	1,915,541
Dividend paid	-	-	(80,000)	-	(80,000)
Profit for the year	-	114,064	-	-	114,064
Other comprehensive income for the year	-	-	-	63,278	63,278
Total comprehensive income for the year	-	114,064	-	63,278	177,342
At 31 December 2019	800,000	1,123,620	71,861	17,402	2,012,883
At 1 January 2020	800,000	1,123,620	71,861	17,402	2,012,883
Profit for the year	-	60,204	-	-	60,204
Other comprehensive income for the year	-	-	-	32,212	32,212
Total comprehensive income for the year	-	60,204	-	32,212	92,416
At 31 December 2020	800,000	1,183,824	71,861	49,614	2,105,299

CIC LIFE ASSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs'000	2019 KShs'000
Cash generated from operations	35	1,232,213	1,694,332
Tax paid	10	(-)	(12,343)
Net cash generated from operating activities		1,232,213	1,681,989
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income	4	16,013	22,528
Interest from financial assets at fair value through other comprehensive income-government securities	4	383,084	283,319
Interest from financial assets at amortised cost-government securities.	4	112,718	76,088
Interest from financial assets at amortised cost-corporate bonds	4	9,845	20,850
Interest from deposits with financial institutions	4	69,710	55,922
Interest on financial assets at amortised cost-staff loan and receivables	4	40,100	27,495
Purchase of property plant and equipment	11(a)	(3,456)	(4,918)
Interest paid on lease liabilities	11(b)	(10,068)	(10,263)
Purchase of Right of use assets	11(b)	(13,101)	-
Purchase of intangible assets	13	(1,142)	-
Purchase of financial assets at amortised cost- government securities	14(a)	(317,016)	(352,270)
Purchase of financial assets through other comprehensive income - government securities	14(b)	(1,677,111)	(1,330,422)
Proceeds of maturity of financial assets at amortised- government securities	14(a)	394,249	203,678
Proceeds of sales of financial assets through other comprehensive income-government securities	14(b)	352,400	187,180
Maturity of financial assets at amortised cost-corporate bonds	15	13,726	179,647
Mortgage loans repaid	16(a)	9,047	33,508
Other loans advanced	16(b)	(256,016)	(351,067)
Other loans repayment	16(b)	202,516	196,947
Investment in financial assets at amortised cost-deposits and commercial papers	17(a)	25,243	(25,000)
Proceeds from maturity of collective investment scheme	17(b)	393,000	124,267
Purchase of financial assets at fair value through profit or loss- collective investments scheme	17(b)	(455,106)	(280,328)
Disposal of financial assets at fair value through profit or loss-equity instruments	18	151,418	170,100
Purchase of financial assets at fair value through profit or loss-equity instruments	18	(106,836)	(250,218)
Net increase in fixed deposits with financial institutions (excluding cash and cash equivalents)		(564,979)	(826,965)
Net cash used in investing activities		(1,231,762)	(1,849,922)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid	36	-	(80,000)
Payment of principal portion of lease liability	11(b)	(51,383)	(17,870)
Payment of interest portion of lease liability		(10,068)	(10,263)
Net cash used in financing activities		(61,451)	(108,133)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(61,000)	(276,066)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	35 (b)	290,479	566,545
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		229,479	290,479

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRIC) Interpretations applicable to companies reporting under IFRS and in compliance with the Kenya Companies Act, 2015. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

(a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015. The financial statements have been prepared on a historical cost basis, except otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Kshs), rounded to the nearest thousand, which is also the functional currency.

The financial statements comprise the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and notes to the financial statement. Income and expenses, excluding the components of other comprehensive income, are recognised in the profit or loss. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expenses (including reclassification adjustments) that are not recognised in the profit or loss as required or permitted by IFRS. Transactions with the owners of the Company in their capacity as owners are recognised in the statement of changes in equity.

The Company presents its statement of financial position broadly in order of liquidity from the least liquid to the most liquid.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

(b) New and amended standards and interpretations

The table below provides a summary of (i) new standards and amendments that are effective for the first time for periods commencing on or after 1 January 2020 (i.e. years ending 31 December 2020), and (ii) forthcoming requirements, being standards and amendments that will become effective on or after 1 January 2021.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(b) New and amended standards and interpretations *(continued)*

(i) New standards and amendments – applicable 1 January 2020

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2020:

Title	Key requirements	Effective Date *
Definition of Material Amendments to IAS 1 and IAS 8	The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify: (a). That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and (b). The meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39	The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.	1 January 2020
Revised Conceptual Framework for Financial Reporting	The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: increasing the prominence of stewardship in the objective of financial reporting reinstating prudence as a component of neutrality defining a reporting entity, which may be a legal entity, or a portion of an entity revising the definitions of an asset and a liability removing the probability threshold for recognition and adding guidance on derecognition adding guidance on different measurement basis, and stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.	1 January 2020

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(b) New and amended standards and interpretations *(continued)*

(i) New standards and amendments – applicable 1 January 2020 *(continued)*

Title	Key requirements	Effective Date *
Revised Conceptual Framework for Financial Reporting *(continued)*	No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.	

None of these standards had a significant impact on the Company's financial statements.

(ii) New and amended standards in issue but not yet effective in the year ended 31 December 2020

Title	Key requirements	Effective Date *
Covid-19-related Rent Concessions – Amendments to IFRS 16	As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.	1 June 2020
IFRS 17 Insurance Contracts	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: (a). discounted probability-weighted cash flows (b). an explicit risk adjustment, and (c). a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.	Originally 1 January 2021, but extended to 1 January 2023 by the IASB in March 2020

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New and amended standards and interpretations *(continued)*

Title	Key requirements	Effective Date *
IFRS 17 Insurance Contracts *(continued)*	There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The directors expect that adoption of this standard will have a significant impact on the Company.	
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	The following improvements were finalised in May 2020: (a). IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. (b). IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.	1 January 2022

** applicable to reporting periods commencing on or after the given date*

Except for IFRS 17 Insurance Contracts, the forthcoming standards above are not expected to have a significant impact on the Company's performance.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Revenue recognition

Gross premiums

Gross recurring premiums on life contracts are recognised as revenue when paid by the policyholder. For single premium business revenue is recognised on the date on which the policy is effective. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. There are no rebates offered on the premiums. The company operates four different lines of business namely: Individual life business, Group life business, Annuities business and Deposit administration.

Reinsurance premiums

Gross reinsurance premiums on life are recognised as an expense when payable or on the date on which the policy is effective. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Investment income

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the effective interest rate (EIR) method. Interest income is recognised using EIR method for all financial assets measured at amortised cost. Interest income on interest bearing financial assets measured at fair value through OCI is also recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or when appropriate, a shorter period, to the gross carrying amount of the financial asset.

Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate in net trading income and Net gains/losses on financial assets at fair value through profit or loss, respectively.

The company calculates interest income on financial assets, other than those considered credit impaired, by applying the EIR to the gross carrying amount of the asset.

Rental income is recognised on a straight-line basis over the lease term and is included as revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period that they arise. The excess of rental income on a straight-line over cash received is recognised as an operating lease liability/asset.

Net Unrealised/realised gains and losses

Gains and losses recorded in the statement of profit or loss include gains and losses arising from valuation of financial assets measured at fair value through profit or loss and investment properties.

Gains and losses arising from the disposal of investment properties and property and equipment are calculated as the difference between net disposal proceeds and the carrying amount of the asset when it is derecognised. The date of disposal of property and equipment and investment property is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Revenue recognition

Fees and commission earned

Insurance and investment contract policyholders are charged for policy administration services, investment management services. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods. Commissions earned from reinsurance premium ceded are recognised in profit or loss in the period in which they are earned.

Dividend income

Dividend income is recognised on the date when the Company's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes which is included as part of investment income.

(e) Gross incurred claims

Gross benefits and claims for life insurance contracts and for investment contracts with Discretionary participation feature (DPF) include the cost of all claims arising during the year, including: internal and external claims handling costs that are directly related to the processing and settlement of claims, and policyholders' bonuses declared on DPF contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Claims liability on long term contracts is determined through actuarial valuation which is carried out annually.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

(f) Expenses (except gross claims incurred described above)

Expenses are recognised in the profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably and is independent from transactions with equity participants. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

(i) When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognized in the profit or loss based on systematic and rational allocation procedures. This is often necessary in recognizing the equipment associated with the using up of assets such as property and equipment in such cases the expense is referred to as a depreciation or amortization. These allocation procedures are intended to recognize expenses in the accounting periods in which the economic benefits associated with these items are consumed or expired.

(ii) An expense is recognized immediately in the profit or loss when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss. Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

(h) Reinsurance ceded to reinsurance counterparties

The Company cedes insurance risk in the normal course of business for some of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

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

Ceded reinsurance arrangements do not relieve the Company of its obligations to policyholders.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the year.

(i) Taxation

Current Income tax

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act. Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Current income tax assets or liabilities are based on the amount of tax expected to be paid or recovered in respect of the taxation authorities in the future. Tax is recognised in the statement of profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised in equity in which case it is also recognised directly to equity.

Current income tax is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date. The prevailing tax rate and the amount expected to be paid are highlighted in note 10 of these financial statements.

The tax legislation provides that the income tax be calculated differently from other companies where life assurance companies should be taxed on the sum of the following;

(i) Transfer from the life fund to shareholders and policy holders (negative reserves are deductible): and

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Taxation *(continued)*

(ii) 30% of management expenses in excess of the amount allowed under the Insurance Act; and
(iii) Any other transfers.

The Company offsets current tax assets and current tax liabilities when:
- It has a legally enforceable right to set off the recognised amounts; and
- It intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The net amount of current income tax recoverable from, or payable to, the taxation authority is included on a separate line in the statement of financial position of these financial statements.

Deferred Income tax

Deferred income tax is provided on temporary differences except those arising on the initial recognition of goodwill, the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is determined using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the reporting date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The accounting of deferred tax movements is driven by the accounting treatment of the underlying transaction that lead to the temporary differences. Deferred tax relating to items recorded in profit or loss is recognised in profit or loss, while deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss in other comprehensive income or equity.

For an insurance Company the actuarial surplus in substance represents profits and losses recognised in the income statement of the life insurance business which have not been recommended for transfer for the benefit of shareholders and therefore not taxed.

Since the profits and losses were recognised from an accounting perspective, they only affect taxable profits once recommended for transfer for benefit of shareholders by an actuary. Therefore, the difference between the tax base of the actuarial surplus and the carrying amount of nil is a taxable temporary difference that gives rise to a deferred income tax liability or a tax asset in case of an actuarial loss.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Company offsets deferred tax assets and deferred tax liabilities if, and only if:
- the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either, the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Sales taxes and premium taxes

Revenues, expenses, assets, and liabilities are recognised net of the amount of sales taxes and premium taxes except:
- when the sales or premium tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable, or
- receivables and payables that are measured with the amount of sales or premium tax included.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority is included as part of other receivables or other payables in the statement of financial position.

(j) Property and equipment

Property and equipment is initially recorded at cost only when the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably and subsequently stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate only when the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Computers	4 years
Furniture, fittings and equipment	8 years

Property and equipment are reviewed for impairment as in note 1(p) whenever there are any indications of impairment identified.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use.

An item of property and equipment is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no further economic benefits are expected from its continued use or disposal.

Gains and losses on de-recognition of property and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Property and equipment *(continued)*

The residual value, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(k) Investments properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, including interest in leasehold land, is initially recognised at cost including the transaction costs.

The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. The Investment properties are stated at fair value, which has been determined based on valuations performed by Crystal Valuers Limited as at 31 December 2020.

Investment properties are derecognised when either they have been disposed off (i.e., at the date the recipient obtains control) or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to profit or loss. The date of disposal of investment property is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the company accounts for such property in accordance with the policy stated under plant and equipment to the date of change in use.

(l) Intangible assets

Intangible assets, comprising of software license costs and computer software which are acquired separately are measured on initial recognition at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the Company are recognised as intangible assets. Amortisation is calculated using straight-line method over its estimated useful life of four years.

Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, even when idle.

Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Softwares under implementation are recognised as work in progress at historical costs less any accumulated impairment loss. The cost of such softwares includes professional fees and costs directly attributable to the software. The softwares are not amortised until they are ready for the intended use.

Intangible assets have finite lives and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(l) Intangible assets *(continued)*

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

(m) Accounting for leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

Company acting as a lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value), the Company recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used. The incremental borrowing rate is the internal cost of debt determined as the risk free borrowing rate adjusted for country premium.

For leases that contain non-lease components, the Company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to re-measurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Company at the end of the lease term, the estimated useful life would not exceed the lease term.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognized in profit or loss on a straight-line basis over the lease period.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Accounting for leases *(continued)*

Leases where the Company assumes substantially all the risks and rewards incidental to ownership were classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease. The finance cost is charged to the profit and loss account in the year in which it is incurred. Property and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

The changes in leases which do not fall under the scope of Covid-19 related concessions are treated as lease modifications. Right of use assets are re-measured and gains or losses thereof recognised in the statement of profit or loss.

(n) Employee benefits

Defined contributions provident fund

The Company operates a defined contribution post-employment provident fund for eligible employees. The fund is funded by contributions from the employees and the Company. The assets of the fund are held and administered independently of the Company's assets by a different pension administrator.

Statutory pension scheme

The Company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute. The Company's contributions to the defined contribution schemes are charged to profit or loss as they fall due.

Leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

(o) Provisions

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(p) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An impairment loss is recognised for the amount by which the

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*
(p) Impairment of non-financial assets *(continued)*

asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs of disposal, an appropriate valuation model is used. The company bases its impairment calculation on detailed budgets and forecast calculations which are detailed in its five-year strategic plan. For longer periods, a long term growth rate is calculated and applied to project future cash flows after fifth year.

Impairment losses of continuing operations are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation, however, in the event of excesses over the reserve the same is recognised through profit and loss statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss to the amount of an impairment already taken to profit or loss while the remainder will be a revaluation amount through other comprehensive income.

(q) Financial liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit or loss. Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities at fair value through profit or loss which are carried at fair value.

Other liabilities are classified as financial liabilities and are carried at amortised cost. Gains and loss on financial liabilities at fair value through profit or loss are recognised in the profit or loss.

(r) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the claim payable plus directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired. This includes payables arising from reinsurance arrangements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Insurance contract liabilities

Life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the gross premium method. In accordance with the Insurance Regulatory Authority (IRA) guidelines, the liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income (for non-market linked insurance contracts this item is excluded) from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company. Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss in 'actuarial adjustments'.

Profits originated from margins of adverse deviations on run-off contracts are recognised in the profit or loss over the life of the contract, whereas losses are fully recognised in the profit or loss during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, net of related Present value interest factor (PVIF) and deferred acquisition cost (DAC) –by using an existing liability adequacy test as laid out under the Kenyan Insurance Act. The life insurance liabilities include the insurance contract liabilities, actuarial value of policy holders and reinsurance share of liabilities and reserves.

(t) Fair value measurement

The Company measures financial instruments classified as financial assets at fair value through Other comprehensive income (OCI) and financial assets at fair value through profit or loss including investment properties at fair value at each reporting date.

Fair value 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Fair value measurement *(continued)*

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Fair value of related financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are disclosed in note 40 to the financial statements.

(u) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

Date of recognition.

Financial assets and liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of other receivables and amount due from related parties, which do not contain significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments *(continued)*

Financial assets

In order for a financial asset to be classified and measured at amortised cost or at fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:
- Financial assets at amortised cost
- Financial assets at fair value through OCI
- Financial assets at fair value through profit or loss

Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; 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.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes staff loans, mortgages, policy loans, cash and cash equivalents, deposits with financial institutions, commercial papers, corporate bonds, other receivables, government securities at amortised cost and due from related parties.

Financial assets at fair value through OCI

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; 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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments *(continued)*

Business model assessment

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

The Company holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Company considers the timing, amount, and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The expected frequency, value, and timing of asset sales are important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

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

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

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company classifies government securities at fair value through other comprehensive income in this category.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company does not have any financial assets classified as equity instruments at fair value through OCI.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Company has classified quoted equity instruments, government securities and investments in collective investment scheme in this category.

Derecognition

Derecognition other than for substantial modification

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

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Derecognition due to substantial modification of terms and conditions

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

The company derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new instrument, with the difference recognised as derecognition gain or loss. When assessing whether or not to derecognise an instrument, amongst others, the Company

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments *(continued)*

Derecognition due to substantial modification of terms and conditions (continued)

considers the following factors: introduction of an equity feature, change in counterparty and if the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result into cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss.

Impairment of financial assets

Overview of ECL principles

Adoption of IFRS 9 has fundamentally changed the Company's financial assets loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Company has been recording the allowance for expected credit losses for all financial assets at amortised cost. Equity instruments are not subject to impairment under IFRS 9.

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

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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

Based on the above process, the Company groups its financial assets into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired (POCI) as described below.

Stage 1: When financial assets are purchased or originated, the Company recognises an allowance based on 12mECLs. For financial assets, interest income is calculated on the gross carrying amount.

Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Company records an allowance for LTECLs. The calculation of interest income is on the gross carrying amount of the financial asset.

Stage 3: where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Company will continue to recognise lifetime ECL, but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments *(continued)*

The calculation of ECLs

The Company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

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

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

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

The Company does not have financial guarantees, loan commitments, letters of credit and financial assets which are purchased or originated credit impaired (POCI).

When estimating the ECLs, the Company considers three scenarios (a base case, optimistic (upside) and pessimistic (downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the staff loans and mortgages will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial asset at amortised cost unless the Company has the legal right to call it earlier.

Collateral valuation

To mitigate its credit risk on financial assets, the Company seeks to use collateral, where possible. The collateral is in form of real estate or motor vehicles. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral affects the calculations of ECLs for staff loans. It is generally assessed, at a minimum, at inception and reassessed on annual basis. Collaterals such as real estate, is valued based on data provided by third parties such as real estate valuers.

Collateral repossessed

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for internal operations are transferred to their relevant asset category at the lower of the repossessed value or the carrying amount of the original secured asset. Assets for which selling is determined to be the better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Company's policy.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments *(continued)*

Collateral repossessed (continued)

In its normal course of business, the Company does not physically repossess properties or motor vehicles but engages its procurement department to auction the asset to settle the outstanding debt. Any surplus funds are returned to the obligors. As a result of this practice, the real estate properties and motor vehicles under legal repossession processes are not recorded in the balance sheet.

Write offs

Financial assets are written off either partially or in entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount Any subsequent recoveries are credited to credit loss expense. There were no write offs over the period reported in these financial statements.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include other payables and amounts due to related parties.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met.

Such designation is determined on an instrument-by-instrument basis:
- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments *(continued)*

Financial liabilities at fair value through profit or loss (continued)

Or

- The liabilities are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

The Company has designated unit linked contracts as financial liabilities

The Company has not designated any financial liability at fair value through profit or loss.

Loans and borrowings and payables

After initial recognition, payables are subsequently measured at amortised cost using the EIR method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the carrying amount on initial recognition. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Derecognition

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

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position only when there is a current and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation. During the year, there was no offsetting of financial assets and liabilities

(v) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and fixed deposits with financial institutions with original maturities of three months or less and are subject to an insignificant risk of changes in value.

(w) Dividends

Dividends on ordinary shares are charged directly to equity in the period in which they are declared and approved. Dividends for the year that are approved after the reporting date are not recognised as a liability at the reporting date.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Events after the reporting date

If the Company receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Company will assess if the

information affects the amounts that it recognises in the Company's financial statements. The Company will adjust the amounts recognised in its financial statements to reflect any adjusting events even after the reporting period and update the disclosures that relate to those conditions in the light of the new information.

For non-adjusting events after the reporting period, the Company will not change the amounts recognised in its financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

(y) Investment contracts liabilities

Investment contracts are classified between contracts with and without discretionary participation features (DPF). The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without Discretionary Participation Features (DPF) are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, the investment contract liabilities are measured at fair value through profit or loss. Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position and are not recognised as gross premium in the statement of profit or loss. Non-unitised contracts are subsequently also carried at fair value.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position as described above. Investment contracts include unit linked investments and deposit administration contracts. The Company does not have investment contracts with DPF.

(z) Discretionary Participation Features (DPF)

A DPF gives holders of these contracts the right to receive, as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. The amount or timing of the additional benefits is contractually at the discretion of the Company. Under the terms of the contracts, surpluses in the DPF funds can be distributed to policyholders and shareholders based on recommendation by the statutory Actuary. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(aa) Product classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Investment contracts are those contracts that transfer significant financial risk, but not 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 price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that meet the following conditions:

- Likely to be a significant portion of the total contractual benefits
- The amount or timing of which is contractually at the discretion of the issuer

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 issuer
- The profit or loss of the company, fund or other entity that issues the contract

(bb) Onerous contracts

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceeds the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

(cc) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes as presentation in the current year

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the assets and liabilities of the Company. Management applies judgement in determining the best estimate of future experience. Judgements are based on historical experience and management's best estimate expectations of future events, taking into account changes experienced historically. Estimates and assumptions are regularly updated to reflect actual experience. Actual experience in future financial years can be materially different from the current assumptions and judgements and could require adjustments to the carrying values of the affected assets and liabilities.

Key sources of estimation uncertainty

Valuation of insurance contract liabilities

Critical assumptions are made by the actuary in determining the present value of actuarial liabilities. The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Company bases mortality and morbidity on standard industry and Kenya's mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.
Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

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

Further disclosures on the valuation of insurance contract liabilities as well as the sensitivity analysis of key assumptions is set out on note 39 (a).

Valuation of investment contract liabilities without DPF

Fair values of unitised investment contracts are determined with reference to the assets backing the liabilities, which are based on the value of the unit-linked fund.

Fair value of non-unitised investment contracts is determined by using valuation techniques such as discounted cash flow methods. A variety of other factors are considered in these valuation techniques including time value of money, volatility, policyholder behaviour and fair value of similar instruments.

Further disclosures on the valuation of insurance contract liabilities as well as the sensitivity analysis of key assumptions is set out on note 39 (a).

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES *(continued)*

Valuation of investment property

Estimates are made in determining valuation of investments properties. The management uses experts in determination of the values to adopt. In performing the valuation, the valuers uses discounted cash flows projections which incorporates assumptions around the continued demand of the rental space, sustainability of growth in rent rates as well as makes reference to the recent sales made of similar sizes and within the similar locality. The independent valuers also uses the highest and best in use principle in determining the values of the investment properties. The changes in these assumptions could result in significant change in the carrying value of the investment property.

Management monitors the investment property market and economic conditions that may lead to significant change in values and conducts formal an independent property valuation every years and adjusts the recorded fair values accordingly for any significant change.

Impairment of financial assets

The measurement of impairment losses under IRS 9 across relevant financial assets requires judgement, in particular the estimation of the amount of timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. Other judgements applied include; determining financial condition of counter parties and forward looking information. These estimates are driven by the outcome of modelled ECL scenarios and relevant inputs used (see note 39 (b)).

Taxes

The Company is subject to income taxes in Kenya. Significant judgement is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made. The Company uses judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision is based on which approach provides better predictions of the resolution of the uncertainty. The Company assumes that the taxation authority will examine amounts reported to it and will have full knowledge of all relevant information when doing so. Where the Company concludes that it is probable that a particular tax treatment will be accepted, it determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. If the Company concludes that it is not probable that a particular tax treatment will be accepted, it uses the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The method should be based on which method provides better predictions of the resolution of the uncertainty.

IFRS 16 Leases

Estimates are made in determining the carrying values of the right-of-use asset and the lease liabilities. The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES *(continued)*

reflects what the Company 'would have to pay'. The Company estimates the IBR using observable inputs (such as market interest rates).

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term (see note 11(b)) if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

3. (a) GROSS EARNED PREMIUMS

	2020 KShs'000	2019 KShs'000
Group life	3,766,118	3,559,770
Ordinary life	1,041,646	1,139,444
Annuities	121,098	298,679
Total gross earned premium	4,928,862	4,997,893

(b) REINSURANCE PREMIUMS CEDED

	2020 KShs'000	2019 KShs'000
Group life	1,031,514	951,794
Ordinary life	14,743	16,519
	1,046,257	968,313

4. INVESTMENT INCOME

	2020 KShs'000	2019 KShs'000
Interest on financial assets at amortised cost- Government securi-ties	112,718	76,088
Interest on financial assets at amortised cost-corporate bonds	9,845	20,850
Interest on bank deposit	69,710	55,922
Interest on staff loan and receivables	40,100	27,495
Dividend income	16,013	22,528
Interest on financial assets at fair value through other comprehensive income - Government securities	383,084	283,319
Rental income from investment properties	35,082	35,157
Amortisation of financial assets at amortised cost (note 14a)	(8,429)	(4,114)
	658,123	517,245

Investment income earned on financial assets, analysed by category of asset and type of income is as follows:

(a) Interest revenue calculated using effective interest rate method

	2020 KShs'000	2019 KShs'000
Financial assets at amortised cost	223,944	176,241
Financial assets at fair value through other comprehensive income - Government Securities	383,084	283,319
	607,028	459,560

(b) Other interest and investment income

	2020 KShs'000	2019 KShs'000
Financial assets at fair value through profit or loss	16,013	22,528
Investment Income earned on non-financial assets	35,082	35,157
	51,095	57,685
Total investment income (a&b)	658,123	517,245

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

5. OTHER (LOSSES)/GAINS

	2020 KShs'000	2019 KShs'000
Fair value (loss)/gain on equity investments at fair value through profit or loss (note 18)	(100,124)	40,673
Fair value gain on financial assets at fair value through profit or loss-investments in collective investment scheme (note 17(b))	12,243	6,051
Decrease in provision for impairment on receivables arising from direct insurance arrangements (note 19(b))	2,147	30,644
Other gains	15,747	9,371
	(69,987)	86,739

Other gains relate to sundry income arising from replacement of lost policy documents and tender fees.

6. (a) FEES AND COMMISSIONS EARNED

	2020 KShs'000	2019 KShs'000
Group life commission	277,931	290,277
Ordinary life commission	8,134	3,551
Fees on pension administration	17,492	11,543
	303,557	305,371

Fees and commission earned relates to the commission received from the reinsurance premium ceded and fees on policy administration and investment management.

(b) COMMISSIONS EXPENSES

	2020 KShs'000	2019 KShs'000
Group life	291,251	262,896
Ordinary life	114,153	130,102
Annuities	2,471	5,678
	407,875	398,676

Commission expenses relates to expenses that are paid to agent and brokers.

7. CLAIMS AND POLICYHOLDERS BENEFITS EXPENSE

	2020 KShs'000	2019 KShs'000
(a). Gross incurred claims		
Group life	2,717,295	2,177,505
Ordinary life	475,070	406,944
Annuities	229,187	194,267
	3,421,552	2,778,716
(b). Reinsurance recoveries		
Group life	(1,076,043)	(736,563)
Ordinary life	(1,337)	-
	(1,077,380)	(736,563)
(c). Actuarial reserves		
Gross change in actuarial reserves (note 30)	(843,892)	(888,805)
Reinsurers share of change in actuarial reserves (note 30)	58,658	43,169
	(785,234)	(845,636)

8. (a) OPERATING AND OTHER EXPENSES

The following items have been charged in arriving at profit before taxation:

	2020 KShs'000	2019 KShs'000
Staff costs (note 9(a))	561,525	585,502
Directors' fees (note 21e)	7,628	8,382
Directors' emoluments (note 21e)	20,298	24,385
Depreciation on property and equipment (note11)	36,789	38,695
Amortisation on right of use assets (note 11(b))	28,859	23,374
Amortisation of intangible assets (note 13)	2,407	2,145
Auditors' remuneration	4,500	4,500
Premium tax	10,373	11,381
Staff welfare	96,949	100,035
Utilities	51,281	56,660
Printing and stationery	11,912	7,084
Business advertising and promotion	67,932	59,274
Professional fees	58,700	59,493
Statutory levies	32,815	18,898
Professional subscription	3,814	4,648
Software licences	74,549	57,731
Pension capitalization	-	4,263
Performance incentives	34,634	372,179
Other costs*	35,350	36,095
	1,140,315	1,474,724

**Other costs mainly relate to insurance expenses, bank charges, telephone and travel and meeting expenses.*

(b) Net Increase in expected credit losses

	2020	2019
Allowance for expected credit losses		
Related parties (note21a)	(149)	(730)
Commercial papers (note 17a)	127	(127)
Corporate bonds(note15)	7	(262)
Loans receivable (note 16a)	(15)	(2,450)
Deposits with financial institutions (note 22)	(598)	(966)
	(628)	(4,535)

9. (a) STAFF COSTS

Staff costs include the following:	2020 KShs'000	2019 KShs'000
Salaries and gratuity	514,047	539,234
Defined contribution expense	31,813	31,942
Termination benefits expense	11,058	4,790
Staff annual leave expense	4,607	9,536
	561,525	585,502
Average number of employees	173	176

10 TAXATION CHARGE

(a) Statement of profit or loss	2020 KShs'000	2019 KShs'000
Current tax at 25%	-	-
Deferred tax charge (note 28)	25,802	48,884
Taxation charge	25,802	48,884

(b) Reconciliation of taxation expense to expected tax based on accounting profit

	2020 KShs'000	2019 KShs'000
Profit before taxation	86,006	162,948
Tax calculated at a tax rate of 30%	25,802	48,884
"Transfer of statutory reserve" tax*	-	-
Taxation charge for the year	25,802	48,884
Total management expenses	1,558,887	1,895,124
Permitted management expenses	(2,135,049)	(2,104,909)
Deficit	(576,162)	(209,785)
Tax thereon	-	-

**The tax charge for the Company is derived by subjecting to tax only 25% (2019: 30%) management fees in excess of the amount allowed in Section 19 (5) of the Kenyan Income Tax Act as well as on the transfer from the statutory reserves to shareholders as per the recommendation of the statutory actuary. The tax rate of 25% on the current tax was applied but since there is no taxable income, the tax liability for 2020 is nil. The applicable tax rate during the year was 25% as per the Tax laws (amendment) bill 2020, however, effective 2021 the tax rate reverted to 30%.*

Based on the above, there are no deferred tax and current tax consequences on income earned under other comprehensive income.

Statement of financial position

(c) Tax recoverable	2020 KShs'000	2019 KShs'000
At 1 January	42,170	29,827
Current tax charge at 25%	-	-
Tax paid during the year	-	12,343
At 31 December	42,170	42,170

11 (a) PROPERTY AND EQUIPMENT

	Computers KShs'000	Furniture fittings & Equipment KShs'000	Total KShs'000
COST			
At 1 January 2019	97,150	273,266	370,416
Additions	2,708	2,210	4,918
At 31 December 2019	99,858	275,476	375,334
ACCUMULATED DEPRECIATION			
At 1 January 2019	91,104	172,396	263,500
Charge for the year	3,649	35,046	38,695
At 31 December 2019	94,753	207,442	302,195
CARRYING AMOUNT	5,105	68,034	73,139
COST			
At 1 January 2020	99,858	275,476	375,334
Additions	2,637	819	3,456
At 31December 2020	102,495	276,295	378,790
ACCUMULATED DEPRECIATION			
At 1 January 2020	94,753	207,442	302,195
Charge for the year	2,916	33,873	36,789
At 31 December 2020	97,669	241,315	338,984
CARRYING AMOUNT			
At 31December 2020	4,826	34,980	39,806

There are no property and equipment pledged as security for liabilities. There are no contractual commitments for the acquisition of property and equipment. The Company does not have property and equipment, which are fully depreciated.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

11 (b) RIGHT OF USE OF ASSETS

The Company's leases include office space. Lease payments have an escalating clause to reflect market rentals.

Information about leases for which the Company is a lessee is presented below.

		2020 KShs'000	2019 KShs'000
(i).	Right of Use assets		
	At 1 January 2020	63,574	86,948
	Additions	13,101	-
	Amortisation	(28,859)	(23,374)
	At 31 December 2020	47,816	63,574
(ii)	Lease liabilities		
	At 1 January 2020	69,078	86,948
	Additions	39,110	-
	Accretion of interest	10,068	10,263
	Payment of interest	(10,068)	(10,263)
	Payment of principal portion of lease liabilities	(51,383)	(17,870)
	At 31December 2020	56,805	69,078
	Amounts recognised in profit or loss		
	2020– Leases under IFRS 16	Ksh'000	Ksh'000
	Interest on lease liabilities	10,068	10,263
	Amortisation expense	28,859	23,374
	Amounts recognised in statement of cash flows		
	Payment of principal of lease liabilities	51,383	17,870
	Payment of interest	10,068	10,263
	Total cash outflow for leases	61,451	28,133

Lease liability maturity analysis

2019	Due within 3 months KShs '000	Due between 3 and 12 months KShs '000	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
Lease liabilities	6,973	20,586	54,179	-	81,738

2020	Due within 3 months KShs '000	Due between 3 and 12 months KShs '000	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
Lease liabilities	8,450	22,331	37,014	-	67,795

12. INVESTMENT PROPERTIES

	CIC Phase I Plaza Kshs'000	Kisaju Land Kshs'000	Kajiado Land Kshs'000	Total Kshs'000
31 December 2020	1,115,875	680,000	386,000	2,181,875
31 December 2019	1,115,875	680,000	386,000	2,181,875

There are no contractual commitments in respect of the investment properties. The rental income earned from CIC Phase I Plaza has been disclosed in note 4. The company has entered into operating lease arrangements.

CIC Phase I Plaza was revalued on 31 December 2020 by registered valuers, Crystal Valuers Limited, on the basis of open market value. Crystal Valuers Limited are industry specialists in valuing these types of investment properties and methods used are recommended by the International Valuation Standards Committee. In arriving at the value of the of the investment property, the valuer used capitalization of the rental income using the year purchase method. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Generally, a change in the assumption made for the estimated rental value is accompanied by:
i). a directionally similar change in the rent growth per annum and discount rate (and exit yield)
ii). an opposite change in the long-term vacancy rate

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable Inputs	Average 2020	Average 2019
Capitalized rent income (year purchase) method	Net annual rent	35,082,131	35,156,676
	Annual rent growth rate	2%	5%
	Discounting rate	13%	13%

Considering the physical economic parameters in the country and the trends in property markets, management is of the opinion that there will not be significant change in the inputs to the valuation method during the year.

Valuations are performed on an annual basis and the fair value gains and losses are recorded within the profit or loss. The fair valuation basis takes into account the existing use and the tenancies and also considers the normal lease structure for similar buildings. On the other hand, Kisaju and Kajiado plots are based on market value, (see note 40), that is price at which an interest in a property might reasonably be expected to be sold by a private treaty at the date of valuation assuming:

a). a willing seller;
b). a reasonable period within which to negotiate the sale by taking into account the nature of the property;
c). values will remain static throughout the period;
d). the property will be freely exposed to the market within reasonable publicity;
e). no account is taken of an individual bid by a special purchaser.

The investment properties are included in level 3 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

13. INTANGIBLE ASSETS

	2020 KShs'000	2019 KShs'000
COST		
At 1 January	109,092	109,092
Additions	1,142	-
At 31 December	110,234	109,092
ACCUMULATED AMORTISATION		
At 1 January	106,481	104,336
Amortisation charge for the year	2,407	2,145
At 31 December	108,888	106,481
CARRYING AMOUNT		
At 31 December	1,346	2,611

The intangible assets relate to costs incurred in the acquisition of software in use by the company. The cost is amortised on a straight-line basis over the estimated useful lives of four years.

14. (a) FINANCIAL ASSETS AT AMORTIZED COST-GOVERNMENT SECURITIES

	2020 KShs'000	2019 KShs'000
At 1 January	1,036,456	873,712
Additions	317,016	352,270
Maturities	(394,249)	(203,678)
Amortisation discount (note 4)	(8,429)	(4,114)
Accrued interest	20,297	18,266
Expected credit loss	-	-
At 31 December	971,091	1,036,456
Treasury bonds.		
- Within 1 year	159,381	406,443
- Between 1-2 years	10,141	-
- Between 2-5 years	145,219	140,204
- Over 5 years	656,350	489,809
At 31 December	971,091	1,036,456

Government securities at amortised cost of Kshs 811 million (2019 - Kshs 716 million) relates to treasury bonds held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Kenyan Insurance Act.

14. (b) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME-GOVERNMENT SECURITIES

	2020 KShs'000	2019 KShs'000
At 1 January	5,537,335	4,330,815
Additions	1,677,111	1,330,422
Sales	(352,400)	(187,180)
Expected credit loss	-	-
Fair value gain on debt instruments at fair value through other comprehensive income	32,212	63,278
At 31 December	6,894,258	5,537,335

Government securities worth Kshs. 50 million relates to treasury bonds held by the Central Bank of Kenya under lien to the Commissioner of Insurance in accordance with the Kenyan Insurance Act.

An analysis of changes in the gross carrying amount and corresponding ECL allowances debt instruments at fair value through OCI and at amortised cost has been disclosed in note 39(b).

15. FINANCIAL ASSETS AT AMORTISED COST-CORPORATE BONDS

	2020 KShs'000	2019 KShs'000
Chase Bank Limited	73,545	73,545
Centum Investments Company Limited	-	13,794
Family Bank Limited	10,274	10,265
Real people Limited	10,807	10,821
East African Breweries Limited	86,653	86,594
Allowance for expected credit losses	(74,082)	(74,089)
	107,197	120,930
At 1 January	120,930	300,080
Maturities	(13,726)	(179,647)
Accrued interest (principal and interest)	-	759
Allowance for expected credit losses	(7)	(262)
At 31 December	107,197	120,930
Corporate bonds securities maturing		
- Within 1 year	20,977	24,555
- Between 1-2 years	86,220	10,242
- Between 2-5 years	-	-
- Over 5 years	-	86,133
	107,197	120,930

An analysis of changes in the gross carrying amount and corresponding ECL allowances for debt instruments at amortised cost-corporate bonds has been disclosed in note 39(b).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

16. FINANCIAL ASSETS AT AMORTISED COST- LOANS RECEIVABLE

The loans and receivables refer to loans given to staff are secured by collateral. On staff resignation, the credit quality of each loan is assessed whether it is acceptable within the parameters used to measure and monitor credit risk.

(a) MORTGAGE LOANS:

	2020 KShs'000	2019 KShs'000
At 1 January	56,658	91,103
Loan repayments	(9,047)	(33,508)
Allowance for expected credit losses	69	(937)
At 31 December	47,680	56,658
Maturity profile of mortgage loans:		
In 1-5 years	832	-
In over 5 years	46,848	56,658
	47,680	56,658

(b) OTHER LOANS

	2020 KShs'000	2019 KShs'000
Staff loans	18,568	34,250
Policy loans	546,349	477,251
	564,917	511,501
Movement:		
At 1 January	511,501	358,894
Loans advanced	256,016	351,067
Loan repayments	(202,516)	(196,947)
Allowance for expected credit losses	(84)	(1,513)
At 31 December	564,917	511,501
Maturity profile of other loans:		
Within 1 year	656	1,274
In 1-5 years	551,199	486,554
In over 5 years	13,062	23,673
	564,917	511,501
Total(a & b)	612,597	568,159

An analysis of changes in the gross carrying amount and corresponding ECL allowances in loans and receivables has been disclosed in note 39(b).

The following table shows the maximum exposure to credit risk by of staff loans, the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk:

16. (b) OTHER LOANS *(continued)*

31 December 2020	Maximum exposure to credit risk Kshs'000	Fair value of collateral and credit enhancements held Property Kshs'000	Net exposure Kshs'000	ECLs Kshs'000
Mortgage loans	48,836	11,269	37,567	1,156
Other Loans	20,631	84,047	Nil	2,062
	69,467	95,316	37,567	3,218

31 December 2019	Maximum exposure to credit risk Kshs'000	Fair value of collateral and credit enhancements held Property Kshs'000	Net exposure Kshs'000	ECLs Kshs'000
Mortgage loans	57,408	11,269	46,139	1,225
Other Loans	35,950	84,047	Nil	1,978
	93,358	95,316	46,139	3,203

The property is charged on the company and it's able to sell the property in case of default. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. In its normal course of business, the company does not physically repossess properties or other assets in its portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt.

17. (a) FINANCIAL ASSETS AT AMORTISED COST-COMMERCIAL PAPERS

The commercial paper refers to instruments measured at amortised cost and issued by the corporates and attracts fixed interest rates as per the contractual agreements except for the investments in collective investment schemes which are measured at fair value through profit or loss. The investments in collective schemes lack a maturity a date and can only be withdrawn.

	2020 KShs'000	2019 KShs'000
COMMERCIAL PAPERS		
Crown Paints Kenya PLC	-	25,000
Accrued interest	-	370
	-	25,370
Maturity analysis:		
Maturing within 3 months	-	25,370
Allowance for expected credit losses	-	(127)
	-	25,245
At 1 January	25,243	-
Additions	-	25,000
Accrued interest	-	370
Disposals	25,243	-
Allowance for expected credit losses		(127)
At 31 December	-	25,243

An analysis of changes in the gross carrying amount and corresponding ECL allowances in commercial papers has been disclosed in note 39(b).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

17 (b) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-INVESTMENTS IN COLLECTIVE INVESTMENT SCHEME

	2020 KShs'000	2019 KShs'000
1 January	679,642	517,530
Additions	455,106	280,328
Maturities	(393,000)	(124,267)
Fair value gains (note 5)	12,243	6,051
	753,991	679,642

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-QUOTED EQUITY INSTRUMENTS

	2020 KShs'000	2019 KShs'000
At 1 January	927,413	806,622
Additions	106,836	250,218
Fair value (loss) / gain (note 5)	(100,124)	40,673
Disposals	(151,418)	(170,100)
At 31 December	782,707	927,413

19. (a) RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

Receivables arising out of reinsurance arrangements relate to reinsurers portion of claims incurred which had not been recovered from reinsurers as at year end.

	2020 KShs'000	2019 KShs'000
1 January	643,003	584,660
Premium ceded	(1,046,257)	(951,592)
Payment to reinsurers	1,489,133	1,275,405
Received from reinsurers	(249,740)	(265,470)
Expected credit losses	-	-
31 December	836,139	643,003
Ageing		
1-30 Days	329,715	110,815
31-60 Days	53,551	109,466
61-90 Days	220,584	65,001
91-120 Days	19,589	135,886
Over 120 Days	212,700	221,835
	836,139	643,003

19. (b) RECEIVABLES ARISING OUT OF DIRECT INSURANCE ARRANGEMENTS

Receivables arising out of direct insurance arrangements relate to premiums earned as a result of risks underwritten but whose amounts had not been received as at year-end.

	2020 KShs'000	2019 KShs'000
Gross receivables	2,149	22,921
Provision for impairment	(2,126)	(4,273)
Net receivable	23	18,648
Analysed as follows:		
From policyholders	6	1,770
From agents and brokers	17	16,878
	23	18,648
Ageing		
1-30 Days	15	4,923
31-60 Days	-	8,048
61-90 Days	2	3,876
91-120 Days	6	1,801
Over 120 Days	2,126	4,273
	2,149	22,921

Movement in provision for impairment on receivables arising out of direct insurance arrangements is as shown below:

	2020 KShs'000	2019 KShs'000
1 January	4,273	34,917
Decrease in provision for impairment (note 5)	(2,147)	(30,644)
31 December	2,126	4,273

Management increased its debt recovery efforts through the Credit Control Department during the year resulting to decrease in premium receivables.

(c) PAYABLES ARISING FROM REINSURANCE ARRANGEMENTS

Payables arising out of reinsurance arrangements relate to premiums ceded, which had not been paid to reinsurers as at the reporting date.

	2020 KShs'000	2019 KShs'000
1 January	20,083	24,126
Arising during the year	22,877	20,070
Payments during the year	(38,206)	(24,113)
31 December	4,754	20,083

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

20. OTHER RECEIVABLES

	2020 KShs'000	2019 KShs'000
Staff advances	3,571	4,387
Prepayment	3,161	942
Agents advances	3,746	5,415
Rental receivables	47,603	61,868
Rent deposits	2,131	2,131
Other receivables	31,381	17,119
Receivables from Mavuno investments fund manager	-	15,192
	91,593	107,054

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.
Other receivables consist mainly of funds receivable from pension business.

21. RELATED PARTIES

The Company is a subsidiary of CIC Insurance Group PLC, incorporated in Kenya, which owns 100% shares of the Company. The ultimate parent company is Co-operative Insurance Society Limited. CIC Asset Management Limited, CIC Life Assurance Limited and CIC General Insurance Limited are all related through common shareholding. The other related parties include senior management and directors of the Company. The provisions for expected credit losses made on related party balances during the year was Kshs 1,309,000 (2019: 1,161,000).

		2020 KShs'000	2019 KShs'000
(a)	Due from related parties		
	Opening balance	231,111	107,362
	Net movement in the year	30,719	124,910
	Allowance for expected credit losses	(1,310)	(1,161)
		260,520	231,111
	CIC Insurance Group PLC	240,944	201,867
	CIC General Insurance Limited	19,576	29,244
		260,520	231,111
(b)	Due to related parties		
	CIC Asset Management Limited	4,639	10,153
		4,639	10,153

An analysis of changes in the gross carrying amount and corresponding ECL allowances in due from related parties has been disclosed in note 39(b).

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

(i) Receipts from related parties	2020 KShs'000	2019 KShs'000
CIC Insurance Group PLC	239,104	81,583
CIC General Insurance Limited	114,517	284,203
CIC Asset Management Limited	26,014	17,305
	379,635	383,091

21. RELATED PARTIES *(continued)*

(ii) Payments to related parties	2020 KShs'000	2019 KShs'000
CIC Insurance Group PLC	278,377	176,672
CIC Asset Management Limited	31,527	28,898
CIC General Insurance Limited	104,800	248,072
	414,704	453,642

**In helping to reduce the administration burden there will be situations where one entity will pay expenses such as salaries for shared services, rent for branches, management fees, or receive premiums on behalf of its sister entities or subsidiaries. These transactions therefore relate to the receipts to and payments from related parties to reimburse the entity paying on behalf of the others or allocating the premiums received by the entity on behalf of the others.*

(c) Loans to directors of the Company

The Company did not advance any loan to its directors (2019: Nil).

(d) Investment property

The Company has leased out land to CIC General Insurance Limited on which it has erected a building on. The Company has leased some office space from the building belonging to CIC General Insurance Limited.

(e) Key management personnel remuneration

The remuneration of directors and other members of key management during the year were as follows:

Short-term employment benefits:	2020 KShs'000	2019 KShs'000
Directors 'emoluments – fees	7,628	8,382
Others		
Sitting allowances	18,032	11,012
Travel and subsistence	-	6,370
Insurance	630	286
Honoraria	-	4,005
Retreats and training	947	2,712
Christmas token	689	-
	20,298	24,385
Key management		
Salaries	73,943	72,023
Gratuity	13,888	13,888
Staff annual leave allowance	1,044	975
National Social Security Fund (NSSF)	24	26
Pension contribution	5,013	4,503
Total short term employment benefits	121,838	124,182

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

22. DEPOSITS WITH FINANCIAL INSTITUTIONS

	2020 KShs'000	2019 KShs'000
The Co-operative Bank of Kenya Limited	402,461	443,415
Family Bank Limited	172,419	134,262
Credit Bank Limited	80,271	55,180
Gulf African Bank Limited	-	166,760
KCB Bank Kenya Limited*	325,851	297,641
Development Bank of Kenya Limited	86,089	-
Equity Bank Limited	250,525	66,709
Victoria Commercial Bank Limited	8,489	8,128
Imperial Bank Limited	23,366	23,444
UBA Kenya Bank Limited	157,596	134,152
NCBA Bank	349,295	127,023
Middle East Bank	-	21,582
Investments and Mortgages Bank	86,937	-
Kingdom Bank	40,893	-
Sidian Bank	33,553	-
	2,017,745	1,478,296
Allowance for expected credit losses	(26,887)	(26,289)
Net deposits	1,990,858	1,452,007
Maturing within 3 months	77,341	131,766
Maturing between 3-6 months	661,217	1,204,277
Maturing after 6 months	1,252,300	115,964
	1,990,858	1,452,007

**This relates to staff loan collateral deposits held at KCB Bank Kenya Limited which are not available for use in the Company's day to day operations.*

Deposits maturing after three months are assessed from the placement date.

An analysis of changes in the gross carrying amount and corresponding ECL allowances in deposits with /financial institutions has been disclosed in note 39(b). The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

	2020 KShs'000	2019 KShs'000
1 January	1,320,241	503,374
(Increase)/decrease in allowance for expected credit losses	(598)	(966)
Net investment in fixed deposits	671,215	817,833
31 December	1,990,858	1,320,241

23. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

The table below summarises the weighted average effective interest rates realised during the year on the principal interest-bearing investments.

	2020 %	2019 %
Government securities	12.30	12.80
Corporate bonds	11.00	12.85
Staff loans	6.00	6.00
Policy loans	8.00	8.00
Deposits with financial institutions	9.00	10.00
Other deposits and commercial papers	12.00	12.75

24. SHARE CAPITAL

	31 December 2020		31 December 2019	
Authorised ordinary shares of Kshs 20 each:	Number of shares '000	Share Capital '000	Number of shares '000	Share Capital '000
At 1 January	50,000	1,000,000	50,000	1,000,000
At 31 December	50,000	1,000,000	50,000	1,000,000
Issued and fully paid up share capital:				
At 1 January	40,000	800,000	40,000	800,000
At 31 December	40,000	800,000	40,000	800,000

25. STATUTORY RESERVE

a) The statutory reserve represents the surplus on the life assurance business which is not distributable as dividends as per the requirements of the Kenyan Insurance Act.

b) Transfer from statutory reserve relates to the proportion of the life assurance business surplus which is distributable as dividends and therefore transferred to retained earnings.

26. FAIR VALUE RESERVE

The fair reserve represents fair value losses arising from debt instruments at fair value through other comprehensive income and is not distributable as dividends.

27. RETAINED EARNINGS

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the Company.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

28. DEFERRED INCOME TAX**

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30%.

2020	At 1 January	Recognised in Profit or loss	At 31 December
Deferred tax on life fund surplus	(482,814)	(25,802)	(508,616)
Deferred tax liability	(482,814)	(25,802)	(508,616)
2019			
Deferred tax on life fund surplus	(433,930)	(48,884)	(482,814)
Deferred tax liability	(433,930)	(48,884)	(482,814)

*** There is no deferred tax on temporary differences arising from property and equipment and also arising from the investment property because life insurance companies are taxed differently (refer to note 10) where deferred tax is only calculated on the life fund surplus that is not transferred to retained earnings for distribution at any point in time.*

29. DEPOSIT ADMINISTRATION CONTRACTS

The Company administers the funds of a number of retirement benefit schemes. The liability of the Company to the scheme(s) is measured at fair value through profit or loss and is included in the statement of financial position. Deposits, withdrawals and investments returns are recorded directly as an adjustment to the asset and liability in the statement of financial position and are not recognised as gross premium and investments income in the statement of profit or loss. Assets under the deposit administration contracts are registered in the name of the administrator and have therefore been accounted as financial instruments in the statement of financial position.

Analysis of movement in deposit administration contract liabilities:

	2020 KShs.'000	2019 KShs.'000
Pension contributions	980,107	1,074,234
Investment income	350,845	417,614
Total income for the year	1,330,952	1,491,848
Policy benefits (net)	(507,401)	(374,690)
Administrative expenses	(67,211)	(51,261)
Total outflow	(574,612)	(425,951)
Net movement for the year	756,340	1,065,897
Balance at beginning of the year	4,190,013	3,124,116
Net fund value	4,946,353	4,190,013

30. ACTUARIAL VALUE OF POLICYHOLDER LIABILITIES

The actuarial valuation of the life fund was carried out by The Actuarial Services Company Limited, Actuaries and Consultants, as at 31 December 2020 and revealed actuarial liabilities of Kshs 7,075,834,000 (2019: Kshs 6,231,942,000). No transfer in the year 2020 (2019: Nil) has been made to retained earnings based on the recommendation of the actuary.

	Ordinary Life KShs'000	Group Life KShs'000	Total Gross KShs'000	Reinsurance (note 33) KShs'000	Net KShs'000
As at 1 January 2019	2,860,983	2,482,154	5,343,137	(488,021)	4,855,116
Actuarial Adjustments (note 7(c)	663,274	225,531	888,805	(43,169)	845,636
As at 31 December 2019	3,524,257	2,707,685	6,231,942	(531,190)	5,700,752
As at 1 January 2020	3,524,257	2,707,685	6,231,942	(531,190)	5,700,752
Actuarial Adjustments (note 7(c)	580,807	263,085	843,892	(58,658)	785,234
As at 30 December 2020	4,105,064	2,970,770	7,075,834	(589,848)	6,485,986

31. UNIT LINKED CONTRACTS

Unit linked contracts are designated as contracts at fair value through profit or loss. The benefits offered under these contracts are based on the return of a portfolio of equities and debt securities. The maturity value of the financial liabilities is determined by the fair value of the linked assets. There will be no difference between the carrying amount and the maturity amount at maturity date.

	2020 KShs'000	2019 KShs'000
At 1 January	514,972	474,554
Contributions received	19,210	17,790
Surrenders	(1,648)	(506)
Maturities	(17,233)	(14,686)
Far value gain	8,362	37,820
Net fund value	523,663	514,972

32. CLAIMS PAYABLE

	2020 KShs'000	2019 KShs'000
Claims reported and claims handling expenses:		
At 1 January	418,727	370,411
Claims incurred in the year (Note 7(a))	3,421,552	2,778,715
Payments for claims and claims handling expenses	(3,179,031)	(2,778,715)
At 31 December	661,248	418,727
Comprising:		
Gross amounts	757,371	597,945
Reinsurers share (note 33)	(96,123)	(179,218)
Net claims payable	661,248	418,727

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

33. REINSURERS SHARE OF INSURANCE LIABILITIES AND RESERVES

	2020 KShs'000	2019 KShs'000
Claims Payable	96,123	179,218
Actuarial value of policyholder liabilities	589,848	531,190
	685,971	710,408

Amounts due from reinsurers in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position.

34. OTHER PAYABLES

	2020 KShs'000	2019 KShs'000
Sundry payables	334,791	348,855
Premiums received in advance	112,257	76,952
Staff annual leave pay provision	11,979	14,802
Rent deposits	9,735	8,999
	468,762	449,608

The carrying amounts disclosed above reasonably approximate fair values at the reporting date.

35. NOTES TO THE STATEMENT OF CASHFLOWS

CASH FLOWS FROM OPERATING ACTIVITIES

(a) Reconciliation of profit before tax to cash generated from operations:

	Note	2020 KShs'000	2019 KShs'000
Profit before taxation		86,006	162,948
Adjustments for:			
Amortisation of financial assets at amortised cost-government securities	4	8,429	4,114
Dividend Income	4	(16,013)	(22,528)
Interest on financial assets at fair value through other compre-hensive income-government securities	4	(383,084)	(283,319)
Interest on financial assets at amortised cost-government securi-ties	4	(112,718)	(76,088)
Interest from financial assets at amortised cost-corporate bonds interest	4	(9,845)	(20,850)
Bank deposit interest	4	(69,710)	(55,922)
Interest Income on loans and receivables	4	(40,100)	(27,495)
Fair value loss/(gain) on equity instruments at fair value through profit or loss	5	100,124	(40,673)
Fair value (loss)/gain on Financial assets at FVPL- Collective in-vestment scheme	5	(12,243)	(6,051)
Depreciation on property and equipment	11(a)	36,789	38,695
Depreciation of right of use	11(b)	28,859	23,374
Interest on lease liabilities	11(b)	10,068	10,263
Amortisation of intangible assets	13	2,407	2,145
Allowance for expected credit losses- corporate bonds	15	(7)	262
Allowance for expected credit losses –mortgage	16(a)	(69)	750
Allowance for expected credit losses -other loans	16(b)	84	1,700
Increase in expected credit loss allowance Deposits & commer-cial papers	17(a)	-	127
Increase in allowance for expected credit losses – deposits with financial institutions	22(b)	598	966
Working capital changes;			
Increase in insurance contract liabilities		159,426	136,710
Decrease/ (increase) in receivables arising out of direct insurance arrangements		18,625	213,512
(Increase)/decrease in reinsurers share of liabilities and reserves		24,437	(131,563)
Increase in receivables arising out of reinsurance arrangements		(193,136)	(58,343)
(Increase)/ Decrease in other receivables		15,461	(25,909)
Decrease in other payables		19,154	(1,488)
Increase in actuarial value of policyholders' liabilities		843,892	888,805
Increase/ (decrease) in unit linked contracts		8,691	40,418
Increase in deposit administration contracts		756,340	1,065,897
(Decrease) /increase in payables arising from reinsurance ar-rangements and insurance bodies		(15,329)	(4,043)
Movement in related party balances		(34,923)	(142,082)
Cash generated from operations		1,232,213	1,694,332

(b) Cash and cash equivalents

	Note	2020 KShs'000	2019 KShs'000
Cash and Bank balances		152,138	158,713
Deposits with banks maturing within 3 months	22	77,341	131,766
		229,479	290,479

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

36. DIVIDENDS

The Board does not recommend for payment of dividends in the year 2020 (2019: Nil) to its shareholders

37. Contingencies and commitments

(a) Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

(b) Commitments

Capital expenditure committed but not contracted for at the end of the reporting period but not recognised in the financial statements is as follows:

	2020 KShs'000	2019 KShs'000
Committed but not contracted for	131,440	107,209

38. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organizational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, company policy framework, which sets out the risk profiles for the Company, risk management, control and business conduct standards for the Company's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Company.

The board of directors approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

For example, following the regulatory changes brought about by the Kenyan Insurance Regulatory Authority (IRA), which came into effect on 1 January 2016, the Company has placed a greater emphasis on the assessment and documentation of risks and controls, including the development and articulation of 'risk appetite'.

(b) Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

38. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Capital management objectives, policies and approach *(continued)*

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and shareholders
- To retain financial flexibility by maintaining strong liquidity
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value

The operations of the Company are subject to regulatory requirements within the Kenyan jurisdiction in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseeable liabilities as they arise. The Company has met all of these requirements throughout the financial year. In reporting financial strength, capital and solvency are measured using the rules prescribed by the Insurance Regulatory Authority (IRA). These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

The Company's capital management policy for its insurance and non–insurance business is to hold sufficient capital to cover the statutory requirements based on the Insurance Regulatory Authority (IRA) directives, including any additional amounts required by the Kenyan regulator.

Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics. An important aspect of the Company's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The primary source of capital used by the Company is total equity. The Company also utilises, where it is efficient to do so, sources of capital such as reinsurance, in addition to more traditional sources of funding.

The capital requirements are routinely forecast on yearly basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

The Company has developed an Individual Capital Assessment (ICA) framework to identify the risks and quantify their impact on the economic capital. The ICA estimates how much capital is required to reduce the risk of insolvency to a remote degree of probability. The ICA has also been considered in assessing the capital requirement.

The Company has made no significant changes, from previous years, to its policies and processes for its capital structure.

38. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Capital management objectives, policies and approach *(continued)*

The constitution of capital managed by the Company is as shown below:

	2020 KShs'000	2019 KShs'000
Share capital	800,000	800,000
Statutory reserve	1,183,824	1,123,620
Fair value deficit	49,614	17,402
Retained earnings	71,861	71,861
Equity	2,105,299	2,012,883

The Company had no external financing at 31 December.

The Company is also subject to insurance solvency regulations and has complied with all the solvency regulations as required by IRA. As at 31 December 2020, the capital adequacy ratio was 159% (2019:152%), which was below the prescribed capital requirement limits of 200% but above minimum capital requirement of 100%.

There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseeable liabilities arising from economic shocks or natural disasters.

The operations of the Company are subject to regulatory requirements within the Kenyan jurisdictions in which it operates (see b. Capital management objectives, policies and approach).

(d) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk. The Company manages these positions within an ALM framework that has been developed to achieve long–term investment returns in excess of its obligations under insurance contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Company's ALM is:

- Integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance liabilities
- As an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

39. INSURANCE AND FINANCIAL RISK

(a) Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. The majority of proportional reinsurance is quota–share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non–proportional reinsurance is primarily excess–of–loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess–of–loss reinsurance vary by product line.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

Life insurance contracts

Life insurance contracts offered by the Company include: whole life and term assurance.

Whole life and term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability. Few contracts have a surrender value. This includes group life and ordinary life premiums.

Pensions are contracts where retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the value of the fund accumulated or premiums. Most contracts give the policyholder the option at retirement to take a cash sum at guaranteed conversion rates allowing the policyholders the option of taking the more valuable of the two. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. This includes the deposit administration contracts.

Guaranteed annuities are single premium products which pay a specified payment to the policyholder whilst they and/or their spouse are still alive. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period, usually of five years, irrespective of death.

Death benefits of endowment products are subject to a guaranteed minimum amount. The maturity value usually depends on the investment performance of the underlying assets. For contracts with DPF the guaranteed minimum may be increased by the addition of bonuses. These are set at a level that takes account of expected market fluctuations, such that the cost of the guarantee is generally met by the investment performance of the assets backing the liability. However, in circumstances where there has been a significant fall in investment markets, the guaranteed maturity benefits may exceed investment performance and these guarantees become valuable to the policyholder. This includes insurance contract liabilities with DPF.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(a) Insurance risk *(continued)*

Life insurance contracts *(continued)*

The main risks that the Company is exposed to are as follows:

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

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured or by industry.

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

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Company wide reinsurance limits of Kshs. 3,000,000 on any single life insured are in place.

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For contracts with DPF, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party. For contracts without DPF, the Company charges for death and disability risks on a yearly basis. Under these contracts the Company has the right to alter these charges to take account of death and disability experience, thereby mitigating the risks to the Company.

The insurance risk described above is also affected by the contract holder's right to pay reduced premiums or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behavior.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(a) Insurance risk *(continued)*

Life insurance contracts *(continued)*

The following tables show the concentration of life insurance contract liabilities and investment contract liabilities with DPF by type of contract.

31 December 2020

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF KShs'000	Investment contract liabilities KShs'000	Insurance contract liabilities without DPF KShs'000	Total Insurance and investment contract liabilities KShs'000	Insurance liabilities without DPF KShs'000	Net liabilities KShs'000
Group life	-	-	274,753	274,753	66,908	207,845
Group credit	-	-	2,696,018	2,696,018	522,940	2,173,078
Endowment	2,187,987	-	-	2,187,987	-	2,187,987
Term assurance	-	-	47	47	-	47
Annuities	-	-	1,917,029	1,917,029	-	1,917,029
Total insurance liabili-ties (Note 30)	2,187,987	-	4,887,847	7,075,834	589,848	6,485,986
Unit linked (note 31)	-	523,663	-	523,663	-	523,663
Total	2,187,987	523,663	4,887,847	7,599,497	589,848	7,009,649

**The Insurance contract liabilities with DPF features are not reinsured.*

31 December 2019*

	Gross				Reinsurance*	
	Insurance contract liabilities With DPF KShs'000	Investment contract liabilities KShs'000	Insurance contract liabilities without DPF KShs'000	Total Insurance and investment contract liabilities KShs'000	Insurance liabilities without DPF KShs'000	Net liabilities KShs'000
Group life	-	-	242,096	242,096	51,734	190,362
Group credit	-	-	2,465,588	2,465,588	479,456	1,986,132
Endowment	1,673,519	-	-	1,673,519	-	1,673,519
Term assurance	-	-	8	8	-	8
Annuities	-	-	1,850,731	1,850,731	-	1,850,731
Total insurance liabili-ties (Note 30)	1,673,519	-	4,558,423	6,231,942	531,190	5,700,752
Unit linked (note 31)	-	514,972	-	514,972	-	514,972
Total	1,673,519	514,972	4,558,423	6,746,914	531,190	6,215,724

39. INSURANCE AND FINANCIAL RISK *(continued)*

a. Insurance risk *(continued)*

Life insurance contracts (continued)

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are, as follows:

Mortality and morbidity rates

Assumptions are based on standard industry and national tables, according to the type of contract written. They reflect recent historical experience and are adjusted when appropriate to reflect the Company's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.

Longevity

Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Company's own risk experience. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in longevity rates will lead to an increase in the number of annuity payments to be made, which will increase the expenditure and reduce profits for the shareholders.

Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long–term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to an increase in profits for the shareholders.

Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure, thereby reducing profits for the shareholders.

Lapse and surrender rates

Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Company's experience and vary by product type, policy duration and sales trends.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(a) Insurance risk *(continued)*
Life insurance contracts (continued)

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

The assumptions that have the greatest effect on the statement of financial position and statement of profit or loss of the Company are listed below:

	Mortality and Morbidity rates		Lapse and surrender rates				Discount rates/Investment return	
	2020	2019	2020			2019	2020	2019
			YR1 LAPSE	YR2 LAPSE	YR3 LAPSE			
Insurance contracts Annuities*	KE 2007 – 2010 Tables for Assured Lives	KE 2007 – 2010 Tables for Assured Lives	-	-	15%	13.2%	13.2%	13.0%
Life assurance*	KE 2007 – 2010 Tables for Assured Lives	KE 2007 – 2010 Tables for Assured Lives	15%	10%	5%	Yield Curve	Yield curve	Yield curve

Assumptions

- *Valuation age is taken as the number of complete years of age "curtate age" at the date of valuation. The period of valuation has been taken as the original term to maturity less curtate duration at the valuation date*

**The Annuities and life assurance balances are included in the actuarial value of policyholder's liabilities.*

Sensitivities

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(a) Insurance risk *(continued)*
Life insurance contracts *(continued)*

It should be noted that movements in these assumptions are non–linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reason for the asymmetry of sensitivities. The method used for deriving sensitivity information and significant assumptions made did not change from the previous period.

	31 Dec 2020		31 Dec 2019	
	KShs '000	% change	KShs '000	% change
Main basis	6,162,150	-	5,398,183	-
Expenses plus 10%	6,199,134	0.60%	5,433,298	0.65%
Mortality and other claims				
Mortality plus 10%	6,169,984	0.13%	5,406,118	0.15%
Discount rate less 20%	6,439,646	4.50%	5,654,505	4.75%
Withdrawals plus 25%	6,163,672	0.02%	5,401,379	0.06%

(b) Financial risks

1. *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- A Company credit risk policy which sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each counterparty or Company of counterparties, geographical and industry segment (i.e., limits are set for investments and cash deposits, and minimum credit ratings for investments that may be held).
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The credit risk in respect of customer balances incurred on non–payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The Company issues unit–linked investment policies in a number of its operations. In the unit–linked business, the policyholder bears the investment risk on the assets held in the unit–linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no credit risk on unit–linked financial assets.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. *Credit risk (continued)*

The Company's internal rating process

The Company's investment team prepares internal ratings for financial instruments (Financial assets at amortised cost- Government securities, Financial Assets at amortised cost- Corporate Bonds, Financial Assets at amortised cost-Loan and Receivables, Financial Assets at amortised cost-Commercial Papers, Due from related party, Deposits with financial institutions, and Cash and bank balances) in which counterparties are rated using internal grades. The ratings are determined incorporating both qualitative and quantitative information from Standards and Poors (S&P), ratings supplemented with information specific to the counterparty and other external information that could affect the counterparty's behavior. These information sources are first used to determine whether an instrument has had a significant increase in credit risk.

The Company's internal credit rating grades for the above assets with exception of staff loans is as described below.

Internal rating grade	Internal rating description	Standard and Poors (S&P)rating
0	High grade	AAA
1	High grade	A-
2	Standard grade	BBB+
3	Sub-standard grade	BB+
4	Past due but not impaired	CCC+
5	Individually impaired	D

For staff loans, the credit rating is based on whether or not the staff is still in employment. The loan is given a 'high grade' rating if the staff is still in employment, and a 'past due but not impaired' rating in instances where the staff is no longer employed with the company.

Significant increase in credit risk, default and cure

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or portfolio of instruments (Financial assets at amortised cost- Government securities, Financial Assets at amortised cost- Corporate Bonds, Financial Assets at amortised cost -Loan and Receivables, Due from related party, Deposits with financial institutions, Other receivables and Cash and bank balances) is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

The Company considers that there has been a significant increase in credit risk when any contractual payments are more than 30 days past due. In addition, the Company also considers a variety of instances that may indicate unlikeness to pay by assessing whether there has been a significant increase in credit risk.

Such events include:

- Internal rating of the counterparty indicating default or near default
- The counterparty having past due liabilities to public creditors or employees
- The counterparty filing for bankruptcy application
- Counterparty's listed debt or equity suspended at the primary exchange because of rumors or facts of financial difficulties.

The Company considers a financial instrument defaulted and, therefore, credit impaired for ECL calculations in all cases when the counterparty becomes 90 days past due on its contractual payments. The Company may also consider an instrument to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full. In such cases, the Company recognises a lifetime ECL.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

1. *Credit risk* *(continued)*

Significant increase in credit risk, default and cure (continued)

In rare cases when an instrument identified as defaulted, it is the Company's policy to consider the financial instrument as "cured" and therefore re-classified out of credit-impaired when none of the default criteria have been present for at least twelve consecutive months.

Collaterals and other credit enhancements

The amount and type of collateral required depends on assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each collateral, which applies only to staff loan advances. The main type of collaterals are as follows:

- For mortgages, legal charge over property to the extent of loan advanced.
- For car loans, the value of the motor vehicle.

Management monitors the market value of the collateral and may request additional collateral in accordance with underlying agreement.

The Company does not physically reposes properties but engages its legal department in collaboration with external agents to recover funds to settle outstanding debt. As a result of this practice, the properties or motor vehicles are not recorded in the balance sheet and not treated as non-current asset held for sale.

The fair values of the collaterals equals to the outstanding loan balances at the end of each financial reporting period since the Company is only interested in recovering the loan balance.

Impairment losses on financial investments subject to impairment assessment.

Debt instruments measured at FVOCI

Government securities at FVOCI

The table below shows the fair values of the Company's debt instruments at FVOCI by credit risk, based on the Company's internal credit rating system.

In 2020, all the financial assets were classified as stage 1 and there is no difference between stages

	2020 KShs'000	2019 KShs'000
Stage 1	6,894,258	5,537,335
Stage 2	-	-
Stage 3	-	-
Total Gross	6,894,258	5,537,335
Less: Loss Allowance*	-	-
Net carrying amount	**6,894,258**	**5,537,335**

**Management assessed that there is low credit risk on these financial instruments as they are sovereign debts and there has been no history of default from the Government of Kenya.*

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*
1. Credit risk *(continued)*

Corporate bonds

The table below shows the credit quality and maximum exposure to credit risk based on the Company's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances.

	2020 KShs'000	2019 KShs'000
Stage 1	107,741	121,474
Stage 2	-	-
Stage 3	73,545	73,545
Total other receivables	181,286	195,019
Less: Loss Allowance	(74,089)	(74,089)
Net carrying amount	**107,197**	**120,930**

Loans receivable at amortised cost

	2020 KShs'000	2019 KShs'000
Stage 1	615,815	571,362
Stage 2	-	-
Stage 3	-	-
Total other receivables	615,815	571,362
Less: Loss Allowance	(3,218)	(3,203)
Net carrying amount	**612,597**	**568,159**

Deposits with financial institutions

	2020 KShs'000	2019 KShs'000
Stage 1	1,994,379	1,454,852
Stage 2	-	-
Stage 3	23,366	23,444
Total other receivables	2,017,745	1,478,296
Less: Loss Allowance	(26,887)	(26,289)
Net carrying amount	**1,990,858**	**1,452,007**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

39. INSURANCE AND FINANCIAL RISK *(continued)*
(b) Financial risks *(continued)*

1. Credit risk *(continued)*
Corporate bonds *(continued)*

Related party receivables

	2020 KShs'000	2019 KShs'000
Stage 1	261,830	232,272
Stage 2	-	-
Stage 3	-	-
Total gross	261,830	232,272
Less: Loss Allowance	(1,310)	(1,161)
Net carrying amount	**260,520**	**231,111**

Debt instruments at amortised cost-government securities.

	2020 KShs'000	2019 KShs'000
Stage 1	971,091	1,036,456
Stage 2	-	-
Stage 3	-	-
Total gross	971,091	1,036,456
Less: Loss Allowance	-	-
Net carrying amount	**971,091**	**1,036,456**

Reconciliation of Loss Allowance Accounts

	At 1 December 2020 KShs'000	(Increase)/ decrease in loss allowance in the year KShs'000	At 31 December 2019 KShs'000
Government securities at FVOCI	-	-	-
Corporate bonds	(74,082)	7	(74,089)
Loans receivable	(3,218)	(15)	(3,203)
Deposits with financial institutions	(26,887)	(598)	(26,289)
Due from related parties	(1,310)	(149)	(1,161)
Commercial papers	-	127	(127)
Government securities at amortised cost	-	-	-
	(105,497)	(628)	(104,869)

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*
1. Credit risk *(continued)*

Age analysis of financial assets past due but not impaired

31 December 2020	< 30 days Kshs '000	31 to 60 days Kshs '000	61 to 90 days Kshs '000	Over 90 days Kshs '000	Total past–due but not impaired Kshs '000
Receivables arising out of reinsurance arrangements	329,715	53,551	220,584	232,289	836,139
Receivables arising out of direct insurance arrangements	15	-	2	6	23
Total	329,730	53,551	220,586	232,295	836,162

31 December 2019	< 30 days Kshs '000	31 to 60 days Kshs '000	61 to 90 days Kshs '000	Over 90 days Kshs '000	Total past–due but not impaired Kshs '000
Receivables arising out of reinsurance arrangements	110,815	109,466	65,001	357,721	643,003
Receivables arising out of direct insurance arrangements	4,923	8,048	3,876	1,801	18,648
Staff loans	-	-	-	1,347	1,347
Total	115,738	117,514	68,877	360,869	662,998

Collateral

Except for staff loans, no collateral is held in respect of the receivables that are past due but not impaired.

2. Liquidity risk

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

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A Company liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.
- Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- The Company's catastrophe excess–of–loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

Maturity profiles

The following table summarises the maturity profile of the financial assets, financial liabilities and insurance contract liabilities of the Company based on remaining undiscounted contractual obligations, including interest payable and receivable.

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums have been excluded from the analysis as they are not contractual obligations. Unit-linked liabilities are repayable or transferable on demand and are included in the up-to-a-year column. Repayments which are subject to notice are treated as if notice were to be given immediately.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseeable interruption of cash flow.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

2. Liquidity risk *(continued)*

The table below provides expected maturity analysis:

31 December 2020	6 months or on Demand	Between 6 months and 1 year	Between 1-2 years	Between 2-5 years	More than 5 years	Total
Government securities at amortized cost	-	-	12,315	186,961	1,368,264	1,567,540
Corporate bonds	21,031	-	98,270	-	-	119,301
Staff mortgages and other loans	266	411	431	552,309	127,190	680,607
Government securities at fair value through other comprehensive income	5,268	-	217,042	1,023,121	14,660,477	15,905,908
Equity investments at fair value through profit or loss	782,707	-	-	-	-	782,707
Receivables arising out of reinsurance arrangements	836,139	-	-	-	-	836,139
Receivables arising out of direct insurance arrangements	23	-	-	-	-	23
Due from related party	260,520	-	-	-	-	260,520
Deposits with financial institutions	1,124,601	949,121	-	-	-	2,073,722
Cash and bank balances	152,138	-	-	-	-	152,138
Total Financial Assets	3,182,693	949,532	328,058	1,762,391	16,155,931	22,378,605
Deposits administration contracts	1,109,969	458,437	165,317	482,164	2,730,466	4,946,353
Unit linked contract	-	523,663	-	-	-	523,663
Insurance contract liabilities	757,371	-	-	-	-	757,371
Due to related party	4,639	-	-	-	-	4,639
Other payables	468,760	-	-	-	-	468,760
Payables arising from reinsurance arrangements	4,754	-	-	-	-	4,754
Lease liabilities	17,038	14,064	18,384	17,229	1,080	67,795
Total Financial liabilities	2,362,531	996,164	183,701	499,393	2,731,546	6,773,335
Net liquidity gap	820,162	(46,632)	144,357	1,262,998	13,424,385	15,605,270

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

2. Liquidity risk *(continued)*

The table below provides expected maturity analysis of the Company's financial instruments:

31 December 2019	6 months or on Demand	Between 6 months and 1 year	Between 1-2 years	Between 2-5 years	More than 5 years	Total
Government securities classified as held to maturity	-	75,231	-	202,284	1,105,437	1,382,952
Corporate bonds	14,437	11,499	11,789	110,149	-	147,874
Staff mortgages and other loans	-	3,815	10,179	482,451	176,122	672,567
Government securities at fair value through other comprehensive income	24,189	36,989	5,842	778,346	11,967,184	12,812,550
Equity investments at fair value through profit or loss	927,413	-	-	-	-	927,413
Receivables arising out of reinsurance arrangements	643,003	-	-	-	-	643,003
Receivables arising out of direct insurance arrangements	18,648	-	-	-	-	18,648
Due from related party	231,111	-	-	-	-	231,111
Deposits with financial institutions	1,718,039	121,748	-	-	-	1,839,787
Cash and bank balances	158,713	-	-	-	-	158,713
Total Financial Assets	3,735,553	249,282	27,810	1,573,230	13,248,743	18,834,618
Deposits administration contracts	1,091,622	196,985	-	474,866	2,426,540	4,190,013
Unit linked contract	-	-	-	-	514,972	514,972
Insurance contract liabilities	597,945	-	-	-	-	597,945
Due to related party	10,153	-	-	-	-	10,153
Other payables	449,608	-	-	-	-	449,608
Payables arising from reinsurance arrangements	20,083	-	-	-	-	20,083
Lease liabilities	20,542	16,956	22,165	20,772	1,303	81,738
			-			
Total Financial liabilities	2,189,953	213,941	22,165	495,638	2,942,815	5,782,774
Net liquidity gap	1,545,600	35,341	5,645	1,077,592	10,305,928	13,051,844

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*

3. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that asset are held to deliver income and gains for policyholders which are in line with their expectations.
- The Company stipulates diversification benchmarks by type of instrument, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

In the unit–linked business, the policyholder bears the investment risk on the assets held in the unit–linked funds as the policy benefits are directly linked to the value of the assets in the fund. The Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

i. Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Kenyan shillings and its financial assets and liabilities are denominated in the same currency. Therefore, the Company is not exposed to significant currency risk.

ii. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Interest on floating rate instruments is re–priced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The Financial assets at amortised cost- Deposits and commercial papers and staff loans are not affected by interest rate risk because the rates are agreed at the beginning of the contract financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5% in all yield curves of financial assets and financial liabilities. The Company is not exposed to interest rate risk as all financial assets are at fixed interest rates.

39. INSURANCE AND FINANCIAL RISK *(continued)*

(b) Financial risks *(continued)*
3. Market risk *(continued)*

iii. Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices (other than those arising from interest rate or foreign exchange rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit–linked business.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments, sector and market.

Listed equity investments represent 100% of total equity investments. If equity market indices had increased/ decreased by 5%, with all other variables held constant, and all the Company's equity investments moving according to the historical correlation with the index, the profit for the year and equity would increase/ decrease by Kshs 37,699,542 (2019 – Kshs 33,982,085)

iv. Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

40. FAIR VALUE MEASUREMENT

The Company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:
- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi securities exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components, property, equipment and investment property

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

There were no transfers between Level 1 and level 2 during the year.

The table below shows an analysis of assets recorded at fair value and those which fair value is disclosed by level in the fair value hierarchy. However, it does not include instruments whose fair value approximates the carrying amount.

40. FAIR VALUE MEASUREMENT *(continued)*

31-Dec-20	Level 1 Kshs '000	Level 2 Kshs '000	Level 3 Kshs '000	Total Kshs '000	Carrying amounts
Recurring Fair Value Measurements					
Investment properties	-	-	2,181,875	2,181,875	2,181,875
Government securities at fair value through other comprehensive income	6,894,258	-	-	6,894,258	6,894,258
Equity investments at fair value through Profit or loss	782,707	-	-	782,707	782,707
	7,676,965	-	2,181,875	9,858,840	9,858,840
Unit Linked contracts	-	-	523,663	523,663	523,663
Total liabilities at Fair Value	7,676,965	-	2,705,538	10,382,503	10,382,503

31-Dec-19	Level 1 Kshs '000	Level 2 Kshs '000	Level 3 Kshs '000	Total Kshs '000	Carrying amounts
Investment properties	-	-	2,181,875	2,181,875	2,181,875
Government securities at fair value through other comprehensive income	5,537,335	-	-	5,537,335	5,537,335
Equity investments at fair value through Profit or loss	927,413	-	-	927,413	927,413
	6,464,748	-	2,181,875	8,646,623	8,646,623
Unit Linked Contracts	-	-	514,972	514,972	514,972
Total liabilities at Fair Value	6,464,748	-	2,696,847	9,161,595	9,161,595

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2020

40. FAIR VALUE MEASUREMENT *(continued)*

Valuation techniques used in determining fair value of financial assets and liabilities

Instrument	Level	Valuation basis	Inputs
Staff mortgages and other loans	2	Discounted Cash Flow (DCF)	Average Market interest rates 13%
Corporate bonds	2	Discounted Cash Flow (DCF)	Implied Yield to Maturity (10.77%)
Unit trust investments	2	Net Asset Value	Current unit price of underlying unitised assets.

The significant unobservable inputs used in the fair value measurements categorised in level 3 of the fair value hierarchy as at 31 December 2020 are as shown below.

Instrument	Level	Valuation basis	Rate	Significant unobservable Inputs	Sensitivity of input to the fair value
Investment properties	3	Capitalised rent income method	13%	Discount rate	Increase (decrease) in discount rate of 5% would decrease (increase) fair value by Kshs 109.1 million.
			5%	Annual rent growth rate	Increase (decrease) in annual rent growth rate of 5% would decrease (increase) fair value by 27.5 million.
Unit Linked contracts	3	Number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price	-	Market value of assets of the fund	Increase (decrease) in the market price of the assets in the fund of 5% would increase/(decrease) fair value by Kshs 26.2 million.
Deposits Administration contracts	3	Deposits, withdrawals and investments returns from the fund.	-	Market value of assets of the fund	Increase (decrease) in the market price of the assets in the fund of 5% would increase/(decrease) fair value by .Kshs 247 million

The management assessed that the fair values of cash and short-term deposits, other receivables, trade payables, amounts due/from to related party and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

40. FAIR VALUE MEASUREMENT *(Continued)*

Reconciliation of fair value measurement under Level 3 hierarchy

2020	At January	Contributions/ Additions /Transfer from level 2	Disposals/ Settlements	Fair value gain	At 31 December
Investment property	2,181,875	-	-	-	2,181,875
	2,181,875	-	-	-	2,181,875
Unit linked contracts	514,972	19,210	(18,881)	8,362	523,663
Deposit administration contracts	4,190,013	980,107	(574,612)	350,845	4,946,353
	4,704,985	999,317	(593,493)	359,207	5,470,016

2019	At January -	Contributions/ Additions /Transfer from level 2	Disposals/ Settlements	Fair value gain	At 31 December
Corporate bonds	2,181,875	-	-	-	-
Investment property	2,181,875	-	-	-	2,181,875
		-	-	-	2,181,875
Unit linked contracts	474,554	17,790	(15,192)	37,820	514,972
Deposit administration contracts	3,124,116	1,074,234	(425,951)	417,614	4,190,013
	3,598,670	1,092,024	(441,143)	455,434	4,704,985

41. ULTIMATE CONTROLLING PARTY

The parent company is CIC Insurance Group PLC while the ultimate holding company is Co-operative Society Limited both of which are incorporated and domiciled in Kenya.

APPENDIX I

REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Ordinary Life & Annuities Kshs '000	Group Life Kshs '000	Total 2020 Kshs '000	Total 2019 Kshs '000
Gross written premiums	1,162,744	3,766,118	4,928,862	4,997,893
Less: Reinsurance premiums ceded	(14,743)	(1,031,514)	(1,046,257)	(968,313)
Net earned premiums	1,148,001	2,734,604	3,882,605	4,029,580
Claims and Policyholders' benefits:				
Life and health claims	(17,161)	(1,641,252)	(1,658,413)	(1,454,945)
Maturities	(554,047)	-	(554,047)	(463,445)
Surrenders	(131,712)	-	(131,712)	(123,763)
Actuarial reserves	(580,808)	(204,426)	(785,234)	(845,636)
Net claims and policyholders' benefits	(1,283,728)	(1,845,678)	(3,129,406)	(2,887,789)
Commissions paid	(90,999)	(13,320)	(104,319)	(93,305)
Expenses of management	(209,080)	(915,969)	(1,125,049)	(1,493,803)
Premium tax	(25,961)	-	(25,961)	4,281
Total expenses and commissions	(326,040)	(929,289)	(1,255,329)	(1,582,827)
Investment income	301,568	286,568	588,136	603,984
Profit before taxation	(160,199)	246,205	86,006	162,948
Taxation charge	-	(25,802)	(25,802)	(48,884)
Profit for the year	(160,199)	220,403	60,204	114,064
Increase in life fund for the year	(160,199)	220,403	60,204	114,064

The revenue account was approved by the board of directors on 9th March 2021 and was signed on its behalf by:

Director Gordon Owour	Director Patrick Nyaga	Director Jyoti Patel

APPENDIX II

GLOSSARY OF INSURANCE TERMS
FOR THE YEAR ENDED 31 DECEMBER 2020

Assumptions

The underlying variables which are taken into account in determining the value of insurance and investment contract liabilities.

Benefits and claims experience variation

The difference between the expected and the actual benefit

Discretionary participation feature (DPF)

A contractual right to receive, as a supplement to guaranteed benefits, additional pay-out benefits:

- That are likely to be a significant portion of the total contractual benefits
- Whose amount or timing is contractually at the discretion of the issuer
- 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 issuer
- The profit or loss of the company, fund or other entity that issues the contract

Financial risk

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 variable, provided in the case of a non–financial variable that the variable is not specific to a party to the contract.

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.

Insurance risk

Risk, other than financial risk, transferred from the holder of a contract to the issuer.

Investment contract

A contract, which contains significant financial risk and may contain insignificant insurance risk but does not meet the definition of an insurance contract.

Investment management services

The management of an investment contract on behalf of a policyholder, for which an investment management service fee is charged.

Liability adequacy test

An annual assessment of the sufficiency of insurance and/or investment contract with DPF liabilities, to cover future insurance obligations.

Life insurance

A contract which provides whole life, term assurance, unitised pension, guaranteed pension, pure endowment pension and mortgage endowment coverage to the policyholder.

Outstanding claims provision

Comprises claims reported by the policyholder to the insurance company, and IBNR claims.

Premiums written

Premiums to which the insurer is contractually entitled becoming due for payment in the accounting period.

Provision for premium deficiency

The provision for premium deficiency reflects management assessment of claims expected to be incurred after the reporting date in respect of current insurance contracts that exceed the premiums to be earned on those contracts after the reporting date.

Reinsurance

Insurance risk that is ceded to another insurer to compensate for losses, but the ultimate obligation to the policyholder remains with the entity who issued the original insurance contract.

Unit holder/unit linked

Investor in a unit–linked product, when the investment risk is borne by the policyholder and not by the insurance company.

PROXY FORM
CIC Life Assurance Limited

(Incorporated in the Republic of Kenya under the Companies Act No. 17 of 2015)
Annual General Meeting dated 18TH May, 2021 at 2:00 p.m. Conducted Virtually Via Electronic Communication.

I/We____ ID Number ________________________

Member/ CDS Account Number ____

Of (address) __________________________________ Mobile Number ________________________

Being a member of CIC Life Assurance Limited and entitled to vote hereby appoint

Name(s) ______________________________________ ID Number ________________________

Of (address) ____

Or, failing him, the duly appointed Chairman of the meeting to be my/our Proxy, to vote on my/our behalf at the Annual General Meeting of the Company to be held on 18th May 2021 at 2:00 p.m. or at any adjournment thereof.

As witness to my/our hands this __________ day of ______________________ 2021

Signature(s) ______________________________________

Notes

1. This proxy form is to be delivered to CIC Life Assurance Limited, CIC Plaza, Mara Road and of P.O. Box 59485-00200 Nairobi via email address cic.life@cic.co.ke to arrive not later than 8.30 am on 16th May 2021 before the meeting or any adjournment thereof, failing which it will be invalid.

2. A proxy form must be in writing and in the case of an individual shall be signed by the shareholder or by his attorney and in the case of a corporation the proxy must be either under its common seal or signed by its attorney or by an officer of the corporation.

The Board of Directors
CIC Life Assurance Limited
Address 59485-00200

Re: Seeking Consent From The Members To Convene AGM At Shorter Notice

Dear Sir/s,

I/we ____ , the member/s holding an

____

(in words) equity shares of the Company as on date representing ____________ % of the total paid-up share capital and also have an entitlement to vote at such meeting, hereby do accord mine/our consent to convene the ensuing AGM of the Company at shorter notice.

Kindly do take the same on your record.

Thanking you
Yours truly

____
(Name of the Member)

Date: ________________

Place: ________________

NOTEPAD

NOTEPAD

CIC OFFICES

KENYA

NAIROBI BRANCHES:

TOWN OFFICE
Reinsurance Plaza
Mezzanine Floor, Aga Khan Walk
Mobile: 0703 099 500
Tel: (020) 329 6000
townoffice@cic.co.ke

BURU BURU BRANCH
Vision Place, Ground Floor
Mumias Road
Mobile: 0703 099 564
buruburubranch@cic.co.ke

WESTLANDS BRANCH
Pamstech House
2nd Floor, Woodvale Grove
Mobile: 0703 099 727
westlandsbranch@cic.co.ke

OTHER OFFICES:

THIKA BRANCH
Thika Arcade, 6th Floor
Mobile: 0703 099 641
Kenyatta Highway
thika@cic.co.ke

KITENGELA BRANCH
Capital Center, 2nd Floor
Mobile: 0703 099 740
kitengela@cic.co.ke

NANYUKI BRANCH
Pearl Place, 1st Floor
Mobile: 0703 099 770
nanyuki@cic.co.ke

NAIVASHA BRANCH
Eagle Center, 1st Floor
Mbariu Kaniu Road
Mobile: 0703 099 763
naivasha@cic.co.ke

NYAHURURU BRANCH
Kimwa Centre, 2nd Floor
Kenyatta Avenue
Tel: (065) 203 2055
nyahururu@cic.co.ke

MACHAKOS BRANCH
ABC Imani Plaza, 2nd Floor
Tel: 0703 099 960
machakosbranch@cic.co.ke

KIAMBU BRANCH
Bishop Ranji Cathedral Plaza,
2nd & 3rd Floor
Tel: 0703 099 630
kiambu@cic.co.ke

NYERI BRANCH
Co-operative Union Building
3rd Floor,
Tel: 0703 099 680
nyeri@cic.co.ke

NAKURU BRANCH
Mache Plaza, 2nd Floor
Geoffrey Kamau Road
Tel: 0703 099 775
nakuru@cic.co.ke

KISUMU BRANCH
Wedco Centre, Mezzanine Floor
Oginga Odinga Road
Tel: 0703 099 600
kisumu@cic.co.ke

HOMABAY BRANCH
Cold Springs Plaza, Ground Floor
Mobile: (059) 212 2998
homabay@cic.co.ke

EMBU BRANCH
Sparko Building, 3rd Floor
above Family Bank
Tel: 0703 099 900
embubranch@cic.co.ke

MERU BRANCH
Bhatt Building, 1st Floor
Ghana Street
Tel: 0703 099 930
merubranch@cic.co.ke

KAKAMEGA BRANCH
Walia's Centre, Ground Floor
Tel: (056) 203 0242,
(056) 203 0850
kakamega@cic.co.ke

ELDORET BRANCH
Co-operative Building, 1st Floor
Ronald Ngala Street
Tel: 0703 099 660
eldoret@cic.co.ke

KISII BRANCH
Lengetia Place, 2nd Floor
Kisii-Kisumu Highway
Mobile: 0703 099 700,
0703 099 701
kisii@cic.co.ke

BUNGOMA BRANCH
Simali House, 1st Floor, Moi Avenue
Tel: (055) 203 0121
bungomabranch@cic.co.ke

KERICHO BRANCH
Imarisha Building, Ground Floor
Tel: 0703 099 650
kerichobranchstaff@cic.co.ke

KILIFI BRANCH
Al Madina Plaza, 1st Floor
Mobile: 0703 099 718
kilifibranch@cic.co.ke

MOMBASA BRANCH
Furaha Plaza
Ground Floor, Nkrumah Road
Tel: 0703 099 751
mombasabranch@cic.co.ke

KITALE BRANCH
Mega Center, 1st Floor
Mobile: 0703 099 951
kitale@cic.co.ke

BOMET BRANCH
Isenya Building, 2nd Floor
Mobile: 0703 099 650
bomet@cic.co.ke

REGIONAL OFFICES

CIC SOUTH SUDAN
CIC Plaza, Plot 714B-3K-South, Kololo
Mobile: +211 0954 280 280
info@ss.cicinsurancegroup.com

CIC UGANDA
AHA Building, 2 Floor, Lourdel Rd
Mobile: +256 200 900 100
uganda@ug.cicinsurancegroup.com

CIC MALAWI
Jash Building, Colby Road
Plot No 3/487
P.O. Box 882, Lilongwe
Mobile: +265(1) 751 026
malawi@mw.cicinsurancegroup.com

CIC GROUP

CIC LIFE ASSURANCE LIMITED

KENYA • SOUTH SUDAN • UGANDA • MALAWI
CIC Plaza, Mara Road, Upperhill 020 282 3000, 0703099120
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